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Informal Employment in Romania in the Actual European Context

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Abstract

The labour market in Romania is faced with many problems such as certain demographic imbalances, legislative instability, a weak correlation between educational supplies with market demands and a rising of informal economy and informal employment.

The paper aims to capture the labour market conditions in Romania in terms of informal employment in the current context. Informal employment in Romania cannot be understood without recognizing its diverse nature. There are presented some causes and forms of the informal employment in Romania in order to identify measures to reduce it.

Key words: labour market, informal employment, undeclared work

J.E.L classification: E 26, J 0

1. Features of labour market

The labour market has formed and operates in conjunction with the role of the labour in economic and social development and general requirements in markets and price theory.

The labour market represents all acts of sale and purchase of labour, of the relations with their specific, taking place in an economic space.

Man is more than merchandise, so that the labour market has a special place in economic theory and practice, as a secondary market and regulated. It is heterogeneous, encompassing several areas of activities defined by gender, the economic zones, the professions or occupations, the categories and skill levels, etc.

As a secondary market, it receives the influences the other markets and also generates effects that are found in all socio-

economic sectors. The labour market behaves, on the one hand, as any market and, on the other hand, has its own characteristics, determined by the human specific of the object with which it operates and that of services generated by it.

The historical experience shows us that the labour market always involves establishing relationships between carriers and demand of labour supply. This determines certain specifics regarding the adjustment of supply and demand, on price formation of the labour, the existence of a system of norms and social values.

The labour market represents one of the most complex forms of market existing in the economy, because the factor that is traded is labour. This factor is composed of a series of bio-psychological, demographic, educational and behavioral characteristics, which clearly distinguishes it from any other factor that falls under the exchange relations in other markets.

All the time and space conditions, the economic activity involves the labour factor systematically designed to value the resources to his interest. Like other factors of production, they are obtained through the market that is a *subsystem of the economy of a competitive market*. Transactions in this market have as their object work or labour force.

If we understand labour force as a total of the physical and intellectual skills that exist in the human life and personality and that he puts into service when they create economic goods, then work represents conscious labour- spending.

In specialized literature, it is considered that in the *process of development and operation of the national economy, employment fulfills important economic, socio-economic and educational functions*. It ensures the implementation of balance between the needs of work resources of the national economy and their employment

opportunities; determines the orientation of use of labour resources of each country, both by assigning them to jobs, branches and cities, and by their use in each market economic units; and makes the process of unification and combination of the human factor with the material ones of production, it influences the shaping and the revenue sharing.

The labour market has an active role within the market system. In support this role it is considered the first fact, that the market is the most important factor of production. Work is the production factor which contributes decisively to the creation, development and improvement of other production factors.

The labour market in Romania is faced with certain demographic imbalances, with legislative instability and weak correlation between educational supplies with market demands. In recent years, the economic and financial crisis led to increased the informal economy.

2. Informal employment –conceptual approach

The informal economy is present in all societies irrespective of their dominant social and political system. Nevertheless, there are considerable differences in the scope and form that the informal economy may assume in each society. In developing countries, the informal economy is linked neither to fringe groups, nor to additional job opportunities; nor is it a response to the rigidity of the government's plan. It is rather the consequence of the dual economic structure and itself the result of economic underdevelopment.

Pisces Pierre's definition, according to which the shadow economy is "all the economic activity occurred outside the criminal, social or fiscal laws or the ones that escape the national inventory", is considered by specialists as being the most comprehensive definition of the informal economy (Radulescu, 2007). Informal employment is the most important part of the underground economy.

Informal employment is defined as the '*total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households*'

(ILO, 2002).

There has been a revival of research on informal employment and labour market segmentation in developing countries over the last two decades. There are 3 point of view about the nature of informal employment, taking recourse to three schools of thought. (Lehmann, Pignatti, 2007)

The traditional school (classical) sees informal employment as a predominantly involuntary engagement of workers in a segmented labour market: there is a primary, formal labour market with "good" jobs, i.e. well paid jobs with substantial fringe benefits, and a secondary, informal labour market with "bad" jobs, i.e. having the opposite characteristics of the good jobs. All workers would like to work in the primary labour market, but access to it is restricted, while there is free entry to the secondary labour market.

The second school of thought by the contributions of Rosenzweig (1988) and Maloney (2004) shows that many workers choose informal employment voluntarily. This school of thought also raises doubts about the preferability of formal sector jobs along the various dimensions mentioned in the traditional literature on labour market segmentation. For example, if formal employment is linked with the provision of pension benefits, in less developed countries such benefits might not be unequivocally good in the eyes of the employed. Health care benefits provide a second example for the possibly dubious nature of fringe benefits connected to formal employment. Having health care insurance might be undesirable because of the low quality of health services or unnecessary because of family coverage of the health insurance through another member of the household. Also, given that this benefits generate costs to the employer – who might or might not be able to shift these costs on to the worker – it is not a priori clear that wages are lower in the informal sector, and empirical evidence is required to establish the relative wage levels.

The third strand in the literature starts out with the labour market segmented into a formal and informal sector. It paints, however, a more complex picture of labour market segmentation than the traditional school of thought as it sees "upper tier jobs" and "free entry jobs" in the secondary,

informal sector. Access to "upper tier jobs" – good jobs that people like to take up in the informal sector – is restricted. Most of the jobs in the secondary, informal sector are "free entry jobs", which can be had by anyone and which people only involuntarily take up.

Of course, the reality of labour markets in developing countries is complex and the available evidence does not lead to the acceptance of one school of thought and the unequivocal rejection of the other competing paradigms. The evidence suggests, instead, that labour markets in developing countries exhibit characteristics that point to the partial validity of all three schools of thought.

3. Informal economy and informal employment in Romania

The extent of the underground economy and informal employment in Romania has taken alarming proportions, which can threaten the macroeconomic and macro social balance. A high scale of the underground economy has as the main negative effects the decrease of the growth rate for the official economy.

Informal employment is one of the key features of the Romanian labour market. Most people have been going into the informal economy because they cannot find jobs or are unable to start businesses in the formal economy.

Sectors where it is practiced informal work are about the same in all EU countries, such as the fields of construction, repair of cars, clothing, tailoring, agriculture, tourism, barber shops, street vendors or at home, housekeeping, childcare, legal advice, tax or accounting. Despite the apparent heterogeneity, these industries have some common points: they require little infrastructure and can be made more often at home or in small units.

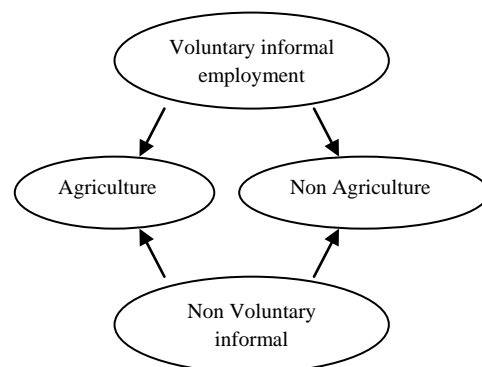
Informal employment in Romania cannot be understood without recognizing its diverse nature. It is present in many sectors, such as construction, services and agriculture, and takes various shapes and forms, including non-registered firms, false self-employment, workers without labour contracts, tax evasion both by employees and employers and under-declaration of earnings. While some deliberately opt out of the formal system

others have no choice but to use informal employment as a livelihood strategy. (Drechsler, Xenogiani, 2008)

So, two main groups can be identified among those in informal employment: those who work informally because they have no real alternative and for whom informal employment constitutes a survival strategy (non voluntary informal employment), and those who deliberately evade taxes and social security contributions (voluntary informal employment).

The first group includes some forms of *informal work* in agriculture and contributing family workers. The second comprises non-registered firms, or firms which do not register their workers and hire them without labour contracts, firms that under-report their sales and workers who under-declare their earnings and receive so-called "envelope payments" (payments in cash). It should be noted that most people in informal employment around the world are in that situation against their will and informal work provides their only opportunity for generating income. (OECD)

Figure 1. Forms of Informal Employment in Romania



Source: Drechsler D., Xenogiani Th., "The Two Faces of Informal Employment in Romania", p. 24

A second important distinction needs to be made between agriculture and non-agricultural activities. Currently there is no consensus among experts on Romania on whether agricultural activities are indeed "hidden" and should be part of informal employment (Stanculescu, 2006). Some authors (for example, Daianu, Albu) limit informal activities to legal non-agricultural activities, whereas others (Ciupagea) include

agriculture in their definition of informal employment. On the one hand, the plots are registered and authorities are aware of the production (Ghinararu, 2007). On the other hand, normally no taxes are paid on this type of activities, nor are workers engaged in this type of work offered a registered labour contract and social contributions. However, it should be noted that agriculture does form part of the informal sector as employment in this sector is not reported, taxed or in compliance with labour regulations, even though the goods are in some cases sold at the market.

Four main groups of factors can explain the persistence and increase of informal employment in Romania.

First, socio-economic developments, such as economic restructuring and privatisation of state owned enterprises, low or negative economic growth, unemployment, and increased poverty and inequality are among the main reasons pushing people into informality. Moreover, emigration abroad with its links to informal employment is an additional determinant of informal work, as many temporary migrants return to Romania for short periods of time and engage in informal work.

Second, institutional factors, such as labour market regulations and the structure of the tax and social security systems, bureaucracy, heavy public administration and the subsequent corruption also determine informal employment.

Informal employment is also determined by *a number of behavioural/societal factors* such as the culture, the lack of trust in public institutions, the negative perception of the role of the state, partial understanding or underestimation of the benefits derived from social security.

For the last years an important factor which determinate the rise of informal employment is the economic crisis. Thus, the crisis by increasing unemployment, reducing workload, and the measures applied (increase taxes, reduce working time, pay cut) has increased the informal employment.

Those who practice informal (undeclared) work are generally people with low education and training, who have real difficulties finding a job and find work on the underground market an alternative employment, but also people forced to work

under part-time basis and those who prefer activities free of constraints. At the other extreme, but in small numbers, there are super-qualified people who, benefiting from higher education and intellectual capacity are willing for amounts of money, to get involved in organizing and carrying out economic activities such as informal ones.

Undeclared work has multiple causes: higher taxes on employment, labour relations bureaucracy, lack of legislation, unemployment. In general the causes of undeclared work are of economic nature, it offers significant advantages in the short term both for the employee and employer. The employer reduces his costs and has a higher profit if it is committed to the policy of obtaining short-term significant profits to the detriment of the company's development strategies and long-term average. The employee, through the informal employment benefits of higher finances but he is disadvantaged on the long term, because they no longer benefit from wage increases, per diems and allowances, leave, insurance, pensions and benefits.

There are three basic forms of undeclared work:

- *work without a contract* – these are either employees that do not have any written contract with their employer or free lanced professionals that render services without declaring the proceeds from them. Usually, employees do not have a written contract for their additional work, besides their main occupation. The profile of people working without a contract can be rather different. On the one side these might be wealthy, highly educated and well skilled free lancers who can afford to use privately delivered public services (pension and health insurance), do not fear of losing their jobs and have a fairly reasonable understanding that the chances of being caught are low, as is the punishment. On the other – these might be poor, unskilled people who have long lost their jobs, receive under-subsistence social safety payments and do not see any opportunity in finding a job under present institutional conditions.

- *work with a contract, which has hidden clauses*. The additional money as well as the money being paid out without a contract comes out of the 'black boxes' of companies, which are involved in informal activities. It represents a kind of tacit

agreement between the state and some of its citizens. The citizens (employers and employees) would pay the minimum required amount (or the amount they deem appropriate) of taxes and public funds' contributions, while the state would leave them control over the rest of very scarce income. Gradually, the minimum threshold would be pushed upwards to ensure the funds necessary for the proper functioning of the administration, while reflecting the increase in incomes among the citizens. These practices are used in labour intensive, seasonal industries, which are hard for government inspection.

- *household work, which produce is sold on the market. This refers to work in family farms.* As much as 30% of the home production of some items (milk, eggs, meat) is sold on the market, without the transaction being registered. Additionally, especially in rural areas, neighbourhood help against payment is a frequent occurrence. This reflects some socialist time traditions of barter dealing, which have now turned paid but is also a survival strategy for many rural poor who have been left without work, lack capital and have small spots of widely dispersed land.

The phenomenon of undeclared work is difficult to quantify. In Romania in the first nine months of 2008, the informal employment represented 50.8% in the informal economy, and in 2009, informal employment represented 12% of GDP (<http://standard.money.ro/>).

The share of underground economy in Romania's GDP has different values, according to specialized studies, depending on the method used for determination. Thus, according to Kaufmann-Kaliberda model based on electricity consumption, the share of shadow economy in GDP is currently of 26%. This model is based on the idea that economies consume electricity as they develop, as the ratio between the growth rate of electricity consumption and the growth rate of GDP will be the size of corruption in an economy.

According to a study coordinated by Albu Lucian (Romanian Academy), the shadow economy is between 20% of GDP (using the model of energy consumption) and 45% of GDP (based on the monetary model).

The model developed by Friedrich Schneider, the share of shadow economy in Romania reaches 36%. Friedrich Schneider states that "when the global economy is undergoing a recession, more people will be tempted to operate outside the legal framework". Also, Schneider confirmed that there is a close link between the prevalence of cash payments and the size of underground economy in a country.

Employers choose informality in Romania because of high perceived tax and contribution rates, and they get away with it because of insufficient mechanisms to penalise tax evasion. Workers fail to see the link between social security contributions and benefits, and in any case deplore the low quality of public services. Hence they prefer informal employment.

Informality in Romania is above all an expression of the lack of trust in public institutions, the negative perception of the role of the state and the limited understanding of the benefits derived from social security.

For some groups of the population informal work leads to poverty and lives exclusion whereas for others it serves as a safety net. After all, informal employment is an important livelihood strategy for many poor households that have no other income-generating opportunities.

3. Ways of action

Social policies should therefore target those segments of the informal sector while fiscal, labour and other policies should provide the right incentives for people to join formal employment.

Among the measures that may reduce undeclared work there are: reducing the social contributions of employees, the employer tax reduction, the stimulation of SME development. Furthermore, the promotion, development and implementation of training and learning create the conditions for the security of the workplace along their entire lives. The greatest need is training for the less qualified workers. It is necessary to promote that policies which help the most vulnerable groups and offer them the necessary skills and assets to participate in formal work.

For policies to be effective, they have to take into account the dualistic structure of informal employment. On the one hand, active labour market policies combined with well designed social assistance programmes can be used to address informal work for those with no other alternatives. On the other hand, better control, inspection and enforcement are needed for those who choose to be informal. In addition, simplified procedures for business and workers' registration would reduce the cost of formalisation. Overall, improving the quality of public services provided and communicating effectively the benefits of formal work and the costs of informal employment are necessary actions to bring people back into formal work.

Long term sustainable change requires a transformation of people's attitudes and beliefs. More innovative policies, such as information campaigns on the benefits of formal work and the risks of informality can gradually change people's opinions. While these things won't happen overnight, Romania needs to pave the ground with the right policies and regulations now.

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Social and Environmental Performance - New Dimension of Performance in the Context of Sustainable Development

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Abstract

In this paper we propose a critical reflection occurring mutations in the methodology for measuring a company's performance in the current context of sustainable development.

In this context, companies need to pay more and more attention to accomplishing economic growth and market growth, while ensuring environmental protection and promoting social responsibilities, including the protection of consumers' interests. The need to know and measure non-financial performance is becoming more acute and on this path also the need to define a framework of information and reporting to meet the information needs of stakeholders of the company.

In this paper, we propose a review of key aspects of social and environmental performances, as well as a new dimension of company performance in the current context of sustainable development

Key words: social responsibility, environmental performance, corporate social responsibility.

J.E.L. classification: G39, M10, M14, M21

1. Introduction

The companies of industrialized countries showed, especially after the 50's, their weaknesses in adequately considering the fundamental needs of societies – jobs, food, quality of life, the necessity of the present generation and of the future ones.

However, nowadays, the public and civil society believe that it is not longer sufficient for a company to asserts that its only concern is making profit for shareholders, as long as these are based on operations that fundamentally (either positively or negatively) affect the life of the community. In this context, a growing number of companies adopt, as part of their organizational culture and business strategies, CSR. More and more companies become aware of the fact that they are able to get involved in a sustainable development, leading their operations so that they would achieve both economic growth and market growth while ensuring environmental protection and promoting social responsibility, including the protection of consumers' interests.

In this context it becomes more acute the need for developing a framework for identifying, measuring and reporting social and environmental performance, frame designed to complete the image of a company's overall performance.

2. Literature review on approaches to performance in social and environmental terms

Bunea reviews three international approaches on performance dimensions that performance as follows in the next paragraphs [3]. A first approach mentioned is that of Morin, Savoie & Beaudig (1994), which identifies four dimensions of performance: social - human resources, economic - economic efficiency, political - the legitimacy of the organization against

external and systemic groups - organization sustainability. Another approach that the author mentions is that of the Jacot & Micaelli in the paper *La Performance économique en entreprise* from 1996 supporting the idea de-globalization of performance. According to this two at the level of a company there are four levels of decision (metapolitical, strategic, tactical and operational) and each level has attached a performance level (societal, financial, commercial and physically).

The third approach is the one of De La Villarmois. According to this last author "all models that offer a representation of the concept of performance reach the same conclusion: it is a concept (or construct) difficult to assimilate because of its multiple dimensions" (quoted by [3]). He believes that performance has two dimensions, namely: social, which includes economic efficiency and sustainability, and the subjective one, which includes the legitimacy of the organization against external groups and the value of human resources

From the literature review we noted that in present social performance is an essential component global performance, component that we can not omit this scientific approach. Social performance is part of the company's overall performance in the context of sustainable development, referring to concerns such as company's health insurance, activities consistent with sustainable development requirements, etc., reason for which it requires an analysis of social performance so we can form a complete and relevant opinion on a company's activities.

Analysis of social performance of the enterprise requires the expression of this dimension of performance in terms of social satisfaction, namely human relationships with the company [6]. The term "people" refers in this situation to different categories such as: employees, customers, managers, community in which that company is operating etc. Therefore the concept of "social performance" exceeds the boundaries of an organization and refers to both internal environment and external environment.

Sainsaulieu (quoted by [6]) in his work *Sociologie de l'organisation de l'entreprise*, refers to the following points of social performance assessment [14, 15]:

- The nature of social relations;

- The importance of social conflicts and crises (number, severity, duration, etc.);

- Level of satisfaction of employees (this level can be appreciated by domestic public opinion surveys);

- Absenteeism and delays in service (or employment de-motivation caused by boring or difficult work);

- The social climate of the enterprise (subjective assessment of the ambience at the company's level and its constituent groups);

- Operation of the staff representative institutions;

- Operation, the number and outcome measures of quality circles and participation in decisions.

How can we define social performance taking into account the issues mentioned above? A definition is provided by Savall & Zardet. According to them social performance is defined by the level of satisfaction of stakeholders, achieved through three levels of quality: quality products appreciated by foreign customers, the quality of the operation and management quality especially appreciated by the "internal customers" (employees, managers) [15].

The social dimension of sustainability refers to the impact that an organization has on social systems within which it operates. Now we notice that efforts made in terms of measurement (assessment) and management of social performance are still underdevelopment. The question therefore arises of developing a conceptual framework to enable a quantitative assessment of data on the social dimension of performance and their comparative analysis with either standard or data previously established by other companies that work in the same area, to the extent that these comparisons and evaluations are possible, considering that a part of social performance information is required to be presented in a descriptive manner.

Measuring social performance has the following characteristics [10]:

- Focuses on the company as a whole;
- Requires frequent data collection to allow early correction;

- Compare with an initial state, taken as a yardstick;

- Is externally audited and based on comparable data internally and externally;

- Is accessible and meaningful;
- Is connected with the future goals that the company proposes;
- Should ensure a balance between costs and benefits involved in measuring, reporting and obtaining results.

According to F. Székely and M. Knirsch companies that evaluate social performance are using a series of indicators that capture the following aspects [17]:

- Human rights: human rights issue arises particularly in the poorest countries in the context of globalization;

- Problems at work or those related to employment: it is wanted to assess some aspects of health and safety at work, continuing education, training, industrial relations, wages, benefits and compensation, working conditions and employment, etc;

- Relations with suppliers: is wished to ensure the diversity of suppliers, are assessing company's policies regarding the selection and evaluation of providers including the various contractual arrangements with them;

- Community initiatives: the indicators used should reflect the contributions to local economic development, involvement in the problems of local community, improving personal skills of employees and other matters;

- Corporate philanthropy: it wants to know different information on donations made, in presents interest the total profits before tax and financing of local initiatives by private funds.

The literature which attracted our attention on social performance measurement has been the proposed typology by Iamadi. According to the author societal (social) performance is measured (assessed) by some relevant areas. The author has stated the following relevant areas [9]:

- rules, codes of conduct;
- resources used: this refers to how certain resources are used in the production or various measures to reduce consumption of certain materials (water polluting products);
- internal processes: this refers to various measures of motivation and creation of appropriate social climate for a company, division of work tasks , etc;

- activities: gifts, communicating information to the public / community, social audits and certifications;

- consequences: the author refers to the number of dissatisfied customers processes, the stage of staff training;

- synthetic and combined approaches.

We consider relevant in this area the document proposed by GRI initiative, so we will try to make a brief overview of the four directions of actions presented by it, namely:

- Labor practices and decent work standards;

- Human rights;

- Society;

- Responsibility for the product.

Environmental performance represents the measurable results of the actions of economic agents to identify, quantify and solve their environmental problems in order to achieve environmental objectives and targets set by the Authority of Environmental Protection. The Handbook on Environmental Law Harmonization of the European Union - European Commission Working Document, Brussels, the Second issue from 1998 environmental performance is the measurable results of the environmental management system related to the organization control of its environmental aspects, based on policy, the general and specific objectives regarding environment.

Environmental performance assessment involves a series of technical knowledge (chemistry, physics, biology, etc..) which does not form part of the training of persons involved in business management and evaluation of performance (managers, accountants, auditors, etc.). We see therefore that the evaluation of the environmental dimension of performance is not an easy task, but is a complex one involving possession vast knowledge. Measuring environmental performance is a topical issue which presumes above all the choice and implementation of appropriate assessment tools.

In the context of sustainable development and of the tendency that reporting all dimensions of performance should become compulsory for all companies, not just recommended, companies should be concerned about environmental performance evaluation as well for continuing improvement of this dimension of

performance. We therefore ask the question how to do this last goal. I found the answer to this question to [4,8] according to which continuous improvement in environmental performance is a process of five stages:

- 1) leadership commitment through an environmental policy statement;
- 2) planning objectives;
- 3) implementing actions to achieve simultaneously the goals and objectives of this policy;
- 4) examine and evaluate the results and progress achieved;
- 5) review the environmental management system to improve its effectiveness.

It is thus obvious that an organization should periodically evaluate its environmental performance. Indicators used to assess environmental performance must be measurable, objective, verifiable and reproducible. Following the approach developed in this section, we believe that a company is social efficient only when it controls the impact of its own activities, products and services on the environment. To achieve these goals it needs to review periodically (as necessary) environmental policy and objectives.

3. Social and Environmental Performance between regulatory and necessity

On an international level, United Nations Organization, the European Union and the Organization for Economic Cooperation and Development are three of the most important institutions involved in drawing up a framework that would define CSR and would determine the indicators through which it may be evaluated transparently. CSR is a very broad concept that started to change the world we are living in.

Lisbon 2000 Agenda required the involvement of companies in accomplishing the objectives set for the future of the 2013 European Union. Within the new economic and social space of the beginning of the 21st century, the company becomes the most dynamic force of the new economic institutions on the market. The efficiency of companies will no longer be measured solely based on their economic performances since these are directly influenced by the social and environmental approaches. Functioning in

long term performance parameters, in the context of an increasingly global economy, determines companies to draw up strategies and policies that would ensure *its transformation into a socially and environmentally responsible company*.

The 23.03.2006 communication issued by the European Commission "*Let's make Europe and excellence pole for Corporate Social Responsibility*" underlines the fact that CSR "*...becomes more and more important in the world*", as well as in the European Union (EU). Sustaining CSR development reflects the necessity of protecting the mutual values of the EU and of increasing solidarity and cohesion, in the circumstances in which market economy became established in the majority of countries, thus opening new perspectives for companies. Thus, as it is stipulated in the 23.03.2006 communication issued by the European Commission "*Let's make Europe and excellence pole for Corporate Social Responsibility*", the social responsibility of the company, CSR, becomes an opportunity with major implications for the European economy as a whole, reuniting already active, socially responsible companies with the purpose of working together at the drawing up of the European strategy for economic growth and jobs availability. The 2006 communication issued by the European Commission is, at the same time, a basis for accomplishing the objectives set by the Lisbon Agenda for 2007-2013.

In the present context of business globalization and sustainable development, the informational needs of the participants to the economic life regarding the activity of companies of interest, surpasses the limits of purely financial information reflected in accounting financial statements. In this context it was required the development of a framework (optional for now) of non financial reporting that would include the presentation of some aspect regarding the accomplishing of social and environment objectives within the so called *sustainable statements*.

The most advanced initiatives regarding the development of sustainable reporting consist of Global Reporting Initiatives Sustainability Reporting Guidelines (GRI Guidelines), issued by World Commission on Environment and Development. Over

time, there have been issued three editions of the guide (2000, 2002, 2006 and 2007). The reporting framework GRI has the role of a generally accepted framework by any society (irrespective of its size) for reporting economic, social and environmental performance. Just like in the case of financial reporting that have to observe principle related to opportunity (balance between relevance and credibility), the report cost-profit, faithful presentation of reality etc., so GRI Guidelines demands that the information included in sustainable reporting should respect qualitative principles or characteristics, such as: balance, comparability, accuracy, updating, clarity, credibility.

The performance indicators drawn up by *GRI* can be divided into: economic performance, environmental performance and social performance.

a) Indicators of environmental performance refer to the environmental dimension of sustainable development and the impact of the organization on natural systems (ecosystem, air and water), through inputs (raw materials, energy, water etc.), outputs (products, services, pollution, waste) and the investments in environmental protection.

The grouping of the *environmental performance* indicators is as follows (GRI Guidelines, 2006): *Raw materials; Energy; Water; Biodiversity; Pollution and waste; Products and services; Conformity; Transportation; Global.*

b) Social performance indicators reflect the impact of the company on the social systems within which they function. They are divided into: *Work practices and conditions; Human rights; Society; Product responsibility* [6].

Together with various authors we consider that the Triple Bottom Line approach is more like a metaphor, a concept, since it is extremely difficult in practice to quantify the impact of environment or social factors in order to create such a conceptual framework of reporting the way in which a sustainable reports should be issued. Such a conceptual framework for drawing up a sustainable report could be very useful, from a theoretical point of view, to managers in

their effort to acknowledge the importance they should pay to social and environmental aspects [5].

4. Conclusions

In order to survive in a competitive business milieu, any company has to unfold its activity with the objective of achieving performance. Over time, the approaches referring to business performance, developed together with the unprecedented development of technology that culminated with technologic revolutions thus requiring the adoption of certain models of adequate management. It was required a process of remodeling behaviors and action means. Companies begun to understand and to accept the idea that, in order to succeed in business, one should provide and ensure adequate work conditions, one should provide collective rights for employees and to cooperate with work unions, non-governmental organizations and governmental institutions.

From the study of literature and practice we founded that environmental dimension has received more attention than the social dimension in recent years. We believe that in terms of reporting environmental performance an important aspect is the existence of comparative data for the purposes of presenting information regarding the organization with information on legislative requirements and achieved industry averages. Trying to achieve a certain level of environmental performance determines the application of sustainable development strategies of win-win type for both human society and natural environment.

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Detectors For Financial Statement Fraud

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Abstract

Through this article we tried to emphasize the main parts that can identify financial fraud within a company's financial statements.

Another point that we wanted to reach is the motivation that prompted them to take action when they reported these frauds.

Key words: fraud, detectors, financial statement, motivation

J.E.L. classification: M 41

1. Introduction

Fraud remains one of the most problematic issues for business worldwide, no matter the company's country of operation, industry sector or size (ICC 2008). Fraud, corruption and illegal practices within big corporations, banks, financial service providers have contributed to the current crisis, at a large extent (Maarten De Schepper, 2009). Due to fraud, companies suffer not only direct economic losses, but also the risk of bad publicity (Arahal et al.).

Over time we have dealt with fraud amounting to billion dollars that took place before our very eyes. There are striking cases of Enron, AOL, and Xerox in the United States of America, Parmalat and British Telecom in Europe. These cases distinguished by their magnitude and the long period that took place.

The high incidence of fraud is a serious concern for investors as fraudulent financial reports can have a substantial negative impact on a company's existence as well as market value. For instance, the lost market capitalization in SUA of 30 high-profile financial scandals caused by fraud from 1997

to 2004 is more than \$900 billion, which represents a loss of 77 percent of market value for these firms (Glass Lewis & Co. 2005 quoted by Hogan et al. 2008).

It is interesting to see who should detect these frauds. At a first glance it seems that ones in charged with governance have the principal responsibility in respect to fraud detection. They are "traditional detectors" whose main task is to ensure the company against frauds.

When the detection of fraud by those in charged fails, or worse, those in charged with governance are involved in committing fraud, as often happens, what should be done? The solution comes from within and from outside the organization. Lately, Hill came to the so-called non-traditional detectors, represented by employees, financial analysts and journalist. They are called non-traditional detectors, because they have no legal obligation to disclose fraud, yet they do so.

2. Fraud and financial statement fraud

According to Oxford Dictionary fraud represents "wrongful or criminal deception intended to result in financial or personal gain".

Singleon et al. (2006) define fraud as a generic term that embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representation. No define and invariable rule can be laid down as a general proposition in defining fraud, as it includes surprise, trickery, cunning, and unfair ways by which another is cheated. The only boundaries defining it are those witch human knavery".

Next, Elliott and Willingham (1980) introduce "The deliberate fraud committed by management that injures investors and

creditors through materially misleading financial statements”.

Or the Statement on Auditing Standards (SAS no. 99), *Consideration of Fraud in a Financial Statement Audit*, states that three conditions are generally present when fraud occurs. First, there is an *incentive* or a *pressure* to commit fraud. Second, circumstances provide an *opportunity* for fraud to be perpetrated (e.g., weak controls or ability of management to override controls. Finally, there is an *attitude* or *rationalization* for committing fraud (Hogan et al. 2008).

3. Corporate financial fraud detectors

According to a study by Dyck et al. (2007) resulted that the key parties in the discovery of fraud are: employees (19 % of the cases), non-financial market regulators (16 %), media (13 %), financial analyst and auditors (14 %), short seller and equity holder (9 %) and SEC only 6 %.

Below, we will make a brief analysis of each party which can be a determining factor in detecting fraud within the company:

A. Internal

i. Corporate Governance

The international audit standards require governance, which have an important role in preventing and detecting fraud. They stipulate that "those charged with governance of an entity have a responsibility to ensure, through oversight of management, accounting systems and integrity of financial reporting entity and to ensure that appropriate controls exist, including for monitoring risk, financial control and accordance with the law" (ISA 240).

The existed problem here, as it was already showed by many practical cases, is the governance's involvement in frauds, therefore, in such cases we must rely on other stakeholders within or outside the company, who could make disclosures of information.

i. a) Management

Also in the international audit standards it is set out the obligation of management in preventing and detecting any fraud."This responsibility includes implementing and ensuring a continued operation of the

accounting systems and internal controls, which are designed to prevent and detect fraud and errors. Such systems reduce but not eliminate the risk of misstatements, whether caused by fraud or error. Consequently, management assumes responsibility for any remaining risk" (ISA 240).

i. b) Internal auditors

This time the international internal audit standards come with details on the obligations that internal auditors have. In accordance with the 1210.A2 MPA rule of implementation of the internal audit standards it is said that: "internal auditors should have sufficient knowledge to identify any signs of fraud ". In terms of detecting fraud (MPA 1210 A2-2), the internal audit is to help members of the entity to carry out its functions effectively providing them with analysis, evaluations, recommendations, advice and information on the activities examined.

ii. Accountants

Accountants can play a critical role in the early detection of fraud within organizations (Nitsch et al. 2005 quoted by Kaplan et al 2010). Accountants are usually the first to be aware of "any unethical, immoral or downright illegal" transactions within a company (Appelbaum et al. 2006). Due to the fact that they take part in the middle of the actions, they are able to make disclosure when the company finds that irregularities occur. Employees clearly have the best access to information. Few, if any, frauds can be committed without the knowledge and often the support of several of them. Some might be accomplices, enjoying some of the benefits of the fraud, but most are not (Dyck et al. 2006).

Cases of integrity warnings coming from the employees are numerous. For example, two whistle-blowers, Cynthia Cooper and Sherron Watkins, played significant roles in exposing accounting frauds at Enron and WorldCom, respectively, and were named in 2002 "persons of the year" by Time Magazine (Bowen et al 2010). In Europe we can point out where Neil Mitchell, executive director at software developer Torex Retail Office in reference of some irregularities in

their accounts. He has been ousted, but he required to maintain his job using the whistleblowers protection law.

To encourage these revelations coming from the employees, some legislation guarantees compensation and rewards for them. Under the Federal False Claims Act, citizens who help uncover fraud in government contracts or government programs may be awarded a portion of the recovered funds.

B. External

i. Media

The media and press portray almost on a daily basis incidents related to illegal, fraudulent, or unethical behavior. It has become almost common place to read or hear about such activities as insider trading, bribery or kickbacks, stealing company funds or properly, sexual harassment, and negligence resulting in environmental disasters (Kennan 2002).

Journalist may have much to gain from the discovery of fraud. Their reputation will rise thus facilitating their career ascent.

But the problem is that the journalists often perform no better than regulators in facilitating the efforts of whistleblowers (Macey 2007). Journalists have indirect access to data from the company. They could use the disclosures made by employees to make them public in this way, becoming their voice. Between the media and disclosures made by employees there is a connection.

In Europe is famous the Kakraman Salyev case. As president of a non-governmental organization, he wrote an article in 2001 about the acquisition of shares in a local energy producing company, which was at the time a part of the state holding Edinye Energeticheskiye Systemy Rossii, by a group of Moscow-based firms. He described the purchase as a crooked deal and alleged that a high-level official from Moscow, one of the leaders of the pro-government political party, was behind the transaction. The editor-in-chief of a municipally owned newspaper, Vecherniy Magadan, agreed to publish the article in its issue of the 2nd of November 2001. Later the chief editor was dismissed from his office and then the distributed copies of the newspaper containing the article

had been destroyed. However the situation was eventually resolved, it was reinstated in office and the article was published.

ii. Financial analysts

The finance and career concern views suggest a significant role for analysts in fraud detection. As agents of investors holding residual claims (for both equity and debt), they specialize in interpreting company information into insightful analysis. While analysts do not receive direct monetary compensation for revealing fraud, they can benefit indirectly: through enhanced reputation and career prospects (e.g. Fama (1980), Hong and Kubik (2003) quoted by Dyck et al 2007).

As an example, we could choose the WellCareHealth Plan INC of Tampa, US. For years, the company seemed to defy all expectations achieving ever higher returns from one year to another, from providing life insurance to elderly and poor persons. Between 2004 and 2006 the company tripled its earnings, situation attributed to the efficient organization of the company. However, Sean J. Hellín financial analyst who reviewed the company between 2002 and 2007 said that this increase is based on a large scam. Involved in a federal investigation, he worked undercover for 18 months in the company, gathering evidence and helping them to debunk the whole scheme of the business.

iii. External auditors

Auditors have access to internal company documents and it is assumed that they should be the first to notice any fraud within a company, but often is not the case.

Current professional standards and authoritative guidance require auditors to provide reasonable assurance that financial statements are free from material misstatements, whether caused by errors or fraud (Hogan et al 2008).

An audit conducted in accordance with ISAs is designed to provide a certification that the financial statements are free from significant distortions caused by fraud or error.

From what we see, auditors have a set standard requiring that the auditor should

clearly identify any fraud. However, many times this does not happen.

In a study Made by the Association of Certified Fraud Examiner (ACFE), of 1,843 cases of occupational fraud in 106 countries in 2008 and 2009, 76% of the organizations implemented an external audit of financial statements as an antifraud control measure, but just 4.6% of the frauds were initially detected through an external audit.

A good example of the identification of frauds by auditors is Accredo Health INC case. Auditor Ernst and Young concludes that \$53.3 million of accounts receivables acquired in its 2002 purchase of the special pharmacy unit of Gentiva is uncollectible. Accredo stock drops 40% on the announcement. (Dyck et al 2006).

Although in theory it is assumed that any fraudulent practices identification should increase the reputation of auditors or of the audit firm, in practice this does not happen. There are eloquent the big implications of financial fraud audit business: one example is the audit firm Andersen, which audited the company Enron, the latter deprived of the right operation.

Also from practice we realize that for an audit company is very harmful to audit a company that has a tarnished reputation. That's why the audit firms choose to remain silent when they encounter illegalities, because from any disclosure not only they will lose a customer, but their reputation will suffer as well.

iv. **Customer**

By imposing late fees and penalties on payments to its First USA credit card without proper controls in posting payments, Bank One induces high attrition and generates massive numbers of complaints to the Office of Comptroller of the Currency. The Comptroller's office, forces the firm to disclose its troubled credit card operations and revise its earnings downward. The internal pressure leads to a shakeup of management and the board and a \$725 million restructuring charge. In final settlement, Bank One settles for \$39.9 million (Dyck et al. 2006).

v. **Regulators agents**

Post-Enron investigations by the SEC uncover round-trip trades made by CMS. In one year, round trip trades accounted for \$4.4 billion, 98% of CMS's revenue. Investors were misled not only to the value of CMS, but also as to the liquidity of the wholesale electric market. CMS restates earnings for two years and the SEC charges CMS and three executives. CMS settles with shareholders for \$200 million (Dyck et al 2006).

vi. **Short seller**

In a study realized by Karpoff et al. (2008) it is said that short seller play an important role in helping to uncover financial misrepresentation. They provide evidence on short sellers' effects by examining short selling around the public revelation that firms have misrepresented their financial statements. Such revelations are material events, as they are associated with a one-day share price decline of 18%, on average. They find that short sellers do indeed anticipate such revelations, as abnormal short interest builds steadily in these stocks during the 19-month period before the public revelation. The amount of short selling increases with the severity of the misrepresentation, indicating that short sellers are sensitive to the characteristics of the misconduct. These results imply that short selling activity, at least in firms that violate financial reporting rules, tends to be informed rather than manipulative.

4. Conclusions

The main responsibility in detecting fraud within any company is through corporate governance. Good corporate governance provides a good internal control, an internal audit committee and independently, well-organized and better oversight of management activities. In this way one could get a high degree of insurance against risk of fraud and the detection of it.

But, the problem occurs when governance is involved in committing the frauds. From the moment enter the so-called non-traditional detectors such as financial analysts, employees and journalists. They,

after what we saw, are the main actors in the disclosure of financial fraud, even if they, at a first glance, it seems that have much to gain from these disclosures.

The benefits available to those who disclose frauds are most often small or nonexistent. Thus, analysts, employees, auditors do not have much to gain from these revelations, but on the contrary. Thus, employees are likely to suffer various reprisals, auditors are likely to lose important customers, their reputation will suffer because of the association between them and various fraud, analysts do not get any financial gain, only their reputation will benefit; the journalists seem to have more to gain: they will provide better career ascent. In a nutshell, when we have the wolf guarding the sheep, we do not only have to rely on so-called non-traditional detectors so, therefore, governments who want a healthy economy must take measures so as to encourage and to protect them, which unfortunately is not happening yet.

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The Relation between Corporate Governance and Financial Statement Fraud

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Abstract

This article aims to highlight the relationship between corporate governance and financial statement fraud. It also emphasizes the characteristics that would be needed for good corporate governance so that it could prevent any type of frauds.

Key words: fraud, corporate governance, financial statement,

J.E.L. classification: M 41

expect incidents to occur most often in an environment characterized by irresponsible and ineffective corporate governance (Rezaee, 2002).

An understanding of what corporate governance is and how it works may contribute to an awareness of how attributes of this monitoring structure may be associated with the incidence of fraudulent financial reporting. It is anticipated that the monitoring aspects of corporate governance, may prove to significantly differ between fraud and non-fraud companies (Bourke p.6).

1. Introduction

We have witnessed in recent years to a variety of financial fraud. Proofs are plenty, for example: AOL, Enron, AIG, Satyam Computer Services in the U.S., Torex, British Telecom and Parmalat in Europe. It is believed that one of the issues that led to the production of these frauds was poor corporate governance (Zhang 2006, p.1).

Corporate governance and accountability within a company are linked. Financial accounting provides financiers with the primary source of independently verified information about the performance of managers. Thus, it is clear that corporate governance and financial accounting are inexorably linked (Sloan p.2).

Managers justify their activity by financial results. When the results obtained in the financial statements do not match the expectations of managers, they, along with others as part of government will be tempted to manipulate the results. What afford them to do that? A weak corporate governance (Bower et al. pp. 1247). Because financial statement fraud is typically committed by the top management or employees, one would

2. Corporate governance

The term "corporate governance" derives from an analogy between the government of cities, nations or states and the governance of corporations. The early corporate finance textbooks saw representative government as an important advantage of the corporation over partnerships but there has been and still is little agreement on how representative corporate governance really is, or whom it should represent (Bech et al. p. 2).

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.

The role of corporate governance is to reduce the divergence of interests between shareholders and managers. The role of corporate governance is more useful when managers have an incentive to deviate from

shareholders' interests (Roodposhti and Chasmi 2010).

Over time there have been several attempts to define corporate governance. The Public Oversight Board (POB 1993) has defined corporate governance as follows "those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process". Bourke (2006 p.28) say that corporate governance is used to deter any conflict of interests between shareholders and managers that may result in fraudulent behavior causing a reduction in shareholder wealth.

As an interpretation of the definitions given above we can notice that the role of the governing corporate is a means that ensures correctness of financial statements, in this way protecting the interests of shareholders in the company.

Karamanou and Vefas (2005 p.454) suggest that corporate governance structure, as expressed by corporate boards, audit committees, and ownership characteristics, is associated with financial disclosure decisions.

3. Financial statement fraud

Fraud was a very serious, underrated, and somewhat ignored threat to private and public entities for most the nineteenth century. As a consequence, it prospered relatively undeterred and has cost many entities enormous sums of money (Silverstone and Davia 2005). Fraud consists of knowingly making material misrepresentations of fact, with the intent of inducing someone to believe the falsehood and act on it and suffer a loss or damage (Louwers et al., 2007 p 68).

Bourke, 2006, p. 21 defined fraud in the financial statements as follows "the conscious effort by management or other members of the governance body to sanction, or otherwise support, the production of materially incorrect financial reports".

Financial fraud regarding the financial statements is represented by a set of financial statements that would need to be in accord with an accepted set of standards, but they are not. In a report published by COSO, the

profile of companies involved in financial fraud is as follows:

- They were small to mid-size less than 59 million in revenues or assets (large companies should not be excluded, there are in less number, but the frauds are most resounding);

- They were often in a net loss or break-even position in the prior to the beginning of the fraud;

- Concentration were centered in the technology, healthcare, and financial services industries;

- The COEs and CFOs were involved in the fraud;

- Boards and audit committees were very weak and owned a significant share of company;

- The company manipulated revenues and/or assets; some frauds involved only disclosures;

- There were dire consequences for the company, often bankruptcy (In a report commissioned by the Treadway Commission, entitled „Fraudulent Financial Reporting: 1987-1997, an analysis of US Public Companies, the Committee of Sponsoring Organisations of the Treadway Commission (COSO) analyzed the characteristics of approximately 200 financial statement fraud cases involving US public companies to learn about the nature of the companies involved, the nature and size of the fraud, and parties responsible for the fraud (Silverston and Davia, p.10, 2005))

4. The Relationship between corporate governance and financial statement fraud

A good corporate governance will ensure a greater control over the accuracy of the financial statements. In contrast, a poor corporate governance will have less control over such information in the financial statements. What makes a good quality governance to be considered and what is not?

(Karamanou and Vafes, p. 2, 2005) suggest that corporate governance structure, as expressed by corporate boards, audit committees, and ownership characteristics, is associated with financial disclosure decisions, and specifically they hypothesize that effective governance mechanisms are

positively associated with the quality of financial disclosure practices.

Next we will analyze each part to see how corporate governance affects the quality of financial statements:

a) Audit committee

Internal audit is an important part of the corporate governance structure within an organization. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process (Public Oversight Board 1993)

A study by Coram et al. (2006) showed that a functioning audit committee is more likely to determine existing fraud. It is also shown that having some insourcing is more effective in detecting and reporting fraud than completely outsourcing the internal audit function.

Karamanou and Vafes (2005) find evidence that the market reaction to management forecast announcements is related to board and audit committee characteristics, especially when the forecast releases good news. This evidence suggests that investors have greater confidence in good news forecasts that undergo the scrutiny of more effective boards and audit committees. The Audit Committee is influenced by many factors. These influential factors we have described below.

Firstly, it is very important the independence of the internal audit Committee members. "Skouen and Wright (2006) found that as the proportion of audit committee members who are independent increases, the probability of financial statement fraud decreases. They define an independent audit committee member as a member who is not a current employee of the firm, former officer or employee of the firm or related entity, a relative of management, professional advisor to the firm, officers of significant suppliers or customers of the firm, interlocking director, and/or one who has no significant transactions with the firm (Robinson, 2002) "(Shamhi, 2009, p.26).

Secondly, of a major importance there is the independence of the audit committee director. In a study conducted by Agrawal and Cgadha (2003) find that the probability of restatement is lower in companies whose boards or audit committees have an

independent director with a background in accounting or finance.

Another factor that could influence a possible fraud is represented by the auditors' contracts. In another study conducted by Person (2005) concluded that motivating the audit committee members by providing a long term contract can be very useful for improving corporate governance. Tying the future for a longer period of time to the company they work they will think twice before risking their future.

b) Board of directors

The Board of Directors is a very important component of corporate governance. Next, we showed which factors influence the actions of the Board of Directors.

One influential factor that we might note here is the size of the Board of Directors. A board of directors with a large number of members is more difficult to control than a committee of directors which has up to seven or eight members (Jansen 2003 quoted by bronzes in 2009, p.4).

A second factor that may influence the accuracy of financial statements is the number of directors from outside the entity. In a study by Beasley (1996) is concluded that companies that have experienced financial fraud have a higher percentage of directors independent of the organization.

A third influential factor is the conflict of interest that may arise; the Board of Directors should clearly stipulate that the chairman of the Board of Directors cannot occupy the position of executive director. Combining the positions of chairman and CEO confers greater power to the CEO (Shivdasani and Zenner 2002). Unfortunately this is often not the case; we can speak of an unethical management (Dunn 2004 quoted by Bourke 2006 p. 47).

Another factor is the supremacy held by directors in the entity. If they have total control over the company, this will lead to an undermining of property held by shareholders. The supremacy of inside members of the board of directors is a factor that can create conditions for the occurrence of wealth transfer from shareholders to managers of the firm (Fama, 1980).

A fifth factor that should be taken into account is the number of committees in which a person may be appointed director of

the entity that should be played. The findings collectively suggest that directors with multiple board seats are generally likely to be individuals with strong reputations whose services are in demand by many boards (Shivdasani and Zenner 2002).

One other interesting feature that characterizes companies involved in fraud is the number of board of directors meetings. Vafeas (1999), after analyzing the frequency of meetings of the Board of Directors concluded that the companies involved in the frauds had a frequency of these meetings higher than the other companies. And why is that? Shivdasani and Zenner (2002) said that frequent meetings might also distract the firm's managers from their day-to-day operational responsibilities and may deter the board participation of some of the most desirable directors with other time-consuming responsibilities.

c) Shareholders

Wang (2005) shows that even when the manager's interest is perfectly aligned with that of shareholders, fraudulent behavior can still emerge, because incumbent shareholders may find it advantageous to defraud prospective investors. Good corporate governance will not completely prevent fraud if it is under the control of existing shareholders.

Shleifer and Vishny (1997) argue that concentrated ownership is a key element of a good corporate governance system because large shareholders have high incentive and power to impose effective monitoring over the management (Wang 2005, p 51). On the one hand, the presence of block holders may curb the discretionary behavior of the managers, incite them to adopt profitable strategies and disclose relevant and reliable information (Klai 2011 p.160)

5. Conclusions

After what we saw there is a strong link between corporate governance and financial fraud cases. Managers have every incentive to obtain the best results because their compensation depends heavily on this. When these results are not desired, they will be tempted alone or with others as part of the governance of the company to handle these results. After what we have seen these

practices can be detected or even more important: prevented.

A good strategy for detecting and preventing fraud in the financial statements represents establishing responsible corporate governance, vigilant board of directors and audit committee (Rezaee, 2002, p. 81).

As far as we have noticed in a well-established corporate governance it is very important the independence that the senior members of management must have. Also, it is crucial for the audit committee director to be independent of the entity, if possible. Another thing to be underlined is the number of board of directors. After what we saw, a small number of executives provides a better control over the entity.

Good governance requires the implication of the states, so as to create a strong law to regulate this area. The frauds from the U.S. or Europe - where there were lost billions of dollars - should be good examples, in order for us to learn from them.

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Aspects of the Financial Analysis

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Abstract

The analysis, as a general research method of the nature and society phenomena represents the breaking down of those ones in their component parts in order to be studied and discovered causal relationships. The economic analysis concerns the economic activities consuming resources and generating results. The financial analysis, as all the direct final professional disciplines, is in perpetual development, sustained by a lot of several factors, the most important being the methodology and the technique. The financial analysis, above all, is a subject of interpretation, especially of the information with accounting provenience, which requires restatement for adaptation to specific needs.

The financial analysis deals with aspects from the point of view of the different partners of the enterprise, as well as in terms of the appropriate categories of information.

If, following the financial analysis, the financial analyst follows the company's financial health, the „pathology”, but also the „symptoms” and the necessary „remedies” in order to treat them, respectively the chances of „healing” and the relapse risks, we can say that the financial analysis is an art of the description and of the interpretation, allowing the evaluation of the financial potential, the placement of the company in the economic sector, the expression for each strategic option of the future performances and the realization of a comparison between the needed and the available resources.

Key words: performance capable, the overall loss risk, financial risk, exploitation loss risk, capitalization.

J.E.L. classification: G0

1. Introduction

The area of the financial analysis is very broad, referring to the analysis of the performance capacity of the company, to the analysis of the loss risk, to the static and dynamic bankruptcy risk, but also to the use of modern methods and procedures and of the expert systems of financial diagnostic of this field.

As a practical activity, the financial analysis needs to scroll three stages namely:

The first stage involves the collection and the detailed research of all the data and the information needed for the analysis. For this purpose, the analysis uses a system of data and information, which should reflect completely the situation of the company appealing to more information sources, which can exist in or outside the company. The internal source are coming from the informational accounting, financial and statistic subsystem of the company and refers to the data of the financial and treasury management accounting, to different statistic reports as to a lot of other non-accounting information. The external sources are coming from outside the company and include general information on economic, financial and monetary terms, information regarding the activity domain of the company, but also other legal and legislative information.

The second stage includes the general verification of the data and information extracted from various forms both in terms of their comparability and in terms of the compliance with the laws in force. At this stage the material is made to simplify the analytical and numerical values and the rounding of the numerical values and the elimination of the small, insignificant series will be realized.

Finally, the last step supposes the proper analysis by applying its own methodology, at the end of this one conclusion should be drawn and a final report of analysis is prepared, which is attached to the documents of synthesis for different internal and external users and this fact gives the analysis the expedience for the management decision. [3]

2. Concepts and methods of research of the financial analysis

Like any scientific discipline, the financial analysis is defined through the object of study and through its own method of research.

The subject of the analysis is generally the economic-financial activity of the economic entities at the micro and macroeconomic level it researches from the point of view of the results of the utilization of the human, material and financial resources, in order to discover opportunities and to value the possibilities of improvement in the future. The way of the analysis is in the sense of the real evolution of the phenomenon starting with the production process in the direction of its final results or it can be a opposite one starting with the results of the finished economic process in the direction of the consumed resources. In every variant of approach the analysis aims the measurement of the results achieved in the economic-financial activity with the consumed resources, comparing this way the effects with the effort with the purpose to evaluate the efficiency.

The research methods of the analysis show the way to be followed in order to know rationally the economic phenomenon and include a series of steps, processes and techniques used to obtain the purposed objective: to establish and to quantify cause-effect relations in the economic-financial activity. For this purpose, using the analysis and the synthesis as methods aiming the breaking down of the researched object into parts and respectively their assembling into a whole, the financial analysis crystallized its ways of knowledge in its own method in four stages [1]:

The first stage – comparing phenomena – is a method of quantitative analysis that seeks a deviation indicator towards the reference value taken as a basis of comparison.

The next stage – the decomposition – is a deductive method of quantity analysis from general to particular, from whole to part and allows the detail and the separation of the factors determining the indicator which assures this way the localization of the causes through the factors to be selected and interpreted. Before the decomposition of the factor, it should be knew from practical experience what factors determine this indicator and how it makes progress.

The third stage – to establish the influence of the factors – includes more quantitative methods of quantification of the action of every factor on the studied indicator, which mean the most important element of the analysis. This stage represents the unity of two different sides respectively the precision of the system of cause relationships between the factors and the indicators and the quantification of the influence of these factors on the deviation of the indicator.

The last stage, of synthesis supposes the generalization of the results, respectively the transition from particular to general and aims the bringing together of the parts studied on previous stages into a whole. The generalization retains what is essential and typical, the main elements being separated from the minor key.

3. Methods and procedures of the financial analysis

The financial analysis is not an exact science but a contextual discipline, which uses the comparison as the main tool of investigation and verification. Although the figures don't speak for themselves, situated in a particular context and confronted with other, related to the politics of a company, they could be made to speak [2]. If the financial analysis was reduced to the methods of examination of the accounting documents which envisage mainly the elaboration of the results account and of the balance, in the present the domain of study of this one was considerably extended, which has forced the diversification of the methods and processes used in order to achieve its objectives.

The methods of the traditional financial analysis are:

1. The comparison of the financial statements in function of the reference criteria: there are comparisons in time and comparison in space. The comparison in time over several years admits the evidence of the tendency of some analysis indicators of the analysis (increase or decrease). The comparisons in space made between companies of the same area admit the appreciation of the position of a company in the industry and to evaluate their strengths and weaknesses relative to competition.

2. The method of analysis through RATIO – in the financial analysis, the English word RATIO (of Latin origin RATUS), which means calculated, is synonymous with the terms coefficient, ratio, percentage, and rate. RATIO is an economic rapport or financially significant between two absolute values which represents two items or groups of balance sheets from the result sheet or from the balance of results. The report can be expressed as a percentage, number of days or number of years or in form of coefficient in order to obtain more meaningful information as they can provide as absolute values of some account sizes. The RATIO ensemble includes a number of representative indicators of financial analysis that serve three purposes, namely [3]:

- The performance measurement as consequences of the decisions on investments and financing;
- The effectuation of comparisons over time in order to study the evolution of the financial situation;
- The situation of the company in its own professional milieu by comparing their rates with those averages of similar business.

3. The specific analysis method – in function of the purpose, the financial analysis can use a number of specific methods adapted to situations for the study of the liquidity, profitability and risk, the study of the activity of the company, of the financial structure, of the chains and cash flow rates.

4. The stages of the financial analysis

The effectuation of a large financial analysis, which can lead to a financial diagnostic, supposes the following steps:

1. The preliminary stage supposes the presentation of the information regarding the activity domain of the analyzed company, the evolution of the turnover in the last 4-5 years, the rate of return expressed through the rate of the growth of the net profit, the rate of the benefit of the own capitals, the risks, the share of total borrowing and short term debts and that to have a first representation of the company.

2. The examination of the financial situations supposes:

- The analysis of the results;
- Financial balance and functional analysis;
- Panel study and the cash flows.

3. The formulation of the financial diagnosis – following the summary of the financial analysis in synthesis will be presented the strengths and the weaknesses of the company. The results of the financial analysis will be valued differently depending on the user, but generally will seek to answer the questions of a financial, economic, fiscal and legal nature [4].

A particular attention will be given to the financial aspects, such the demand of credits on long and short term, purchases of actions, issuance of new shares, making new investments. The conclusions of the financial analysis can be valued in the elaboration of new studies of feasibility or of necessary evaluation for different purposes.

A conclusive indicator, which occurs in the calculation of the rates of performance, is the added value, an indicator to be interpreted with caution, realizing its calculation in two ways:

1. The synthetic method, which says that the added value is equal to the difference between the production of the exercise plus trade margins one side and the intermediate consumption of goods and services from third parties on the other side. Through its containing, the added value is one of the significant indicators of the activity of the company and that because the sum of the values added of all economic entities are national gross domestic product.

The added value as an *instrument of analysis* allows the appreciation of the economic-financial performances of the company and namely: the real economic strength of this one; the contribution of the factors at the creation of its own wealth; the contribution of the company at the creation of the gross domestic product. The added value is a way of appreciation of the size of a company, more significant than the turnover. Used in intra-comparisons, the added value reflects the structural differences between similar companies in terms of the reports between the inputs incorporated in the economic activity.

The added value as a *way of administration*, it characterizes the exploitation of the company being used in the administration control and to determine the value of the added taxes as a indirect tax.

2. The analytical method of calculation of the added value is a method of repartition because it supposes the sum of the structural elements of the recently created value, respectively: staff, bad taxes, financial expenses, the amortization of assets, net profit. Specifically, the added value produced by the company is shared between all participants in the life of the production company:

- The staff of the company through the staff expenses given directly in the form of the wages and indirectly in the form of the insurances and social protection, as well as through the participation of the employees in profits;
- The capital contributions through the debts paid to the creditors of borrowed resources and through the dividends paid to the shareholders for the equity permanent capitals, the analysis of the account results;
- The state through taxes and tax receipts;
- The company itself through the compensation of the depreciation and of the use of fixed assets by reserves and provisions as well as self-financing their development.

The added value structured this way is a performance indicator that allows the appreciation of the efficacy of the activity of the company for a given activity [5].

5. The profitableness – a criterion of performance

The profitability is company's ability to profit. Moreover, the objective of every economic entity is to respond to the expectations of the participants at its life as well as the development of the value in order to assure its own development.

The realization of this objective is the condition of development of a rentable activity that can allow the compensation of the consumed production factors and of the capitals used whatever their origin could be. Every business involves a certain investment, which has as consequence the result of the investors. When the result is higher, new available sources can be formed for other investments in different purposes such as: the stimulation of the partners; the insurance of its own business development; the creation of reserves.

The profitability results from the measurement and comparison of the effects, respectively of the income with the efforts made, with the expenses made in order to obtain them.

The analysis of the profitability of a company is realized based on the profit account which includes the economic flows that reflect the creation of the wealth based on the overall spending and revenue, whose difference corresponds to the result, which can be positive or negative, respectively benefits or losses.

The presentation of the result account in accounting and financial situations is based on two conceptions:

a. *the conception after nature* – it supposes the account of result in tabular form, the debit representing the expenses, and the credit having the benefits, the balance of the credit or of the debit indicating the benefits, respectively the loss.

b. *the conception after the functions* – based on a logics of the costs on the functions of the company which allows the presentation of the profits and expenses in form of a list in accordance with the expenses attributed to the different activities, respectively production, sales, finance.

The study by functions of the profit account allows the determination of the margins of results in five levels, namely: the result of the exploitation, the current result,

the financial result, the net accountings result. This conception of presentation of the account of profits and loss is accepted from international accounting standards as well as from European objectives. The determination of the result represents a preamble for the accounting analysis of the financial analysis and of the evaluation of the company.

Starting from the result we can define the capacity of self-financing of a company and the concept of cash flow at the origins of the treasury as a major object of the analysis of the financial situations in order to determine the degree of competition of the company [6].

6. Conclusions

The financial analysis is considerate one of the demarches of a global diagnostic, which envisages appreciating the value, in large terms of the company. Such a diagnostic has generally three important phases: a phase of evaluation of the entire potential of the company, human, commercial, technical, a phase of competition positions of this one in the milieu and a phase of evaluation of its strategic options.

As a specific investigation method, the financial analysis brings its contribution to the realization of each of the three phases. The financial analysis allows the evaluation of the potential of a company, of the financial competition power, of the capacities of debt and repayment of debt, of the position of this one in its financial milieu in relation with the banks and the financial market through the confrontation of the characteristics of the company with the laws given by this milieu, the appreciation of the degree of adequacy between needed and necessary resources.

The traditional financial analysis can be completed with new elements if the computer assistance is envisaged, which, near the technical aspects involve the adaptation of the statistic methodology of the analytic approach to the problem of the evaluation based on information provided by accounting and not only.

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The Financial Diagnostic – Profitability and Risk

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Abstract

The financial diagnostic calls, especially the study of liquidities, of the financial structure, of the profitability, but also of the other aspects such as the risk, the development of the company and other. With this purpose, the financial analyst should study the financial situations and the aggregation of this ones with general information on economic, fiscal and monetary, legal and economic and those referring to the economic activity of the domain of activity of the entity. A right financial diagnostic can be established by a much boarder approach, including a preliminary study on the environment. The principal objectives of the financial diagnostic are regarding especially the evolution of the risk management, being sometimes restricted to the formulation of opinions on the economic-financial health situation of the company regarding the shareholders, the investors and the business keepers and creditors, the borrowers. Starting from the objectives of the financial diagnostic, we can distinguish three types of financial diagnostic, namely: the financial diagnostic of the shareholders, the financial diagnostic of the leaders of the company and the financial diagnostic of the creditors.

Key words: risk degree, profitability degree, inflation risk, reputation risk, efficiency risk

J.E.L. classification: G0

1. Introduction

The term of profitability has a relative character. The capacity to have monetary results cannot be judged apart of the means employed to achieve them. That's why the profitability analysis is not restricted to the

investigation of their absolute indicators, but also of the relative ones, obtained through the reports of results at the means engaged or consumed for the development of that activity.

The profitability is one of the most synthetic forms of expression of the economic-financial efficiency of the company, respectively of all the production ways used and of the labour of all the stages of the economic cycle: purchasing, production and sale.

The financial diagnostic means not only the actions of discovery of the risk, but also of the potential of the company so that we can understand the past situation and the prevision of the future evolution, to measure and to interpret the results of the past in order to prepare the future economic and financial situation of the company. All the information will be used for a first investigation of the aspects referring to the function of the entity, at a dynamic approach of its behaviour, at an appreciation of its results in correlation with the characteristics of the concurrence environment, at an evaluation of the degree of risk and profitability.

2. Delimitations regarding the financial diagnostic

After the expression of Bernard Colasse, the financial diagnostic is "an experimental approach, whose development varies as well as the analyst follows the objectives strictly defined or seeks the diagnosis in a extensive manner"[1].

The financial diagnostic is approached from the point of view of the shareholders as well as from that one of the creditors.

In order to establish the financial diagnostic of the shareholders it is necessary to analyze the many problems of growth, of

profitability, of financial balance and even of risk, and this fact because as shareholders, they are following the evaluation of the diagnostic in order to allow the adoption of some pertinent decisions regarding the sale or the keeping of the actions they dispose. For the big shareholders, the financial diagnostic is founded first of all on indicators expressing the economic growth, the autonomy and the flexibility of the company, and second of all on indicators of profitability. Being in the situation to choose between the interests on short term, they will be attracted by the first option, the only able to bring to the maximization of the value of the company and to assure the survival of this one in the big struggle of the concurrence. The financial diagnostic of the small shareholders which have few information on the activity of the company will be summary and founded principally on the profitability they obtain and on the financial risk they are exposed.

The financial diagnosis of the creditors is based on the analysis of the indicators of evaluation of the capacity of repayment of the debts and of the interests. They seek the establishment of the financial diagnosis on the base of the indicators of risk and insolvability.

The profitability is sometimes associated with the satisfaction registered as a reward of the effort recorded, representing the capacity of one entity to realize the profit, necessary to the development and to the remuneration of the capitals. From this the definition of the profitability given by Cohen E. as a "technical approach of the performance"[2]. In the process of determination of the financial diagnostic, the profitability represents an indicator with a major place. The approach of the profitability is logically integrated in the investigation of the "efficiency" of the activity of a company, through giving the privilege to a monetary evaluation of the performances. This monetary point of view could seem insufficient, because at the first glance, it minimizes the realizations of the company, which have not a monetary expression (the physical capacity of production, the competences of the staff, the social climate, the competitive environment relationships). In fact the systematic approach of the company allows the comprehension of the conversion of every favourable realization

(expressed in quantity and quality terms), in monetary results and this way in profitability.

In this vision, the profitability is the synthetic expression of the results of every nature, one reference indicator in the orientation of the decisions and of the behaviour of the company.

3. The concept of profitability and risk

The concepts of the leading local economists converge to the idea that the "profitability express the capacity of the company to realize a profit necessary to the development and to the remuneration of the capitals"[3].

As the absolute profitability of the company is determined as a consequence of the analysis of the profit it is not enough representative neither for the external users nor for the external users of information, it will be imposed the comparison of the profits mass with other values, which can evidence the methods used to obtain the profit, which can lead to the determination of a series of rates of profitability characterized through a big informational capacity.

The profitability is generally a fundamental constraint of the financial management, together with that referring to the realization of the financial balance of the company. It depends not only on the internal profitability but also on its relationships with the environment, and especially on the attitude of the economic agent to adapt to the variations of the market [4].

The profitability of an entity from the management point of view is a fundamental instrument the decisions regarding the internal management of the economic agent and the relationships with the environment and especially the capacity of the economic agent to adapt to the requirements of the market. In a restrained way, the profitability evidences the measure of the company to realize sales which level which exceed the costs of the activities.

The profitability is expressed by two synthetic indicators: the profit – as an absolute measure of the profitability and the profitability rate, which represents the degree of the capital and the way other resources of the company bring the profit. For these reasons, the rates of return are identified with rates of efficiency.

The profit in the economic activity represents the sense of the existence of this one, a reason of repartition of the opinions regarding the definition of the profit. In the contemporary economic theory, this represents sometimes the advantage resulted in a material form in an action or from an operation or economic activity. In this situation, the economic agents should have relevant information regarding the mass of the profit and its rate for a corresponding orientation of the activity.

But the profit can be regarded as a final element or residual of the difference between the benefits they realized and the related costs, or in other significance, the profit represents an implicit remuneration of the factors of production, and for the maximization of this one can be followed different ways: the organization and the efficacy of the work, through the work volume, time, staff structure; the minimization of the production costs or the realization of quality products through the introduction of the technical progress, which is reflected in the prices.

But the profit can be obtained through ways which are independent from the internal measures of the economic agents, but also through a placement of the economic agent near the trade market, a fact which assure a small level of transport expenses; the situation of the economic agent on the monopole position, a fact which gives to this one the possibility to practice monopole prices; the majority in one unreal way of the profit from an economic conjuncture – inflation, high custom duties reflected in prices.

Just as the profit, the profitability – an economic important category have different conceptual approaches, being regarded as “a synthetic indicator, expressing the capacity of an economic entity to obtain a net profit. There is a very good point of intersection of every other quality indicators”.

The profitability can be defined as the capacity of the company to have a profit or the “profitability can be defined as the capacity of the company to produce a surplus over the level of the expenses”.

4. The rate of economic and financial profitability

The approach of the profitability fits into the investigation of the efficiency of the activity of a company, favouring a monetary evaluation of the performances. This monetary optics could seem insufficient because at the first view it minimizes the realizations of a company, which have not the monetary expression (the physical productivity, the competences of the staff, the social milieu, the reports in the concurrence milieu). In reality, the systemic approach of the company offers the comprehension of the conversion of every favourable realization (expressed in quantity and quality), in monetary results and this way in profitability.

In this vision, the profitability is the synthetic expression of the results of every type, a reference indicator in the orientation of the decisions and the behaviour of the companies.

Included in the battery of the efficiency, the rate of the profitability is determined on the base of the data from the result or balance account, through the report of a result (gross operating surplus, the result of the exploitation, the result of the exercise) at one indicator of effort (costs, turnover, invested capital, equity) [5].

Through the rate of financial profitability will be assured the surprise of the capacity of a company to emit the net profit, through its own capitals engaged in the activity of production, determining the yield of the utilization of the own capitals and taking in evidence the interests of the shareholders with a double aspect: on long term – through the reinvestment of the profit which can assure the growth of the values of the actions and therefore the creation of possibilities of increase of the dividends in the next period, on short term the immediate increase of the dividends.

The increase of the financial profitability can be realized through the growth of the net profit in a superior rhythm – due to the increase of the physical volume of the physical production and of the production of delivered goods, of the reduction of the exploitation, of the fiscal politics of the state or through an advanced growth of the turnover from the growth of the rotation speed of the actives of the company.

It will be justified the affirmation that the rate of the financial profitability interests especially the shareholders – on the base of the value of this rate could be appreciated the measure of the profitability of one investment – being influenced by two categories of factors: the modality of purchasing of the capitals (a reason of sensitivity from the degree of indebtedness of the company and from the financial structure), but also from the modality of determination of the net profit (the calculation of the net profit is influenced by the modalities of calculation of the amortizations and provisions, but also by the way of determination of the deductible and non-deductible expenses on the table of taxable profit).

With the purpose of the delineation of one assembly evaluation on the performances of a company it should be made a reference at the rate of economic profitability which express the efficiency of the economic capital they invested, the efficiency of the material and financial methods given to the activity of exploitation and sale, reflecting the economic results without depending on the way of financing of the capital and on the fiscally politics. The appreciations referring to the efficiency of the constitution of the capital are taking care of the quantity of the monetary surplus which not only has to be enough for the entire coverage of the costs of the used capital, but also to allow the realization of the objective of the financial management of growth of the value of the company. In the choice of the financial structure of the company, the main criterion is represented by the economic profitability.

An economic profitability superior to the rate of debt allows to the company to appeal to debts in order to increase the financial profitability and implicit of the value of the market. At the reverse, an economic profitability inferior to the rate of the debt determines the company to use its own resources and this fact because a supplementary indebtedness leads to the growth of the insolvability risk.

In real terms, it can be said that the rate of the economic profitability should remunerate the capitals invested at the level of the medium rate of yield of the economy and of the economic and financial risk assumed by the providers of capita. The rate of the economic profitability should allow to the

company the renewal and the growth of its actives in a short period of time. Because the rate of the financial profitability is expressed in function of the rate of the economic profitability, we can appreciate that this financial profitability has its origins in the economic profitability, the difference between the two being determined by the politics of financing promoted by the company.

5. The risk

In the market economy, every company is confronted with the risk. The risk equates with the vulnerability of the company. The risks on the domain of the company are found in the form of the risks of exploitation, the financial risks and the risks of bankruptcy.

The risk of exploitation responds to the risk of the realization of a income or estimated result (preliminary), without taking care of the way of financing used in order to obtain this one [6].

In function of the nature of the factors contributing to the generation of some types of risks, the exploitation risks are: the risks determined by the factors of the production process; the risks of management of the factors of the process of production; the risks of the management of the production factors; the risks of extensive and intensive utilization; the risks of the efficiency; the risk of the failures in the information system or in the activity of internal control of the company, the technical risks, the fraud risk, the project risk; the company risk – the result of an action in concordance with some proper characteristics of a company, which are in contradiction with the exigencies of the organization, of the coordination, of control involved in the ongoing of a business with different partners.

The financial risks – the risks generated by the way of financing of the company, taking care of the sensitivity of the net result at the variations of the result of exploitation, they can take the form: the risks of debts; the risks of financing, the risks of liquidity, the risks of audit.

The companies which have a sensitivity to the modifications of the economic and financial variables, it is necessary that in the field of analysis to considerate the

fluctuations of the internal milieu, but also those of the external milieu, in order to discover the effects of the changes, in order to prevent those with unbalanced characteristics. As the activity of the companies is developed under the action of the risk external factors, it is necessary to present those categories of risk: risks of the laws; juridical risks, risks of the natural factors; risks of countries; risks of the market that come from the big variations of prices imposed by the market economy, political risks, risks of image/publicity; risks of inflation or deterioration of the power to buy at a certain moment, risks of counterpart and of credits; the reputational risk.

6. Conclusions

The taking into account of the risks justifies integrally the complex approach of the financial diagnostic of the company. The financial diagnostic, the risk and the solvability of the company contain elements of economic, financial, social or human nature, and the determination of the indicators already mentioned would not be possible but with the help of complete information, actual and relevant contained in the "informational offer of the accountancy" [7].

The actions made in order to establish the financial diagnostic of one entity are not limited to the study of the financial situations, but to the cumulating of these ones with general information in the economic, fiscally and monetary, of juridical and economic nature with those referring to the domain of activity of the entity.

All those information are used for a preliminary investigation of the aspects referring to the functionality of the entity, to a dynamic approach of the results in correlation with the characteristics of the concurrencies milieu, to the evaluation of the degree of risk and profitability.

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Human Development ad Poverty Reduction in Nigeria: An Assessment of Millenium Development Goals (1990-2010)

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Abstract

This paper attempted to examine the relation between human development and poverty indicator taken into consideration major millennium development goals parameters in Nigeria. The importance of human development can not be over emphasized as Human Development Report came out in 1990 at a time when development in Africa and the rest of the Third World was in a state of flux as poverty was widespread experience across the countries. This research work was analytical in nature, employed econometric tools for the analysis. The analysis revealed that human development index (HDI) was first regressed on each on the poverty parameters in simple correlation analysis and the statistically significant at 10% and/or 5% level of significance. Also, HDI and some selected poverty related indicators of millennium development goals (MDGs) parameters show a reverse and unexpected relationship but statistically significant all the same using multiple regressions. The Augmented Dickey-Fuller (ADF) unit root test reveals that all the time series variable employed were stationary at levels for both the intercept and deterministic trend. Appropriate policies are therefore recommended on how best to achieve poverty reduction and MDGs. However, human development (HD) is too important to be under-rated in government policies as corruption and mismanagement of economic resources suffered a series of incorrect macroeconomic policies.

Key words: Human Development Index, Poverty, Millennium Development Goals parameters

J.E.L. classification: O15; I32

1. Introduction

Human development plays basic and fundamental role and remain the most important factor in economic growth and development in countries of the world. The

Human Development Index (HDI) is a composite statistic used to rank countries by level of "human development" and separate developed (high development), developing (middle development), and underdeveloped (low development) countries. The statistic is composed from data on life expectancy, education and per-capita GDP (as an indicator of standard of living). The Millennium Development Goals (MDGs) are the world's time- bound and quantified targets for addressing extreme poverty in its many dimensions. They embody the deep aspirations and commitment of the global community for significant improvements in the quality of human life (UNDP 2009).

The only way to reduce poverty in the LDCs without resort to international welfarism or international migration is through the development of productive capacities of the LDCs and the concomitant expansion of productive employment opportunities within them (UNCTAD 2006).

Past researchers in this area have argued that global economic integration should help the poor since the poor countries have a comparative advantage in producing goods that use unskilled labour. In the last two decades, the percentage of the world's population living on less than \$1 a day has been halved, falling from 40 to 20 percentage over the last twenty years. During this period, countries increased their trade share and slashed tariffs

Yet one billion people still live in extreme poverty, and half of the world's populations live on less than \$2 a day. There are two tendencies in analyzing the causes of poverty; one spectrum is microeconomic analyses of the causes of poverty focus on characteristics of the poor (such as illiteracy, living in remote areas, working in subsistence agriculture, etc.) and directing policies to address these in a way that is divorced from the broader macroeconomic context. The macro-context lead to simplistic and misleading assertions that "economic growth is good for the poor." The eradication of widespread absolute poverty and reduction on income inequality is in the content of redistribution of Economic opportunities, which emphasizes the need to provide and guarantee a decent livelihood to majority of the populace; which include the provision of adequate food, shelter and clothing, access to health facilities and education and greater employment opportunities. Lack of these things is both a symptom and causal of absolute poverty and income inequality. (Todaro, 1989)

In Nigeria, the claim of the World Bank was that poverty in the period 1982-1992 was a devastating phenomenon that resulted from a mismanaged economy that suffered a series of incorrect macroeconomic policies. The consequences were evident as expected, visibly evident on the people and made life a groaning experience. The problem was serious enough that in Nigeria the middle class was virtually wiped off as an age old social classification. Development analyst could no more talk about social stratification in hitherto familiar rubrics except to talk about the rich and the poor. As some say the middle class was not wiped off in Nigeria but their classification was, as the situation in the economy could no more effectively guarantee them those goods and services they used to enjoying. For example middle class homes were denied the possession of a car, decent accommodation decent private school for their children, quality meals for the family, health care in the hospital etc. They all disappeared during austerity year after year.

However, failure in the achievement of MDGs and basic cause of poverty is that

there are simply not enough productive employment opportunities in the formal sector for a growing labor force which is the only way to eradicate poverty and hunger - form the bases for the empowerment/enforcement of MDGs of cum a distinctive type of political system in which the rivalries and struggles of powerful and willful person, rather than impersonal institutions, ideologies public offices, or class interests, are fundamental issues.

The paper is therefore interested in answering the following questions: What are the major human development index?; What are the MDGs?; Is there any relationship between HDI and poverty parameters in the MDGs and of what significant?

For the purpose of sufficient evaluation and up-to-date assessment and the remaining part of this research work is divided into four sections.

Section 2 - Literature review is devoted to conceptual clarifications of the terms: Poverty parameters in the Millennium Development Goals, Millennium Development Goals, and Parameters in each Millennium Development Goals, Human Development Report and Human Development Index.

Section 3 discusses the methodology of this work with the test of analysis accompanying the technique of analysis. Follow in discussion also, are the statement of research hypotheses, sources of data, justification for the choice of technique and the decision criteria employed, Section 4 is the presentation of estimated analysis and interpretation of results while Section 5 centers on the summary, recommendation and conclusion.

2. Literature review concept of Human Development

Human Development is a development paradigm that is about much more than the rise or fall of national incomes. It is about creating an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests. People are the real wealth of nations. Development is thus about expanding the choices people have to lead lives that they value. And it is thus

about much more than economic growth, which is only a means —if a very important one —of enlarging people's choices. (Mahbub ul Haq, 1998) Human development is related to economics and standards of living.

Human capital refers to the stock of competences, knowledge and personality attributes embodied in the ability to perform labour so as to produce economic value. It is the attributes gained by a worker through education and experience. Many early economic theories refer to it simply as workforce, one of three factors of production, and consider it to be a fungible resource – homogeneous and easily interchangeable. Other conceptions of labour dispense with these assumptions. Human capital theory predicts that more educated individuals are more productive (and obtain higher earnings). According to the theory, productivity of labour is high with educated individuals and consequently they contribute far more to the level of national income and also earn higher income than their uneducated counterparts. Furthermore, education is a good measure of human development and the relationship between human development and poverty level has a significant effect on economic growth and development in some selected countries of the world.

Human Development Index

Human Development (HD) and Human Development Index (HDI) are powerful concepts, the former the process of empowerment in the possession of the capacity to build up oneself so as to be able to live a long life, be able to read and write and so participate in the societal affairs effectively and above all be gainfully employed to earn a living. The latter merely establishes how far a country has been able to achieve this for its citizens in numerical qualitative evidence represented by a real number. The fact is that earlier indices of development such as per capita income and its various derivatives have not been able to establish this effectively, especially for comparative purposes. HDI is an index fashioned out of education, life expectancy and income in purchasing power parity.

Concept of Poverty

Poverty is multi-dimensional in nature therefore, it defies a unique definition.

There is always difficulty in deciding where to draw the line between the poor and the rich. Aluko (1975) refers to poverty as a lack of command over basic consumption needs, which means that there is inadequate level of consumption giving rise to insufficient foods, clothing and/or other shelter, and moreover the lack of certain capacities such as being able to participate with dignity in society. Poverty is also defined as the inability to attain a minimum standard of living (World Bank Report, 1990).

It is viewed in terms of insufficient income for securing the basic necessities of life such as food, potable water, clothing and shelter. Poverty is more easily recognized than defined. Hence, a universally acceptable definition of the term has remained elusive but from a social perspective, poverty means the denial of choice and opportunities for a tolerable life (UNDP, 1997).

Poverty is a global phenomena which affects continents, nation and people differently. It affects people in various depths and levels at different times and stages of existence; the main difference is the intensity and prevalence of this malaise. Poverty relates to a state whereby individual lacks the ability to cater adequately for his or her basic needs of food, clothing and shelter, variable to meet social and economic obligations, lack gainful employment, skills assets and self esteem and also has limited access to social and economic infrastructures such as health, education, potable water and environment protection (CBN- Economic and Financial Review, 1991).

Human Development Report

The first Human Development Report in 1990 opened with the simply stated premise that has guided all subsequent Reports: "People are the real wealth of a nation." By backing up this assertion with an abundance of empirical data and a new way of thinking about and measuring development, the *Human Development Report* has had a profound impact on development policies around the world.

The 2010 Report continues the tradition of pushing the frontiers of development thinking. For the first time since 1990, the Report looks back rigorously at the past several decades and identifies often surprising trends and patterns with important lessons for the future. These varied pathways to human development show that there is no single formula for sustainable progress in other word no single index could ever completely capture such a complex concept—and that impressive long-term gains can and have been achieved even without consistent economic growth. Looking beyond 2010, this Report surveys critical aspects of human development, from political freedoms and empowerment to sustainability and human security, and outlines a broader agenda for research and policies to respond to these challenges. The HDI is a composite measure of human development covering health and education as well as income, was devised by the late Pakistani economist Mahbub ul Haq for the first Human Development Report in 1990. The new 20th anniversary edition of the Report revisits that original analytical exercise, using new methodologies and international data sources, also looking back to 1970. The HDI 2010 report combines three dimensions: Longevity (a long and healthy life): measured by Life expectancy at birth; Knowledge (access to knowledge): measured by Mean years of schooling and Expected years of schooling and Standard of living (decent standard of living): measured by purchasing power based on GNI per capita (PPP US\$).

Human Development Index (HDI) 2010 ranks Nigeria 142nd position out of 169th listed and under low human development. When look at the HD concept this takes into account all the products of development including education, health etc. Hence, Policy makers and government must be reoriented and tutor to know the enormity of the combination of HDI concept as a guide to development effort to achieve the concept itself and improves.

Poverty parameters in the Millennium development goals

Let us look at the matrix of component as produced by UNDP:

1. The first goal of eradicating extreme poverty and hunger clearly contains parameters of poverty (targets and indicators) important targets include proportion of people earning less than \$2, rate of employment (unemployment), and number of people who suffer from hunger.

2. Achieve universal primary education: Relevant targets include number of pupils completing primary schooling and for the sake of fullness we can include the few indicators (net enrolment in primary school, number of drop outs and literacy rate in the country.

3. Promote gender equality and empower women. Targets include:

Elimination of gender disparity in education in primary and secondary education and in all levels of education and also for the sake of fullness we can include the few indicators of success ratio of boys to girls in primary, secondary and tertiary institutional, share of women in wage employment in non-agriculture sectors and proportion of seats held by women in parliament.

4. Reduce child mortality. The target will include: reduce under-five mortality rate, infant mortality and proportion of under five immunized against measles

5. Improve material health. The targets include: reduce maternal mortality rate and achieve universal access to reproductive health given the indicators.

Maternal mortality rate, proportion of birth attendants by skilled health personnel contraception prevalence rate, adolescent birth rate, antenatal care coverage and unmet need for family planning.

6. Combat HIV/AIDS malaria and other diseases: reverse the spread of HIV/AIDs, universal access to the treatment of HIV/AIDs, reverse the incidence of malaria and other diseases.

7. Ensure environmental sustainability. Target include integration of principle of sustainable development into country policies and programmes, reverse loss of environmental resources, reduce biodiversity loss, reduces proportion of people without

sustainable access to safe drinking water and basic sanitation, improvement in the life of slum dwellers.

8. Develop global partnership for development. Target includes development of an open, rule-based and non-discriminatory trading and financial system, address the special needs of developing countries, including land-locked countries.

An appraisal of these targets and indicators shows that they are mostly if not all based on poverty issues. Although the list is not exhaustive they give us an indication of what to expect if they were to be adequately addressed. They also help to

redress at a glance the frequently misconceived idea that poverty is mainly if not only an income agenda.

An assessment of poverty reduction programmes in Nigeria

Prior to the introduction of MDGs, the Nigeria government especially at the national level introduced a number of programmes and policies to alleviate poverty. The table below summaries a number of such programme between 1986 and 2007.

Table 2.1 Poverty alleviation programmes in Nigeria (1986-Till date)

Programme	Year Est	Target Group	Nature of intervention
Directorate of Food, Road and Rural Infrastructure(DFRRI)	1986	Rural Area	Feeder roads, rural water supply and rural electrification
National Directorate of Employment (NDE)	1986	Unemployment	Training, financing and guidance
Better Life Programme (BLP)	1987	Rural women	Training finance and guidance
Peoples' Bank of Nigeria	1989	Underprivileged in the rural areas	Encouraging saving and credit facilities
Community Banks	1990	Rural resident micro enterprises in rural areas	Credit facilities Banking facilities
Family Support Programme (FSP)	1994	Families in rural areas	Health care delivery, child welfares, youth development etc
Family Economic Advancement Programme (FEAP)	1997	Rural areas	Credit facilities to support the establishment of cottage industries
National Poverty Eradication Programme (NAPEP)	2001	Unemployed youth as well as poor masses	Employ generation in rural sector and societal wealfare.
National Economic Empowerment and Development Strategy (NEEDS)	2004	All citizen that are poor	Human and Economic Empowerment
Millennium Development Goals (MDGs)	2007	Low human development nations. The whole country Nigeria	Human development as a means of nation / national development

Source: Authors Compilation

The Nigeria government's poverty reduction framework is named the National Economic Empowerment and Development Strategy (NEEDS), the state level framework is the State Economic Empowerment and Development Strategy (SEEDS), the local government is the Local Economic Empowerment and Development

Strategy (LEEDS), the community level is the Community Economic Empowerment and Development Strategy (CEEDS), and while at the household level is the Personal Economic Empowerment and Development Strategy (PEEDS). NEEDS has four pillars; empowering people and improving social service delivery;

improving the private sector and focusing on non-oil growth; changing the way government works and improving governance; and value reorientation at all level (World Bank, 2007)

Nigeria has a growing country, moving towards reducing poverty and achieving of the MDGs would translate into significant giant in social and economic development for the whole of sub-Saharan Africa. (World Bank and DFID, 2005:1)

However, Nigeria is blessed with enormous oil wealth, a large and diverse population, sea and river access forests and land. Nonetheless it has not been able to translate these advantages into sustainable peaceful development. This is largely the result of poor governance and weak state institutions, deeply embedded in the socio-political nature of society. Whether the national, state, local, community and personal development strategies could contribute to achievement of the MDGs will depend on proper implementation of these goals as well as underlying cause of poverty of poverty- discrimination, corruption, patronage politics and the likes are tackled.

3. Theoretical Framework

The theoretical framework for this study is rooted in the new growth (endogenous growth theory which suggests that a higher long run rate of growth of output and improvement in social welfare can result from greater openness and actualization of millennium development goals, sustainable development among other macroeconomic goals.

Endogenous growth theory simply means economic growth from within a system; usually a nation state. The theory offers hope to newly industrializing countries (NICs) an alternative way to develop without becoming dependent on trade only. While traditional theories of growth focus on trade as the engine of growth; endogenous growth theory focuses on education, on-the-job training and development of new technologies for the world market. By implications poor country can only grow and develop by acquiring the substances of endogenous growth theory (education, training and technological

development) not be closing the doors to the global market but by employing strategies that will enhance their benefits from economic openness. Economic growth is driven by accumulation of knowledge (endowed with, or imported) and that endogenous growth does not just happen; it has four basic input- capital (measured in units of consumption of food); labour (skilled available from a healthy human body), human capital (activities such as formal education and the job training) and an index of the level of technology. The key in Roman's model is an adequate stock of human capital and deduced that growth is integration into an economy with a large amount of human capital and not just large number of people. (Romer, David 1996)

4. Methodology

The research design is analytical in nature. This study employed ordinary least square (OLS) in analyzing the relation as well as significant effect of human development and poverty reduction through MDGs selected parameters in Nigeria between 1990 and 2010. The data for the study are sourced from Human Development Report (HDR) 2010 and various issues, National Planning Commission (NPC) publications, United Information Service (UIS) 2010, Human Development Report Official (HDRO) own calculation, United Nation Children's Fund - UNICEF JMP official MDG Report, National Bureau of Statistic (NBS), Central Bank of Nigeria (CBN) statistical bulletin of various issues. **Research Hypothesis**

The hypothesis formulated for this research work is hereby stated in this section.

H01: There is no relationship between human development and poverty reduction in Nigeria.

H02: Human development does not have a significant effect on poverty parameters in the millennium development goals in Nigeria.

Estimation Techniques

In order to ensure the stability and robustness of the regression models, a series of diagnostic tests such as

estimated coefficient, t-statistics, significant level, Durbin Watson technique were employed as presented in the regression results. For stationarity test using unit root in the time series Augmented Dickey-Fuller test were also employed to confirm the suitability of the data and we were satisfied with the quality of the data.

Model Specification

The national income accounting framework in an open economy expresses aggregate

demand – AD as;

$AD = Y_d = C + I + G + (X - M)$ Where: $Y_d =$ Aggregate demand

C = Consumption expenditure

I = Investment expenditure

G = Government expenditure

X = Export value

M = Import value

$AS = Y^s = C + S + T$

Aggregate supply equals the sum of goods and services produced in the economy; it is the total output produced in an economy from the above equation where;

$Y^s =$ Aggregate supply

C = Consumption expenditure

S = Saving

T = Taxes

In Keynesian macroeconomic theory, the equilibrium level of output and employment is determined jointly by AD and AS.

Thus, $C + S + T = C + I + G + (X - M)$

For the purpose of this study, the equation is defined and re-specified based on Keynesian school of thought as multiple regression analysis is used to estimate relation between human development index (endogenous variable) and poverty parameters (exogenous variables) in the MDGs in Nigeria.

The model are specified as

Model 1

$Y = 0 + 1X_1 \dots X_{17}$

Where,

Y = HDI – Human Development Index

X₁ = POV – Proportion of population living below \$US1 per day

X₂ = NETP – Net Enrolment in Primary Education

X₃ = GBERP – Ratio of girls to boys in Primary, Secondary and Tertiary

X₄ = UFMR – Under Five mortality rate

X₅ = MMR – Maternal Mortality Ratio

X₆ = HIV – HIV Prevalence among population aged 15 – 24 years

X₇ = LACF – Land Area Covered by Forest

X₈ = WNP – Women in Parliament

X₉ = SANIT – Sanitation

X₁₀ = DEF – Deforestation

X₁₁ = IFMR – Infant mortality rate

X₁₂ = GDPPPP – GDP Purchasing

Power Parity

X₁₃ = INCI – Income Index

X₁₄ = LITR – Literacy

X₁₅ = GNIPC – GNI per capita

X₁₆ = GGDP – Growth rate of GDP

X₁₇ = ODA – Official Development

Assistance

All these variables are considered on HDI as a simple regression model. Model 2

The second model is multiple regressions.

$Y = 0 + 1X_1 + 2X_2 + 3X_3 + 4X_4 + 5X_5 + 6X_6 + 7X_7 + U_t$

Where,

Y = HDI – Human Development Index

X₁ = POV – Proportion of population living below \$US1 per day

X₂ = NETP – Net Enrolment in

Primary Education

X₃ = GBERP – Ratio of girls to boys in Primary, Secondary and Tertiary

X₄ = UFMR – Under Five mortality rate

X₅ = MMR – Maternal Mortality Ratio

X₆ = HIV – HIV Prevalence among population aged 15 – 24 years

X₇ = LACF – Land Area Covered by Forest

Aprior Expectation

The apriori expectation of the multiple regression models require that, HDI will have positive relationship with proportion of population living below \$US1 per day and negative relationship with other parameters.

From the apriori expectation, following economic theories and conventions, it is expected that a relationship exist between HDI and the MDGs parameters. Western donors continue to stay engaged in the country because of the persistent increase in the rate of poverty ratio. As it is obvious that, HDI could contribute to achievement of the MDGs will depend on proper

implementation of these goals as well as underlying cause of poverty of poverty-discrimination, corruption, patronage politics and the likes are tackled.

5. Empirical Analysis

5.1. Estimation of all available Millennium development goals parameters and poverty regressed on Human Development Index

Variables	Constant	Correlation Coefficient	t - statistic	Prob	Durbin Watson
POV	0.202	0.003	2.982755	0.0076**	1.415494
NEP	0.261	0.02	1.961717	0.0646*	1.292540
GBERP	0.203	0.252	2.750947	0.0127**	1.380154
UFMR	0.550	-0.0009	-2.369808	0.0285**	1.207686
MMR	0.616	-0.0002	-1.291027	0.2122	1.005909
HIV	0.342	0.013	1.581246	0.1303	1.193080
LACF	0.534	-0.009	-2.900550	0.0092**	1.241389
WNP	0.359	0.002	2.718483	0.0136**	1.324686
SANIT	0.325	0.001	1.326003	0.2006	0.983473
DEF	-0.775	-1.66E-0.6	1.329770	0.1993	1.007615
IFMR	0.398	-9.57E-0.5	-0.094663	0.9256	0.886200
GDPPPP	0.338	0.0003	2.424550	0.0255**	1.155387
INCI	0.107	0.812	1.769538	0.0929*	1.074212
LITR	0.398	-0.0001	-0.088296	0.9306	0.863670
GNIPC	0.275	7.25E-0.5	1.726610	0.1005*	1.058839
GGDP	0.356	0.007	2.284382	0.0340**	1.212244
ODA	0.383	5.16E-0.6	0.842081	0.4102	0.945335

Note: - * 10 % ** 5% - Statistically significant

5.2. Estimation of selected MDGs indicators and poverty HDI

Variables	Constant	Correlation Coefficient	t - statistic	Prob	Durbin Watson
POV	0.727870	0.003114	1.703613	0.1122	1.926676
NEP	0.727870	-0.001570	-0.871116	0.3995	1.926676
GBERP	0.727870	-0.062252	-0.321263	0.7531	1.926676
UFMR	0.727870	-0.000101	-0.113376	0.9115	1.926676
MMR	0.727870	-0.000171	-0.874910	0.3975	1.926676
HIV	0.727870	-0.003379	-0.253696	0.8037	1.926676
LACF	0.727870	-0.010688	-1.242961	0.2358	1.926676

R-Square= 0.550931 Adjusted R-Square= 0.309125 F-Statistic=2.278400

Durbin-Watson stat= 1.926676 Prob(F-Stat)= 0.094820

Interpretation of the estimation results

Considering the simple linear regression for the first model specified, we expect that the Human Development Index (HDI) will involve a change that is mirrored by the changes in the MDG indicators on offer. As the proportion of the population with US \$2 per day grows, so does HDI as should be expected and the relationship is statistically significant just as the net enrolment (NEP) in primary education, girl/boy enrolment ratio in primary education (GBERP) women in parliament, GDP (at US Purchasing Power Parity), growth of GDP (GGDP). True one can argue that HDI is only a statistical calculation of HDI but it is equally true that there is an underlying relationship of true human development identified that must be encouraged by policy and practice. Some of the poverty related indicators of MDGs behave in this way but not only as a statistical package and it is important therefore to elicit the attention of government. The current group includes gross national income per capita (GNIPC), and adult HIV prevalence rate. As this decreases HDI increases with the income index (INCI). Should the two income indicators be in this category for examination? Some argue but this only supports the contingency thesis of Anand and Sen (1994) that unless the public expenditure role of these variables are targeted they end up being an inferior indicator of human development. This is re-examined in this study. Some of the MDGs indicators - exhibit outright insignificance, and unless allowance is given to a low probability of significance as we did they would not have been included. This also includes official development assistance (ODA) in particular. This is not surprising as ODA has never played a significant role in Nigeria's overall development.

This takes us to the areas where HDI and poverty related indicators of MDGs show a reverse and unexpected relationship but statistically significant all the same. We have for instance included under five mortality rate (UFMR) and land area covered by forest (LACF). The former is understandable, but the later does not

immediately appeal to common reason when we argue that as land area covered by forest increases access to crop cultivation declines, an argument located outside sustainability. Where the forest constitutes a hindrance to agriculture, particularly in clearing which can be very expensive from all practical experience. This will make crop coverage to reduce, leading to lower HDI. This obviously gives support to any public policy that assists farmers with farm clearing subsidy. We can also look at relationships between HDI and poverty related parameters in MDGs that are positive and statistically insignificant. This includes, HIV a situation that calls for careful interpretation. As estimated adult prevalence rates decrease, the economic activities of the adult population will increase and this automatically lowers hunger and increases opulence, to use the language of Mum (Anand S. and A. K, Sen, 1994 : 4); hence the increasing nature of HDI in this case. This is one of many reasons why HIV is dangerous and must be fought by government policy and more action taken to bring its spread under control with a view to totally eradicating it though the achievement of the relevant MDGs. Sanitation has positive relationship with HDI but it does not received sufficient attention to be effective and it unable to push the HDI upwards. Deforestation has negative correlation with HDI, and deforestation in fact opens up the land for farming as many people from such areas will testify and it therefore increases access of farmers to more farm area. More bountiful harvest resulting from this reduces hunger and increases human development, consequently HDI via poverty reduction. This is statistically significant because in the south where the issue is often raised, the extent frankly is yet to be a painful one. We also note that deforestation is not the same thing as desertification.

Government attention will seem to be that of reducing poverty and regulating the other, i.e. enrolment in primary school. True Earlier we found that as separate issues government will want to give significant attention to both but less to net enrolment in primary school. With the two in a contest of attention, government will treat net enrolment with a non-significant

attention. Again poverty receives the attention as in contest for attention between poverty and maternal mortality rate. Significantly, looking back at the results for each of maternal mortality rate and under five mortality rate, the former had been significant and the latter not at all, which means that in a policy contest with the poverty indicator attention to maternal mortality rate has been a loser.

From the second model of multiple linear regressions analysis was equally employed to capture the effect of poverty and some selected MDGs on human development index in Nigeria for the period 1990 to 2010. The regression equation shows that there is negative relationship between endogenous variable and exogenous variables except for the intercept. The probability shows that infrastructural facilities provision was not adequate and proper policies measure to achieve MDGs are lacking as government focus politics, combating corruptions, reducing crime rate and militancy in Niger-Delta cum religion and ethnic fight in the northern part of the Nigeria as he struggle to gain international recognitions to free from terrorist listed countries. The adjusted coefficient of determination (R^2) shows a fit with 30.9 percent of human development index explained by the variables in the equation. In this study we have been selective in the choice of poverty parameter in relation to MDGs, carefully choosing those for which data are readily available and for which government can be challenged to act. The results have shown that government has not achieved any of the MGDs and he doesn't seem to be serious about work out proper way for the reality and achievement of the goals. The reason for this is that little influence of the explanatory variables can not have meaningful effect on human development index, reduce poverty and cause development in Nigeria.

However, Durbin Watson (D.W) statistics of 1.93 shows it is significant as the value is below the bench mark of 2.00, we can conclude that there is no auto correlation or serial correlation in the model specification hence, the linear assumption is

not violated.

The unit root test result reveals the stationary at level for both intercept and deterministic trend of all time series variable on HDI.

In level, HDI is stationary at 1%, 5%, 10%, for intercept and at 1%, 5% level for trend. And HDI was found to reject the null hypothesis of no-stationary at level but strong and high degree of responsiveness of HDI and the poverty parameters in the MDGs at second difference Therefore, all the series are taken to be stationary at level for unit root models with intercept and trend.

6. Conclusions

The conclusions of this study are fairly straight forward.

Data availability has not been a problem but it requires hard work to accomplish by locating them in statistics publications, reports produced by international development agencies and the web site of particular agencies. Sufficient time to accomplish this task is of the essence.

A study such as this also requires personal interviews with government planning and development agencies. For example it will be interesting to know how and why they come about the development policies of government and some decisions of government are taken.

On the substantive issues of the relationship of HDI you the poverty parameters of the MDGs following should be noted:

In the main, government and the people (individuals and agencies) taken the decisions that give rise to what we have, but government policies are critical;

So the data we have as evidence are a product of , in the main, the decisions and policies of government; and it follows that the results of technically produced relationships come about in a large part as evidence of what has been taking place, and so without doubt

The results must be interpreted as much; consequently the issues within MDGs and the parameters of poverty come alive from government policies and decisions, as we combine variables for estimation, and as if

government is taking to us the following parameters of poverty came out as those that have greatest influence on HDI: poverty as measured by those who earn less than US\$1.00 or US\$2.00 per day, land are covered by forest, women in parliament, growth rate of GDP, gross national income (PPP) per capita, income index, net enrolment in primary education, ratio of girls to boys enrolment in primary school, under five mortality rate, HIV as adult prevalence rate, maternal mortality rate, sanitation in that order of importance; the significance of these variable when HDI is regressed on them singly is encouraging some and not for a few orders, the key ones are 7 or 8 in term of explaining the variation of HDI, the producer of trying single variables first and multiple regressions with some selected variable later produced a good result at glance. However, we must not see this as explaining a large shunk of the variation of HDI. In most cases 60-70% of the variation has been left unexplained, this means that further studies need to be done to unearth the missing links;

Significantly, the income variables are middle performance in terms of relationship with HDI, by and large the socio economic variables (poverty, land area covered by forest, women in parliament, girl boy enrolment ratio in primary education are still the issues that more influence HDI.

Unfortunately such decisions often go to support the wrong issues because we must ask the question why maternal mortality falls behind in policies and actions or why net enrolment in primary school or even adult literacy etc lack sufficient concern and support, we can multiply the list;

Recommendation

HDI is too important to be under-rated in government policies and consensus must be sought to bring the development system to reason together on it;

We could not have tackle all variables that are poverty parameters in MDGs; they are many and only some important ones were tackle because time is of the

essence as we search out the necessary data.

Multiple variable indices provide a better guide to development policies and decisions;

Government will need to convince itself that single issue parameters like GDP and its derivatives as a basis for decision making will lead a nation nowhere as evidence continue to show; so it actions need to prioritized;

Government cannot just look at HDI yearly and endorse it, it must do so with concern, asking itself and the agencies how it can do better; and lastly

Government should put all effort and seriousness in crossing the line to middle level country HDI and achieve MDGs and vision 2020.

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APPENDIX

The result for the of unit root in the time series variable using the Augmented Dickey-Fuller test developed by Dickey and Fuller (1979) is presented in the table below:

Variables	HDI(-1)	D(HDI(-1))	D(HDI (-1),2)	D(HDI (-1),3)	D(HDI (-2),3)	D(HDI (-3),3)
Intercept @ Level	0.243***					
@ 1 st Diff.		0.008				
@2 nd Diff.			-0.023996	-0.023996	-0.023996	-0.023996
Trend Coefficient	0.0045**	-0.00024	-0.00145	-0.00145	-0.00145	-0.00145
AdjustedR ²	-0.746**	-1.311***	-3.425***	1.359**	0.715**	0.270*
D.W.	0.33	0.64	0.93	0.93	0.93	0.93
	1.88	2.09	2.93	2.93	2.93	2.93

Note: significant at *1%, ** 5%,*** 10% and Mckinnon critical values

The Semantic Dynamics of the Intellectual Capital Concept

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Abstract

Despite the fact that the concept of intellectual capital gained importance in the last decades among both academic researchers and practitioners and it is considered one of the most important sources of competitive advantage in the „new economy”, a semantic convergence of the concept has not been reached yet. The present paper aims at analysing the semantic development of the concept and presenting the main approaches of intellectual capital from a chronological perspective.

Key words: capital, intellectual capital, semantic dynamics, intangible assets

J.E.L. classification: D24, J24

1. Introduction

The transition to the knowledge economy exerted a great impact on organizations' management structures and approaches. The knowledge economy requires a new approach of managerial theories, that implies intensive use of knowledge, which becomes simultaneously main resource, product of economic activities and source of sustainable competitive advantage. In the new economy, the ideas, which are basically embedded in knowledge, are of paramount importance, their generation and development represent a priority for organizations, they manifest themselves as ineffable and substantial, essential and concrete, functional and conceptual in the same time [1].

In developed countries, since 2006, more than 50% of GDP comes from knowledge-based industries (e.g.: software, pharmaceuticals, communication technologies, education etc). In the U.S. over 80% of GDP comes from these industries and

in the manufacturing industries, activities based on intellectual work such as research & development, design, technological innovation produce the highest added value [2].

In the foreground of the managerial theories of the 20th century were situated the three classical factors of production: land, labor and capital. Considering this classic approach, the term "capital" refers to physical and financial capital, which represents a form of material wealth, consisting in goods, buildings, machinery or financial resources used to produce new goods and services. The concept of intellectual capital emerged in the scientific literature as a natural organizational reaction aimed at drawing the attention on the existence of another form of capital, considerably different from the well-established one [3].

Due to the fact that the term "capital" describes a strong concept, it has been used beyond its initial semantic field. The semantic extension of a strong concept can be eventually more difficult and challenging to achieve and delimitate than the creation of a new concept [4]. We consider that the aforementioned statement can be also applied to the concept of "intellectual capital", which has undergone different approaches and has being defined from different perspectives, without reaching a unanimously accepted conclusion. Despite the large number of researches conducted in this field, the conceptual boundaries of intellectual capital are difficult to establish and it still represents a fuzzy concept. In the next part, we will try to analyze the concept of intellectual capital from the perspective of its historical development.

2. Emergence and development of the concept „intellectual capital”

Isaic-Maniu (2010) argues that, about 30 years ago, the American economist John Kenneth Gallbraith used for the first time the term “intellectual capital”. From the very beginning, Gallbraith emphasized the dynamic dimension of intellectual capital, suggesting that it means more than knowledge or intellectual skills, it means action.

Sullivan (2000) refers to the work of the Japanese Itami, who in 1980 published a book named "Mobilizing invisible assets". Thomas Steward was the first one who used the term “intellectual capital” in a press article, called Brainpower, published in 1991 in Fortune Magazine. In the same year the Swedish company Skandia appointed Leif Edvinsson as the world’s first Director of Intellectual Capital. Four years later Skandia released the first Report on Intellectual Capital [7]. The pioneer countries regarding the initiatives of applying in business the concepts from the field of intellectual capital, its valorization and evaluation are the Nordic countries [8]. In 1997 there were published three major books about intellectual capital: one published in New York, "Intellectual Capital: realizing your company’s true value by finding its hidden brainpower" by Edvinsson and Malone and other two in London: „Intellectual Capital. Managing in the New Business Landscape” by Roos et al. and “Intellectual Capital- The New Wealth of Organizations” by Stewart. These works represent milestones in the area of intellectual capital and they basically transformed this research sector into an autonomous study and research field.

In the following years several initiatives meant to promote the theory behind intellectual capital were launched. Therefore various journals dedicated to the study of intellectual capital were established and several conferences on this topic were organized. The number of the scientific articles indexed in Emerald database which focus on intellectual capital grew from 133 in 2000 up to 324 in 2005 [9].

The number of private companies which offer consultancy in the field of intellectual capital increased also significantly over the last years. Among the most prestigious ones,

one can mention „Intellectual Capital Service” led by Göran Roos and „KPMG’ Knowledge Advisory Services Group” led by Daniel Andriessen.

The following table provides an overview of the main contribution in the field of intellectual capital.

Table 1. Main contributions in the field of Intellectual Capital

Period	Contribution
Beginning of the '80s	General ideas about intangible assets
Middle '80s	Emerges the concept of “Information society”, forerunner of the “New Economy” and the difference between book value and market value increases significantly in the case of many companies
End of the '80s	The first concerns regarding intellectual capital coming from accountancy sector and the first attempts of finding new ways of evaluating a company value
Beginning of the '90s	Systematic initiatives for the evaluation and external reporting of intellectual capital (Leif Edvinsson director of intellectual capital within Skandia- the abstract concept embodies now corporate significance).
Middle '90s	Nonaka and Takeuchi publish „The knowledge creating company” in 1995- it is drawn the distinction between intellectual capital and knowledge, the link between knowledge management and intellectual capital is set. The electronic simulation Tango is created in order to educate the managers with respect to the management of intellectual capital Milestone books are published

Period	Contribution
	The Skandia model of reporting intellectual capital is adopted by further companies
End of the '90s	Intellectual capital becomes a popular topic approached within several conferences; there are established the first academic journals whose main topic is intellectual capital; There are launched ample projects in this research field and the first country reports on intellectual capital are issued (especially in the Nordic countries)
Beginning of the 2000	Kaplan and Norton (2004) put forward in their book "Strategic map" an integrative perspective over an organisation's strategy, which includes the valuation of intellectual capital; In 2004 Andriessen publishes his book "Making sense of Intellectual Capital", which represents an exhaustive analysis on intellectual capital;
Middle and late 2000	The importance of Intellectual Capital is widely acknowledged within academia and among practitioners; The number of empirical studies concerning Intellectual Capital records a quantum leap; By researching and developing new methods of transforming potential intellectual capital in operational capital which brings added value to an organization, it is placed more emphasis on the dynamic dimension of intellectual capital, rather than on the static one.

Source: Adapted after Garcia-Parra et al. (2006) and personal amendments

3. Semantic dynamics

The word „capital” originates from Latin, from the substantive „caput” which means leader. Afterwards the word was used in the financial sectors, representing the principal of a debt. Over the years, its meaning crossed financial boundaries and it represented an

amount of money which could generate profit for its holder or other types of wealth (Böhm-Bawerk in [7]).

Over time one can remark many attempts of defining intellectual capital. Their large number and content variety suggests how difficult it is to define and delimitate a concept very “intangible” such as intellectual capital. One can identify three main approaches which lead to a holistic picture over the concept of intellectual capital: the accounting approach, the metric (econometric) one and the approach coming from the perspective of strategic management [3], [5].

The accounting approach of intellectual capital is a result of the incapacity of the current accounting systems to offer accurate information on the real value of an organization. There were recorded relevant differences between the market value of an organization and its net book value. This challenge was initially noticed by Lev-Accounting and Finance Professor at Stern School of Business from New York, Sveiby-Professor of Knowledge Management at Hanken Business School from Helsinki, Finland, Stewart, Van den Berg, Sullivan and other pioneers. The promoters of this approach use mainly the term intangible assets.

The international accounting standards define intangible assets as non-monetary assets without physical substance which are used in the process of producing or supplying goods and services, rented to third parties or used for administrative purposes. Therefore, in order to be considered an intangible asset, a certain item has to be identifiable, an organization has to be able to control this item and it has to be able to generate further economic benefits [10]. Unfortunately many intangible assets do not fulfill the above mentioned conditions. Just to mention some examples: reputation, important key employees which possess tacit knowledge etc. If the above criteria are not fulfilled, they are considered an expense and therefore harm the accuracy of balance sheet [7]. However, even specialists who argue the inadequacy of traditional accounting systems are skeptical regarding the introduction in the annual accounting reports of non-financial factors which are very subjective and difficult to quantify. The

inclusion of intangible assets in the accounting reporting represents a very complicated issue, also due to the fact that it interferes with one of the basic accounting principles, namely, the independence of the exercise. This principle implies the clear delimitation of revenues and expenses corresponding to the reporting period, irrespective of the moment when the amount is cashed or the payment is made [11]. Steward (1999) argues that despite all these challenges, non-disclosure of intangible assets in the balance sheet would mislead in respect of the real value of an organization.

The second approach, the metric one, focuses on finding patterns and models for the assessment of intellectual capital. Some of the most important models are: Market to book value, Tobin's Q Ratio, Balanced Scorecard, Skandia's Intellectual Capital Navigator, Intellectual Capital Indicator, Sveiby's Intangible Asset Monitor, Business Excellence Model etc. The underlying principle of all these models consists in the integration of other assessment indicators than the financial ones, which can offer just partial information on an organization. The main goal of the models consists in providing a holistic picture of the company to its stakeholders.

The third approach, which considers mainly the strategic management perspective, refers to the paradigm shift regarding the sources of competitive advantage. Therefore, the theory developed by Porter, according to which, in order to gain competitive advantage a company should focus on the external environment, was amended by the resource based theory according to which companies should focus on the analysis and exploitation of strategic internal resources and lately by the theory in which the analysis of intangible assets prevails [13].

In the scientific literature, depending on the initial research field of the authors, one can encounter the terms "intellectual capital" mainly in the management area, "intangible assets" or "intellectual assets" in accounting, "knowledge assets" in macroeconomy. In most of the cases all the aforementioned terms denominate the same underlying concept, unless the authors make a specific statement in this respect.

Many authors tried to define the concept of intellectual capital (see Table 2), but despite all these attempts a definition which can be easily operationalized has not been found. Steward (1999) defines intellectual capital as intellectual materials- knowledge, information, intellectual propriety, experience, which can be used in order to create wealth. In the same direction are situated also Edvinsson's and Malone's (1997) and Sullivan's (2000) approaches: knowledge that can be converted into value. According to Roos and Roos's (1997) intellectual capital is the sum of a company's hidden assets that are not included in the accounting reports and represent the most valuable source of competitive advantage. Caddy (2000) defines intellectual capital as the difference between intangible assets and liabilities. Roos et al. (2005) argues that intellectual capital contains all the non-monetary and non- physical resources which are partially or totally controlled by the organization and contribute to the process of added value creation. Peng et al. (2008) states that intellectual capital represents the critical resources used by companies in order to perform production activity and generate added value. As one can remark, all these definitions are quite vague and metaphorical. Bratianu (2006) tries to capture a more pragmatic view over intellectual capital, by defining it as an organizational potential, consisting of different types of knowledge, which, under the influence of technological and managerial processes, has the capacity to convert into a set of operational and active elements, which bring added value and are embedded both in the material and immaterial final products and services offered by a company. It is of great importance Bratianu's remark regarding the necessity to transform the potential intellectual capital into operational capital, as a sine qua non condition in order to obtain economic wealth.

Table 2. Definitions of intellectual capital

Author	Definition
Brooking, 1996	Combination of intangible assets which makes possible the success of a company
Roos and Roos, 1997 Roos et al., 1997	The sum of a company's hidden assets that are not included in the accounting reports and represent the most valuable source of competitive advantage; The sum of the knowledge of organization's members and the "concrete" translation of these knowledge in brands, processes etc.
Edvinsson and Malone, 1997	Applied knowledge and organizational technologies, professional competences and customer relations which summed up can generate competitive advantage
Sullivan, 1998	Knowledge that can be converted into value
Stewart, 1999	Intellectual materials, knowledge, information, intellectual propriety, experience, which can be used to create wealth
Caddy, 2000	Difference between intangible assets and liabilities
Viedma, 2001	The core competences of an organization
Bratianu, 2006	Organizational potential, consisting of different types of knowledge, which, under the influence of technological and managerial processes, has the capacity to convert into a set of operational and active elements, which bring added value and are embedded both in material and immaterial final products and services offered by a company
Peng et al., 2008	Critical resources used by companies in order to perform production activity and generate added value

Source: Own illustration according to the sources mentioned in the table

4. Conclusions

Once great differences between the market value and net book value of a company were seized, an increasing importance was given to the concept of intellectual capital. The conceptual development occurred from three different directions: accounting, econometrics (assessment of intellectual capital) and strategic management. Due to the different original field of research several terms are used in order to denominate intellectual capital: intangible assets, intellectual assets, knowledge assets etc. In most of the cases, unless the author makes a special remark in this respect, these terms have a interchangeable name, illustrating the same concept.

Despite the fact that many authors tried to define intellectual capital, the scientific community did not reach a consensus in this respect. This is on one side due to its high complexity and abstract features and on the other side due to the embryonic stage of this scientific field.

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Some Aspects Regarding the Relationship between the Exchange Rate and the Interest Rate

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Abstract

The literature about the relationship between the exchange rate and the interest rate is quite extensive. This paper realizes an overview of the theories, problems and limits regarding the exchange rate and one of its determinant, the interest rate.

Key words: exchange rate, interest rate

J.E.L classification: E00

1. Literature review

One approach is the one about the determinants of the currency exchange rate, which extends the quantity theory of money for open economies. Under this approach, the national and the international money market are linked by the purchasing power parity, resulting in an equation that can determine the exchange rate and the interest rate plays a major role. In the case of the perfect price flexibility, changes in the nominal interest rate are fully reflected in the expected level of inflation, and in this manner a bond between the exchange rate and expected inflation differential can be achieved.

The next significant moment in the evolution of the models which theorizes the connection between the two macroeconomic variables is the development of the Mundell-Fleming model, which was accomplished in 1976 by Dornbusch and which points out that the rigidity of the prices might lead to an overvaluation of the exchange rate. This model was very appreciated by other researchers, and even by the monetary policy makers due to the fact that it corresponded to the realities after the fall of the monetary system from Bretton Woods. The model realized by Dornbusch identifies a negative relationship between the real exchange rate

and the real interest rate differential. The studies made for the testing of this model did not demonstrate the real existence of this connection or if it exists, the statistic signification is very low.

Most of the empirical works that test the reliability of the model proposed by Dornbusch use two-step cointegration methods by Engle-Granger. Messe and Rogoff (1998) use monthly data for the exchange rates USD / DEM, USD/JPY and USD/GBP during February 1974 and December 1986 in the purpose of testing the relationship and they discover that there is no strong bond between the interest differential rate and the real exchange rate, no matter if they are for short term or long term, these conclusions being contradictory with those of the monetary models.

Edison and Pauls (1993) use cointegration and the model of the error correction for highlighting the connection between the real exchange rate and the real interest differential. Using quarterly data for the 1974-1990 period for the USD currency to a weighted basket with the volume of the commerce, which is composed with the change from the G-10 and for the interest rate related to the treasury bills emitted by the United States and to the weighted interest rate for the states titles of the G-10 countries, the two authors prove the inexistence of a systematic relation between the two variables.

The results obtained by Meese and Rogoff (1998) and Edison and Pauls (1993) cannot deny the null hypothesis of the lack of the cointegration equation. Somewhat more favorable results are obtained in the case in which the method of Johansen is used as a method of testing the cointegration relation. Using the cointegration method for a data panel, MacDonald (1997) is the one who certifies the existence of the relationship

between the exchange rate and the interest rate.

Many studies regarding the empirical models dealing with the "disconnection" of the exchange rate from its determinants were written. Obstfeld and Rogoff (2000) show that the bond between the exchange rate and the monetary policy is very important, but this correlation cannot be absolutely necessarily interpreted as a direct bilateral correlation. Other variables, as the permanent threat of the speculative attacks in the case of emerging economies, can determine a common fluctuation of the exchange rate and of the interest rate, fact that does not happen in the case of the emerging economies. In the case of Romania the interest rate does not integrate itself in the cointegrating vector of the determinants of the exchange rate.

Likewise, there are many studies which focus on the relation and on the volatility of the two macroeconomic variables. Reinhart and Reinhart (2001) show that a bond between lower volatility of the exchange rate of the G3 countries and the interest rate volatility and on the other hand of the consumption must be accomplished. Most of the countries can reduce the volatility of their exchange rate by changing the short term interest, as a reaction to the international changes of the exchange rate. These measures determine the increase of the interest rate volatility and of the costs of the G3 countries, which is going to influence the emergent countries that are net debtor countries to these.

Using the same methodology as Reinhart and Reinhart (2001) and using a data panel for 39 countries and monthly data for the January 1970 – April 1999 period, Calvo and Reinhart (2002) analyze the existent volatility between the G3 countries and the emergent economies. The conclusion of the authors is that this lack of credibility of the monetary authorities, correlated with the fear of letting the national currency fluctuate freely, has as an effect a decreased volatility of the exchange rate, which is associated with a high volatility of the interest rate. The low volatility of the national currency is not a result of the lack of the external shocks, but a result of using all the monetary policy instruments in order to mitigate the impact of these shocks in the level of the exchange rate. The interest rate policy in the emergent economies replaces the unsuccessful

interventions of the foreign currency reserves. This conclusion is valid regardless if the exchange regime is a fixed one or if it is related to other currency, fact that determines the two authors to advise the monetary authorities to give up fixing the exchange rate.

The conclusions for the emergent economies are not valid for the developed countries. Flood and Rose (1996) point out that the OCED countries do not necessarily have to choose between the volatility of the exchange rate and the macroeconomic stability, while maintaining the stability of the interest rates and of the money supply.

2. Theoretical models regarding the relationship between the exchange rate and the interest

The assumption that the interest rate and the exchange rate are closely related dates back to the end of the 19th century when it was phrased by Lotz, but it began to gain magnitude after World War I, when the futures market started to develop. Two theories were formulated regarding the interest parity: one covered and one uncovered.

In 1923, Keynes tried to develop a theory related to the behavior of the term exchange rate, identifying the reasons why the spot rate and the term exchange rate and why the investors prefer to hold funds in a financial center and in a certain currency.

Keynes's argument can be summarized as follows: we consider r_t and r_t^* the interest rates that can be gained between the t and $t+1$ moments in the national currency, between the countries A and B. S_1 and F_1 are the spot rate and the term rate between the currency of the two countries.

They are expressed as monetary units from the A currency for a unity from the B currency, and s_1 and f_1 are their logarithms. A currency unit from the B currency, transformed at the spot rate in the A currency and invested on the A market becomes $S_t(1+r)$ monetary units from the A currency in the $t+1$ moment. Likewise, in the case of a forward contract ended in the t moment, the initial monetary unit from B can be invested until the $t+1$ moment and afterwards it can be transformed in $F_t(1+r_1^*)$ monetary units from the A currency. As both

probabilities of investing are considered equivalent due to the lack of arbitrage, we are going to have:

$$S_t(1+r_t) = F_t(1+r_t) \quad [1]$$

$$\frac{F_t - 1 + (r_t + r_t^*)}{S_t} \approx 1 + r_t - r_t^* \quad [2]$$

$$\frac{F_t - S_t}{S_t} \frac{1 + (r_t + r_t^*)}{1 + r_t^*} \approx f_t - s_t \approx r_t - r_t^* \quad [3]$$

The first relation, or the third form, the one which is approximated, represents the covered parity condition (CPC) of the interest rates and determines the bonus or term discount that the investors have to pay to cover the exchange rate risk associated to a contract through which they have to give or to receive a sum in the foreign currency in the moment $t+1$.

The derivations from CPC are based on the comparison of the two alternatives of investing the B currency in the t moment to obtain a sum in the A currency in the $t+1$ moment. A third alternative exists on the market, which places the monetary unit from the B currency and transforms the sum obtained in the A currency at the existing exchange rate on the market maturity, resulting $S_{t+1}(1+r_t^*)$ monetary units from the A currency.

In the case of using this alternative, the investor is going to have an uncertainty regarding the evolution of the exchange rate in the $t+1$ moment. When the currency conversion will be realized, the currency risk will not be covered in this case.

This new hypothesis represents the hypothesis of the uncovered parity of the interest rate (UIP) and it shows that the powers of the market tend to balance the profits which the investors expect to gain in both covered and uncovered alternatives.

From the monetary policy point of view, the importance of the validity of the UIP derives from the wish of determining the effect of the investments of the authorities on the foreign exchange markets in order to influence the exchange rate with purchases and sales of currency. If the UIP is verified, and if the interest rate does not change, the interventions on the currency market do not have as an effect the change of the spot currency to the forward currency, which

means that the monetary authorities do not have, in this case, two different instruments: the exchange rate and the interest rate.

The sterilization on the currency market can be accomplished though, and if the UIP verifies, due to the fact that the interventions represent a signal regarding the future intentions of the monetary authorities to adjust the interest rate so that the foreign exchange targets to be realized.

The UIP hypothesis requires the expected value of the future exchange rate to be known, which is quite relative.

3. Conclusions

In the evaluation of the benefits of using the interest rate for determining the changes which will appear in the level of the exchange rate or in the forward rate for determining the future spot rate, the dimension of the errors produced in the estimations must be evaluated. The interest rate differential explains only a small proportion of modifications which occurred at the exchange rate level and the proportion between the expected changes and the unexpected changes is favorable to the latter ones.

A plausible explanation for the fact that the interest rate differential explains only a small percentage of the evolution of exchange rate and for the fact that, in general, changes in the direction of the course are falsely predicted, is that the changes in the exchange rate are caused by unexpected information as the monetary politics announcements or as the publishing of economic statistics data.

Another explanation can be given by the efficiency of the currency market. The assumptions behind the definition of market efficiency state that the investors are risk-neutral, they are rationally making their expectations, and the set of information that are needed in making the expectations is available for all the market participants.

A solution for the correct estimation of the future evolution of the exchange rate is abandoning the UIP hypothesis and estimating the exchange rate using the portfolio theory, a case in which we have to introduce the risk bonus for introducing the unexpected fluctuations in the model.

Another possible explanation for the estimation errors is related to the time needed for achieving the analysis: the expectations can need a longer time than the analysis to be achieved. If the expectations are rational and if they predict an appreciation or depreciation in the future for the currency, these expectations will be included in the forward rate.

If the analysis period is not long enough, the depreciation might be realized only out of the expected time, which makes within the interval of the forward rate error estimator to be a spot rate. Another possible explanation is related to the lack of a complete information set, the market participants are creating their expectations depending on what they think that it going to happen on a monetary politic level.

On the other hand, the monetary authorities use the interest rate as an instrument on the monetary politic market, including when they are working on influencing the exchange rate, which determines the occurrence of the estimation errors.

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The Effects of the Environmentally Caused Issues on the Global Economy

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Abstract

Changes in the environment alone will not result in conflict. They need to be combined with existing divisions within society, be they ethnic, nationalist or religious.

Any change in the environment may affect the global economy, even if the environmentally caused conflicts might not be so clear in the beginning.

The relation between climate and environmental changes and economy is very close.

The environment influences people all over the world in numerous ways.

It is not incorrect to state that the environment influences all the activities of the humans in every single way, not only directly, but also indirectly.

The changes in the environment are irreversible and they cause a multitude of reactions, as they have a severe impact on all our activities.

Key words: environment, global economy, climate change.

J.E.L classification: Q50, Q54, Q56

The environmentally caused issues and consequences can turn from ecological problems to political, economical and peace threatening problems.

The economy of the world has a strong relationship with the environment and any small change in the environment may be immense.

Furthermore, if one environment issue occurs in one region or in one country, it will affect the neighborhood and in time it will affect the whole world, if not prevented or resolved.

The causes of the climate change are numerous. They can vary from solar radiation, changes in the greenhouse gas concentration, the movement of the Earth's orbit, continental drifts.

Some of the causes of the environment changes are: the climate change, glacial melting, sea level rise, floods, the reduction of arable land, loss of territory, increased drought.

Several consequences of the environment changes are: water and food shortages, migration or population displacement, the inability of a region to fulfill the needs of its citizens, increase in mortality, damage to ecosystems.

Other conflicts can be also caused by the discovery of new resources in some parts. A very good example of this situation is the discovery of an important oil resource in the arctic region.

When we state the words "climate change", it has to be crystal clear that an apparently insignificant change in temperature, for example, an increase of 2 degrees Celsius in the global temperature would lead to glacial melting that would result in an increase of 20-30 feet in the sea level, which would lead to the loss of the territories, which would furthermore affect all the aspects of our lives.

The last consequences could be minor, or they could create wars and conflicts. Moreover, analyzing in depth this increase in temperature, diseases like malaria and dengue would be spread all over the world.

Other consequences of the rise in temperature would be violent heat waves, animal extinction, increased desertification, water scarcity in other parts of the world and so on. Imagine all of these problems.

All these issues represent a major threat to the global economy. The most intriguing fact

is that even though these problems are well known, they have been slightly ignored. It is only in the recent years that international organizations started to study these problems and started to ask questions regarding these problems. They are not the matter of a single region, but they are worldwide problems.

One of the main problems in order to prevent and to respond to these issues is the lack of communication.

Many countries denied to give any clear data regarding their position and situation and a clear worldwide analysis cannot be yet developed.

It is of a high importance to have accurate data, as a problem cannot be completely solved if not all the details are known.

Furthermore, future strategies should be created. The developed world heavily relies on fossil fuels, which are very harmful for the environment.

This reliance is not only harmful for the environment, but it is also a cause of dispute between countries, as the competition over resources is high. Contemplating this issue, new alternative technology should be developed. This requires further investment in research.

Regarding the water shortages, it is strongly recommended that the international community to persuade the leaders of the world to sign agreements.

Peacekeeping is vital. When stating this affirmation, think about the fact that countries that are facing problems with water shortages and countries that are facing problems with flooding should sign agreements to share their waters.

Another concern should be the waste management. One example is food. Due to economical, political reasons, a lot of food is wasted. In developed countries, if you go in a supermarket for example, all the vegetables will be perfect. If they do not have a perfect shape, they are thrown away. This is just a small example. What if those vegetables would not be thrown away and what if the relationship between supply and demand would be one that shows the real needs of an individual. What if the suppliers would give the consumers the exact quantity of what they need, without having any excesses and without wasting anything?

This action could influence the food dilemma in certain areas. In addition to this, resources are limited and this action could also help in stretching the duration of the resources and giving the chance to the leaders and to different organizations, which are involved in finding and applying the responses for the problem, to have more time.

Moreover, if we think about the fact that some countries, for example Iraq, have changed the courses of their waters for military purposes, idea of creating new drainage systems could be feasible. Peacekeeping and investments in research and in installations are needed. New strategic planning is equally important.

Environment diplomacy should be created and alliances between governments, NGOs, private companies, IOs should be made. Another idea would be to create an outer-space security. This could help not only in supervising the environment, but it could also help detecting the data that other countries do not want to reveal.

What is more, governments and organizations should also focus on space pollution, nanotechnology, nuclear, chemical and biotechnology labs, as they may be a very important ally or the worst enemy.

The global economy is in a strong relationship with the climate changes and with the environment.

Some of the most important economic indicators are the unemployment rate, which is strongly affected by the political situation and by migration, which can be strongly influenced by the environmental changes.

Furthermore, if we think about the recent issues that occurred in Japan and in the Middle East, Japan being the most recent and clear example of natural disasters which affected the environment on a global scale and the conflicts in the Middle East representing problems with more roots and consequences, including migration, conflicts over territories, political disagreement, wrong interpretation of democracy, deforestation, water shortages or floods (for example, the Nile delta is affected by the Mediterranean Sea which is going to rise the level of its waters and the Nile is very likely to lose an important part of its delta, which will lead to a shortage of arable land) and others, it is obvious that these conflicts are going to

affect the industries, which means that the industrial production growth rate will change its variation.

Moreover, all the indicators regarding energy are also going to change their variation: the yearly electricity – production, the yearly electricity – consumption, the oil production, the oil – consumption, the oil - proved reserves, the natural gas – production, the natural gas - consumption, the natural gas - proved reserves. As these situations need an immense aid, it is very probable that the yearly economic aid is going to change.

Thinking about the situation in Libya, it is obvious that the costs of the military expenditures are constantly rising, affecting the percentage of the GDP.

There are also some cross border indicators, mainly dealing with exports. As the near future of the fossil fuels is uncertain, the yearly imports and exports of the Middle Eastern countries are severely affected. This also includes a change in the partners of the imports and exports.

Nowadays substantial investments in the extraction of the petroleum from Brazil are done, as huge reserves of petroleum were discovered there.

It is very probable that in the near future Europe is going to change its imports and exports partners, regarding petroleum.

What is more, the public debt for some countries is going to increase, and others will not be able to pay this debt. One possible result would be the start of a new colonization era.

These examples with the Middle East, Japan and Brazil are not the only ones in the world, but their actuality is critical and they are best known by the whole population of the globe.

Due to the fact that nobody expected the natural disaster in Japan or the massive movements in the Middle East, it is of high importance to resolve these issues, to find feasible solutions, as the global economy is very likely to drastically change its course in a very short period of time.

Another important factor that affects the global economy and the environmentally caused conflicts is the financial crisis.

The financial crisis has also affected the environmentally caused conflicts as everything in our world today is strongly bonded with money. For example, if a lesser

percent of the GDP is attributed to investments, the labor force, the industrial production growth rate, and the cost of the military expenditures are going to decrease and if the inflation rate is going to increase, the environmentally caused issues are going to take a longer time to be solved.

This can lead to a worsening in the scale or in the impact of the environmentally caused issues and in the environmentally caused conflicts. Enlarging these issues is surely going to have a higher impact on the global economy.

It is not unknown that our world is divided in developed and less developed countries and that the less developed and the developing countries depend on the well developed countries.

In Asia, one of the most developed countries is Japan, which is also part of the G8. The countries in the G8 represent 14% of the world population, but it has to be underlined that these major economies (Japan, France, Germany, Italy, the United Kingdom, the United States, Canada and Russia) represent 60% of the gross world product. If one of these super powers fails in any way and if it does not manage to rehabilitate itself very quick, it may have fatal consequences for all the economies, regardless if they are developed or developing.

The problem today is that more developed powers are shaking and it is premature to say how it is going to end.

Conclusions

To conclude, the relation between the environment and the global economy is very tight.

Every small change in the environment affects the economy and even though researchers might have future analysis and plans, these analyses can be overturned by any change in the environment.

The global economy was and will always be a major challenge as it depends on a multitude of factors that constantly change.

Some researchers and analysts are trying to make different strategies and they are trying to simulate different possible situations, with the data they already have.

But here they have to deal with another problem: not all the leaders of the countries agreed to share the data which the researchers need, so sometimes it can be impossible to create any strategies or to simulate some situations.

Many answers are going to come with time, as the technology will advance. But it is not to forget that the environment is always going to change.

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Partnership between the U.S. and the E.U. through the Doha Round Agenda

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Abstract

In this paper we address the issues underpinning the transatlantic relations through the Doha Agenda. It refers to issues such as agriculture, services, trade facilitation and not least the problems and not only

Key words: Doha Round, negotiation, free trade area

J.E.L classifications.: F59

1. Introduction

EU-US partnership is an important step on the stage of world economy.

Although the strategic interests of the United States and Europe are largely similar to Europe in recent years offended that the U.S. has focused more on the wars in Iraq and Afghanistan, and on China

2. Doha Round - awaiting confirmation

Fourth WTO Ministerial Conference held in Doha, Qatar from 9 to 14 November 2002. The main items on the agenda of the conference was the negotiation and adoption of the draft Ministerial Declaration, which includes future WTO agenda, namely the main actions that the organization's 142 members intend to focus in the coming period, including the proposed multilateral talks. At the end of the Conference, Ministers adopted a formal declaration present, the Doha Development Agenda, which was also the work program for the future. It essentially aims the following aspects:

- In agriculture - are proposed to extend negotiations on market access, reduce - to remove - all forms of export subsidies,

substantial reduction of domestic support which adversely affect trade, taking into account the concerns of non-commercial;

- In services - continuation of negotiations to liberalize market access;

- Trade in industrial products - the initiation of negotiations to reduce and eliminate (if any) of customs duties, tariff peaks and tariff escalation;

- As regards investment rules and competition - launching a training program for future negotiations on these issues, trade facilitation - to initiate negotiations to facilitate customs procedures and increase transparency;

- In the rules on dumping and subsidies - the initiation of negotiations to clarify existing rules, e-commerce

- Continuing work already started, but maintain the current moratorium on customs duties not to impose electronic transmissions;

- In the settlement of disputes - the initiation of negotiations to improve and clarify some existing provisions of the Memorandum of Agreement, trade and environment;

- Continuing work on the analysis, labor standards - the International Labour Organisation recognition as the most appropriate forum to conduct a dialogue in the field, acknowledging the work undertaken by this organization on the social dimension of globalization, development dimension - ensuring access market improved least-developed countries, and ensuring more hardened provisions regarding special and differential treatment for this category of countries. Top round of talks in Qatar, in November 2001 was marked by hostility between rich and poor. The goals are worthy, hopefully the results will be comprehensive. Doha aims to reduce distortions in agricultural trade, to reduce tariffs and remove subsidies on agricultural

exports, to eliminate duties on industrial products, especially in areas where poor countries have an interest (such as textiles) to facilitate trade in services and to negotiate global rules in new areas such as, competition, investment and trade facilitation.

3. Cancun Ministerial Conference

The Fifth WTO Ministerial Conference held in Cancun, Mexico, beginning on September 10 and continuing until 14 September 2003. Conference in Cancun was designed to represent the middle of negotiations launched at Doha in 2001.

At the conference in Doha it was decided that the fifth meeting of the Ministerial Conference to review progress, provide political guidance in a number of areas included in the Doha Development Agenda (DDA - the Doha Development Agenda Round), including decisions on four subjects in Singapore, namely: the relationship between trade and investment, interaction between trade policy and competition, transparency in public tendering procedures and commercial facilities.

At the conclusion of the Conference on 14 September 2003 adopted a Joint Ministerial Statement which states that there are many things to do in different areas and recommends further discussions and negotiations. According to *The Economist*, some trade officials question whether their failure in Cancun, which comes less than four years after the failed ministerial meeting in Seattle in December 1999 would mean the end of the WTO as a forum for negotiations."

Analysts believe that the failure of the Cancun meeting was due to the intransigence shown by both the participating countries, be they rich and poor, and behavior considered to be "irresponsible and irritating" non-governmental organizations (NGOs). NGOs have accused rich countries that have tried to sabotage the talks, paying too little attention to the agricultural dossier.

In other news, the rich countries have found that NGOs played an important role in the radicalization of the conflict. These organizations have "flooded" with poor countries really confusing positions. The main mistake was that NGOs have increased the level of unrealistic expectation for poor

countries.

Finally it may be to blame would be the procedure of decision making in the WTO. EU Commissioner Pascal Lami, has likened rightly, the WTO with a "medieval organization 'whose rules and procedures can't support the importance of the tasks undertaken.

It remains to be seen whether the Doha round could be revived or not, certainly in time things will become clear and hopefully the results will be the best.

4. The safety of market

European Union and the United States should appreciate that their economic relations are at a crossroads. Disputes between Europe and the United States are intractable in terms of special global political and economic situation.

It would be foolhardy to believe that the transatlantic partners will be lost because of litigation. The WTO would not be able to solve these problems. Even worse if it goes to the WTO for arbitration this affects more than to give both parties a solution. Waiting for the Doha trade negotiations would be a waste of time still facing commerciale. A negotiations so disappointing, but true is that the WTO is not useful to strengthen transatlantic economic relations.

Ministerial Conference in Seattle (USA) from 30 November to 3 December 1999, was, in chronological order, the third after Singapore, 1996, Geneva, 1998. The conference will mark the launch of a new round of negotiations, suggestively called "Millennium Round".

The four days of negotiations ended with an outright failure. Reasons for failure of this conference were many. First, the time for carrying out conference was not well chosen because it coincided with the launch of the campaign in the U.S., the American delegation in this context, is not willing to make concessions, although this is a condition of any negotiation process. But the failure of the Conference has other deeper causes, since the 135 delegates of member countries failed to reach a common point on any of the issues in dispute, from agricultural subsidies, the "social norms", competition or environment. Blockage occurred amid disagreements between the U.S. and U.E.

between U.S. and Japan, and between rich and poor countries, for the first time in history the organization has not been exceeded. Included on the agenda were a number of problems, among which the most important agriculture and services were insufficiently addressed in the Uruguay Round, as well as two new areas, labor and the environment.

Agriculture was the main bone of contention between the U.S. and the EU, the latter being pressured to make concessions, higher than it was prepared, on agricultural subsidies. The Conference Director U.S. Department of Agriculture showed that each country has the right and duty to help farmers, but only so as not to distort trade, its disadvantage farmers in other countries.

Services have been discussed due to the need of further liberalization. Unlike agriculture, this was a field less controversial, this and the fact that the GATS allows each country to choose what services liberalization agreements wants to join. Disputes have arisen either in connection with the U.S. refusal to open its market for maritime services, the EU's desire to protect audio-visual services for cultural or developing countries to reduce restrictions on movement of persons. The sectors considered were: electronic commerce, shipping and air services liberalization and developing countries.

"Social rules" or "work rules" have been subject to fierce controversy, reflecting the differences between developing countries and the U.S.. U.S. have proposed a working group to examine the relationship between trade and labor law, so that trade liberalization does not lead to rising unemployment and falling wages. U.S. position on the need for cooperation between the WTO and ILO (International Labour Organisation) has been supported by EU and Japan, but challenged by developing countries.

Advancing humanitarian arguments, U.S. asked to give up the low wage policy, which allows the sale of goods on the international market at lower prices, competing as western products. U.S. but did not mention anything about the pocket that could be paid higher wages for workers in poor countries. The more so since both the U.S. and other developed countries have refused to comply

with UN recommendations, to allocate 0.7% of GDP to help poor countries. Environmental problem was the reason most anti-WTO demonstrations, environmental protection organizations (Greenpeace, Friends of the Earth) by claiming that globalization and liberalization of international trade have a negative impact on the environment. Because there is already a WTO working group dealing with trade-environment relationship, no new regulations were deemed necessary. It noted that European countries and third world countries have protested against the export of genetically modified American considered to be an attempt to address environmental and human health. The failure of the conference was considered a failure of the Clinton Administration's chief negotiator, Charlene Barshefsky and a victory, albeit temporary, protesters anti - WTO. WTO Director General Mike Moore, in a declaration made on 7 December 1999, stated that: "All I have left Seattle Friday disappointed, but not with fear that we will not be able to complete the task we were there. ... Discrepancies were significantly limited in some important areas. Ambassador Charlene Barshefsky said that the meeting was adjourned, but that work will be continued and completed. "The suspension of talks is not unprecedented in the history of the multilateral trading system. [...] I am determined to fulfill my duties effectively to ensure maximum possible participation of all members at the next meeting and as soon as possible to be able to announce the resumption of the Conference and then its successful conclusion."

5. A transatlantic free trade area

Ultimately it is the turn U.E. and U.S. to act. They need a transatlantic free trade area. Not because Taft is inevitable. The economic benefits would be considerable but not a range.

Between European Union and United States customs duties on industrial products are approximately 4% and therefore the lowest in world trade. Even if it would eliminate tariffs on agricultural products higher revenues would rise to 0.3% of gross domestic product of both regions. But nonetheless U.E. and U.S. Taffeta need. They need a sign for the future in terms of advancing transatlantic

economic relations. Taffeta could be a political symbol for a deeper economic relationship. This would compensate for the lack of credibility in the transatlantic partnership to bring the subject back to consciousness European and American politics and return it to the public eye. It is important that people understand how much they affect transatlantic relations of everyday life, despite differences in the world. This is what the European Union and the United States have not yet achieved. A transatlantic free trade area could help to reconcile their differences just because there are free trade zones. It should be an incentive for the transatlantic partners to participate in their disputes. It is understood that problems can not be solved overnight, but a bilateral agreement with EU and U.S. should be a forum, if not an obligation, to solve their understandings.

6. Recognition of the free market

A transatlantic free trade area is an opportunity for EU to be on an equal footing with the United States.

This gives the EU an opportunity to act strategically, something EU not done yet. It seems that strategic alignment is what offers a long-term competitiveness, not just in an economic way. Good economic relations and a transatlantic free trade area allows the EU to align with the United States and other trading partners like China.

A collision in the trade negotiations between the U.S. and China occurred in a dialogue on economic issues on 14-15 December 2006.

While S.U.A Trade Representative Susan Schwab said: "Asian economic model based on the fact that" Asian economic model of state control and huge amounts of exports was more suitable for China, which now should focus on domestic consumption rather than exports to achieve growth. "

7. Perspectives in world economy

In terms of major economic powers in the world ranking is confirmed a hypothesis that was stated in the late nineteenth century, the hypothesis was resumed in the early twentieth century, namely: displacement of the center of the world economy in the euro-

zone - Atlantic to the Asia - Pacific. This change is based on an objective question, namely: the growing exploitation of the huge human potential of all countries from the Holy Town and assimilation of new technical developments, thus facilitating the transmission of technological knowledge and information worldwide. It is expected that, to the extent of referral to the knowledge society, and many other nations to better exploit their creative potential and, therefore, to improve their place in the world economy as a whole.

Rapidly changing structure of international relations - rise of new powers (India, China), means that EU becomes a lesser part of a larger world. Even in a "bigger world" is certainly the European Union will remain a major player in the game in the world economy. This will always be compared with the two poles, USA and last but not least Japan.

In terms of world domination can say that there is only one superpower, the United States and four centers of power Japan, Russia, China and the European Union. None of these five players should not isolate themselves from others, to have a role in solving international affairs. Rather, each must ally with as many of the other four. This coalition will be able to unite three of the five will have the chance to impose its will in international affairs.

In a forecast covering the next 20 years, Boillot predicted that the fight for global economic leadership position will include three major forces, namely: China, EU and USA. Japan is not included in the analysis and this is perhaps a little surprising.

The economic world will be dominated by China which will be followed by Europe and the U.S.. Moreover, these predictions come true because even this year, 2011, China has become the largest producer of goods in the world. In this way and recovered the lost position in the early nineteenth century and ended 110 years of supremacy of the United States, according to a study published by the American company IHS Global Insight economic consulting.

Major currencies will continue to USD and Euro. And as the U.S. financial situation will be the first in the world followed by the European Union. In terms of technology and science leaders will be U.S. followed by

China. Europe will be noted by regulatory capacities and regionalism. In conclusion Boillot's forecast reflects the fact that the U.S. will maintain its political hegemony. Opinions are divided and there are forecasts that say that Asia in the years ahead will move the balance of power. In what follows I will present in the chart below how the share of GDP by 2025, this projection is estimated that since the U.S. share and U.E. will decrease by 2025 to below 25% of that of Asia will reach 40% and even exceed this value.

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New World Order – Perspectives to Achieve

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Abstract

In this paper we have treated several fundamental issues underlying a new world order of political and economic perspective. I made a brief foray into what about the prospects of creating a new world order and ways to implement it. new world order is a fundamental problem in the global economy..

Key words : new world order, economic hit man, world elites, conspiracy theory.

J.E.L. classification.: F02

1. Introduction

New world order is a fundamental problem in the global economy. The world elites believe that the only way to maintain world peace is the creation. even if it is something else because the New World Order which means massive plans to reduce population, the destruction of sovereignty of nations and not least the end of democracy. Announcing these changes would not only open to massive protests and violence worldwide. Therefore, plans are kept secret shadow forces and their implementation is done gradually. It speaks in a conspiracy theory about the famous.

2. New World Order - Perspectives on to achieve

(...) "Between what you know and what you assume you do not know is what (...)".

The question that I would like to start is: Does the EU is a new world order that replaces the old nation states. If you want to know the answer to this question must identify key stakeholders and policy factors that influence the structure of interaction. Transgovernmental Networks is currently a

more important feature on the global economic scene than the new world order. Unfortunately the structure, processes and impact and horizontal impact international relations between nation states are currently unknown.

In the book "The institutionalization of Europe," Stone Sweet, Sandholtz and Fligstein (2001) offers a perspective that has the potential to overcome differences. They define political spaces as "social spaces where players meet to make the rules and interpret them, as they are sites of collective governance (Stone Sweet, Sandholtz, and Fligstein 2001, 13). This creates perspectives on so-called " skilled actors' " leading to the development and implementation of any type of political rule.

Besides all this talk about New World Order it is just a myth or a reality? Lack of information and abundance of certain others make us ask some questions and we tend to wonder where the truth actually is. Maybe it's somewhere in between.

The new millennium has brought with it a number of hopes, broken promises and an inclination toward what is worse. Since 2000, hundreds of billions of dollars have been spent on war while the international community pitifully low in terms of funding community projects.

The question we must address is whether a world is moving in the right direction. Even is someone who really wants these wars in Afghanistan and Iraq wars in which thousands of lives lost, they are wasting thousands of dollars and all this for the sake of mineral wealth in their possession and Afghanistan because of its geostrategic position with Central Asia's oil and gas, all that is happening because Iraq is the largest oil producer in the world.

The world elites trying to convince that the only solution to establish and maintain "world peace" is the creation of New World

Order, this is possible only through the unification of world powers. But the reality is quite different because the New World Order which means massive plans to reduce population, the destruction of sovereignty of nations and not least the end of democracy. Announcing these changes would not only open to massive protests and violence worldwide. Therefore, plans are kept secret shadow forces and their implementation is done gradually. It speaks in a conspiracy theory about the famous.

Are financial benefits for corrupt politicians and powerful pressure groups, are in fact used networks of activists that are positioned strategically and not least corporate information resources are used. They help to spread propaganda and cover up the truth, they demonstrate that preparations for the whole operation took a long time and planning. Lacking substantial opposition within the system and this reveals a certain network of volunteer collaborators who did no more than provide a "dirty job" and have infiltrated the system for what we call the world elite. Most times it seems quite unlikely that elites were able to expand their power and control over many posts here seem to have their origins skepticism and "theory" of conspiracy. Because all the changes going in the same direction exclude the possibility of a coincidence. In a society that continues to be free of any restriction, even if we speak of moral values, conformity and opportunism are wide spread. In times of economic crisis, New World Order becomes a reality before our eyes, no longer just a vague concept formulated.

The financial crisis is expected as the major commercial centers. This is emphasized according to a study by the Global Cities Index ", by researchers in management consultancy company AT U.S. Kearney together with Foreign Policy and The Chicago Council of Global Affairs. According to the study in the five cities that were highly globalized showed the greatest disturbance indices. Thus, cities that are at the top are the most affected by globalization in terms of bankruptcies and unemployment in the financial industry. The current economic crisis has its epicenter in major urban centers.

How can the IMF was expected make its presence felt by offering money. And how does that work? Nothing will simply print money. But the International Monetary Fund would be left without money if the number of countries applying for funding is becoming greater. Such requests come from all over the world, from Latin America, Africa, Asia and to Eastern Europe. A renowned expert on freemasonry Council for Foreign Relations (CFR), Brad Setser says that the need for external financing of all countries covered by the IMF is around 500-600 billion dollars, and draws attention to the fact that the sum would sink Full Monetary Fund.

IMF to get cash may give in his own name in financial markets, but this institution has not yet resorted to this option. He called at the request of deposits from the 185 member countries. A force majeure option is to print money by issuing Special Drawing Rights type, financial instrument used by the World Bank and International Monetary Fund. But resorting to such a measure could not only lead to rising inflation and soon no financial currency would not be worth anything.

Bilderberg Group could propose a financial solution that is dictatorship. The twentieth-century masonic secret protocol states: "Economic crises have been and will often be caused by even the new ability to withdraw money from circulation." French President, Prime Minister of Great Britain and senior international officials want a dictatorship in order to eliminate the current financial crisis. Even the skeptics have to acknowledge that the current financial crisis is used by those who seek to lead our planet is the reason to establish the New World Order, said this in 2008 at the Bilderberg meeting. Shortly after the end of the Bilderberg meeting, Timothy Geithner said in the Financial Times that because of the system are created serious financial problems. But financial and banking system was created by national who now wish to remove it. An example in this case is the U.S. Federal Reserve.

Any central bank has the power to issue money for a whole nation, and through this mechanism controls the rate. A central bank can borrow money and how the government was expected to make in return for interest.

No measures taken by the World Bank always will be the best but it seems that it is a tradition to intervene in these situations.

It seeks financial monopoly, and in economics we talk about three classes of industry. These are: natural capital, currency and credit. Natural Capital refers to the raw materials and energy sources, currency printing refers to "money" and credit refers to borrowing money with interest and not least the extension of bank deposits with economic value.

United States and most countries in the world have a well established system based on a "financial monopoly." Anyone is free to earn as much money as he wants, but will be paid only in the official notes. There is no way that can be paid in gold or any other form of money. Financial monopoly is held by some private banks, a relatively small number, which is owned by some of the richest families in the world. Their plan is to get to control a 100% all the world's capital resources, thus controlling everyone's lives through the availability of all goods and services. Possession of the independent sources of wealth in the hand of every person in the world could break all the plans he had with reference to global domination, and this is not a secret, here I am in possession of a free energy device.

In today's economy of a nation can be accelerated or slowed by lowering or raising interest rates. If there were an independent source in the economy that energy capital, and any person or business would have access to more capital without borrowing from a bank could lead to the elimination of interest rate manipulation. The amount of money is totally changed by the emergence of a free energy technologies. Either this is not desired by those who wish to have monopoly control of the present and the possible emergence of such a free energy must be removed and banned. The reasons they are made by "divine right to rule", greed and uncontrolled need to control things. They use intimidation as a weapon to delay the purchase and hiding technology, attempted murder and murder of inventors and the characters involved, arson and a wide range of incentives and inhibitors to manipulate the financial support of free energy. Scientific theory which states that free energy is impossible has been promoted all of them.

The emergence of such a free energy would be a nightmare for the government.

New World Order would mark the end of national self-determination, democracy, human rights and even end a number of public service, here including the education and health.

Announcing these changes would certainly lead to massive and violent protests worldwide. Thus, these are introduced gradually with a high degree of misinformation.

It aims to be handling it by distorting information in any form, from products, advertising that distorts the perception by consumers and media manipulation, false information about what is happening in the world, inducing error in the population in East conflict East and other civil wars, strategic disinformation, "EHM" (economic hit man) - taking over the misuse of resources because of the indebtedness of poor countries to powerful states - and, not least the handling of money through tax burden, defective and non-transparent policy lending banks, insurance companies etc..

A highly controversial case was the attack on September 11, which later proved, scientifically, that was developed from A to Z, by Americans.

Images from the spot where there was a so-called terrorist attack are not compatible with the damage done by a commercial airliner that was the size of a Boeing 757, also no witness can't recall having seen a plane crashed nearby.

Holes above the windows in the building products are inactivated, while firefighters stood in front of a perfectly round hole in the Pentagon's steel-reinforced wall, the hole that has less than six feet in diameter.

Apparently it was an explosion, caught fire, and firefighters rushed to arrive at the scene but found no airplane. Even bits of a plane. At a quick glance at the photos and videos of 11 September 2001 at the Pentagon, is quite clear that firefighters had fought a lot of fire that took about ten minutes, and the so-called rescuers were not involved looking for survivors alleged attack, although it is believed that there are many victims.

Pentagonal was too easy a target for attackers. It is quite strange that the radar would normally have to protect the world's

largest building has not detected a Boeing 757 that will be headed straight for the building. It is not known whether or not a coincidence, but no advanced missile system to protect the Pentagon from an air attack has not been in operation, although it is activated automatically when there is an imminent danger. Is it vital center of the largest nations on earth, unable to defend themselves? It's hard to believe.

Apart from that, the current television (CNN, ABC, etc.) transmit information to suit political force in government and big business interests, which does not sound good, does not give the news. Nothing simpler.

Another very important case is the pharmaceutical company has chosen to cancel the HIV medicines in Africa and Asia, though he knew the human error occurred. Drugs were withdrawn from the U.S. and European markets and redistributed in poorer countries, that it why: too many people there, some will not hurt to go away.

AIDS was created in the laboratory. There are many who believe that HIV was produced by scientists in particular. According to a conspiracy behind the creation of this virus would be the CIA, who wanted the launch of the disease among the population to destroy the American or African-American minority. This theory is believed by many people including a few figures. South African President, Thabo Mbeki, who has been alluded to a point in this theory and attempted to combat the disease could be the explanation that first appeared in Africa. He claims that the virus was created in U.S. military laboratories.

Nobel Prize winner, environmentalist Wangari Maathai, also supports this theory. Other variants of the conspiracy claim that the virus was created by the World Health Organization, this theory is supported by Dr. William Campbell Douglass, but would be an option that actually believes that the KGB would be back. Although researchers have not reached a common view on how the disease appeared in humans, most believe that the virus passed from monkey to man, this is possible through the '30s. In 1981 came the first reports on the AIDS epidemic.

3. Conclusion

Whether we accept or not slowly introduce the New World Order. Shadow Force makes its presence felt, and we do not know if we can do something to stop this.

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Internal Audit - Pillar of Corporate Governance

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Abstract

Corporate governance represents the system through which a company is being controlled and managed. In defining of this concept, works on the idea overall performance of the company is based on the theory of interest holders.

The paper concerns about the relationship between corporate governance and internal audit, focusing on the role of internal audit within the economic entity, and thus in corporate governance, knowing that the value of a company maximizes in the extent to which managers succeed to identify and harmonize the conflicts of interest between the social partners of the firm, especially between shareholders and managers.

Key words: internal audit, corporate finance, corporate governance, internal control, risk management.

J.E.L. classification: G32, G34, M41, M42

1. Introduction

Debates around corporate governance intensified during 90's, first in Anglo-Saxons countries, then in continental Europe and further on international level, based on a primordial situation focalized on analyzing managers power and their limitations among every patrimonial entity.

The financial aspect of corporate governance lies in the use of this concept in practice of auditors, as prescribed by the International Standards on Internal Audit.

2. Corporate governance and its role in companies

Corporate governance represents a central and dynamic aspect of the economic reality, being increasingly sensed in numerous countries. Derivate from the Latin word *gubernare*, in Romanian the term of governance is synonymous with the term of administration, implying all the activities that enter in management field on an entity's level.

Corporate governance of Romanian enterprises and thus their performance trend can be analyzed and understood only through the development process of reform in the context of transition from planned economy to market economy, which led to profound changes in the microeconomic universe. In fact, the corporate sector has really emerged from the process of privatization of state enterprises, which were centrally managed based on some binding plans and not on requirements generated by the natural laws of economy.

As it regards the concept of corporate governance here are some interpretations:

- Corporate governance represents the ways in which providers of financial resources of a company shall ensure that they receive the expected benefits from making this investment [9];
- Corporate governance can be defined as all of the company's relations with its shareholders, or more broadly, society as a whole;
- By J. Wolfensohn, former president of World Bank, corporate governance refers to promoting fairness, transparency and accountability at the corporate level;
- According to OECD, Corporate governance specifies the distribution of rights and responsibilities among different categories of people involved in the

company such as board of directors, directors, shareholders and other stakeholders, and establish rules and procedures for making decisions.

The key problem as it regards corporate governance is the *agent problem*, meaning that managers have control over other's money. According to corporate governance principles, a good development of a firm activity requires that in the Board of Directors to exist non executive directors, i.e. persons not connected with the managers or majority shareholders.

In his business, company management will have to take account of conflicts arising from the *multitude of interests under the same roof* because, if not properly known and regulated may jeopardize its effectiveness. Managers are a particular group of stakeholders who, holding power management, are both judge and party, and must ensure other legal persons involved that wealth will be distributed among them in a fair and free of abuse way.

From a power perspective, corporate governance follows only to legitimize the authority exercised directly by the managers and the representatives of the inspection bodies.

For a long time it was considered that the Board of Directors can be seen as efficient if the shareholders are receiving with regularity their dividends. The vision has changed in a significant way, because in a company counts the most the firm's plus-value.

Therefore the content of modern corporate governance has become a complex financial dimension that emphasizes the role of managers and requires a new behavior in excluding superficial attitudes such as *controlling from a glance*, maintaining the financial advantages even in hard conditions, being concerned for the entity's financial result.

Transparency and protection of minorities aims not only fair distribution of risks within a business entity, but a proper functioning of the market in a broad meaning: it should provide strong mechanisms, depending on the governing bodies to act for shareholders by maximizing the economic value of enterprise [1].

3. Internal audit- function of corporate governance

The audit is a universal function. Although, its best known face regards the financial function, the auditing activity spreads its arms among all functions retrievable in an entity, through internal audit, which covers all functions which contribute to a result determination. A limitation of audit activity to a single compartment, as accountancy, is not recommendable in the context of a globalized society, being preferable a complete verification and certification of the entity's activities.

Internal audit is an independent activity, objective, assurance and consulting, designed to create value and improve an organization's operations. It assists the organization in achieving its objectives by implementing a systematic and disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes [2].

Therefore, internal auditing represents a function integrated in the company, when the external auditing represents an independent function whose mission is to certify the accuracy of the accounts, results and financial situations, and more precisely to certify the sincerity and a truthful image of the financial situation and (if we retain the definition of the authorized accountants) to certify the regularization, ingenuity and fair picture of accounts and financial situation.

The concept of corporate governance is sustained by internal audit, which has an important role in assisting the reorganization of the internal control system and in advising general management.

The installing of a system in order to prevent fraud remains in the responsibility of the management within the organization and internal audit provides assistance in assessing risks and strategies for corporate control, suggesting the proposals, recommendations and solutions to diminish the threat of fraud, and improve the control strategy.

Ignoring the internal audit function can lead to real disasters in financial terms and not a few have been cases where the collapse of giant companies resulted in a number of negative chain and entailed thousands and

sometimes even millions of creditors, suppliers, employees and investors injured, with effects that have lasted for years.

4. Internal audit's role in corporate governance

In an era of almost instantaneous transmission of information, as well as increasingly blurred lines of distinction between different schools of political thought, the auditor also has to keep abreast of developments and the wide ranging global debates on the most appropriate responses to the severe crises that seem to develop so rapidly, be they global warming, forest fires or currency gyrations. [7]

An internal audit function could be viewed as a *first line defense* against inadequate corporate governance and financial reporting. With appropriate support from the Board of Directors' Audit Committee, the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance.

Internal audit departments need to ensure their organizational posture allows them to operate successfully on strategic issues. This means both the independence and the mandate to deal with significant, strategic business risks and issues. If inappropriately positioned within the company, internal audit deals with tactical issues and is viewed only at that level. Inappropriate positioning can also raise serious concerns about the overall independence of the function.

As mentioned before, any type of corporate governance, in order to be considered effective, it must provide appropriate control mechanisms for interventions in critical situations and in order to protect the interests of all users.

The most effective instruments in preventing frauds are to be considered management control and internal audit.

An effective internal audit function plays a key role in assisting the board to discharge its governance responsibilities. In that manner, internal audit delivers:

- An objective evaluation of the existing risk and internal control framework;

- Systematic analysis of business processes and associated controls;
- Reviews of the existence and value of assets;
- A source of information on major frauds and irregularities;
- Ad hoc reviews of other areas of concern, including unacceptable levels of risk;
- Reviews of the compliance framework and specific compliance issues;
- Reviews of operational and financial performance;
- Recommendations for more effective and efficient use of resources;
- Assessments of the accomplishment of corporate goals and objectives;
- Feedback on adherence to the organization's values and code of conduct/code of ethics.

Internal audit, as an integrated function in a company, holds an excellent position in order to bring sanity back to the financial markets and reports.[4]

The internal audit process is a permanent function within a company. In other words, auditors review operational controls and procedures throughout the year. An audit manager typically may draft an annual audit plan at the beginning of the year, define responsibilities and assign tasks to junior auditors. A manager usually communicates annual schedules with managers of areas under review. Corporate audits often focus on "high" or "medium" risk areas ("high" and "medium" indicate potential losses).

Internal auditors' unique full-time focus on risks and controls is vital to sound governance process and to sound financial reporting. According to statistics from international news and information organization Bloomberg News, in more than half of the 673 largest bankruptcies of public corporations since 1996, external auditors provided no cautions in annual financial statements in the months before bankruptcy. Many of bankruptcies in history, including Enron, Global Crossing Ltd., and Kmart Corp., followed annual reports with clean audit opinions from the external auditors. Although external auditors' independence is protected to some degree, they still face many of the same issues as internal auditors

when it comes to undue management influence. [3]

This demonstrate that the larger and more complex the company is, the more difficult it is for external auditors, management, and boards to have an accurate picture of risks and controls. Here is where internal audits should interfere. Internal auditors play a vital role within governance processes by keeping the board, senior management, and external auditors aware of risk and control issues and by assessing the effectiveness of risk management.

Regardless of the integrity of the internal and external auditors, the fact remains that management continues to have great influence on the compensation and retention of both parties. Audit committees typically rely on the advice of senior management in evaluating the audit team's performance. Frankly, it is difficult to do otherwise, as the directors interact more often with the executives and rely on them to run the corporation. At the same time, few auditors--especially the internal auditors--relish the prospect of confrontation with senior management.

Internal audit reports provide top management, departmental heads and segment-level employees with relevant information about operating processes and weaknesses. Such data is important because it helps various readers understand potential risks (and losses) that typically may affect a company's operations

Internal audit scope should be extended to address strategic business issues as well as increasing some compliance audits.

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Political Risk and Foreign Investment

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Abstract

This paper's target is to point the role of political risk in international affairs. Despite the fact that now we live in a globalized world the reality shows that national borders still matters.

In this context, multinational companies face a lot broader types of risk when they invest abroad. One of this risks is political risk and that's because politics influences how markets operate. Often the most unpredictable economic events are political in origin, the result of inconsistent political decisions or incapacity to maintain a stable and predictable economic environment.

The importance of assessment and management of political risk exposure is highlighted by a theoretical framework that outlines the multidimensionality of the concept. To illustrate the framework and the complexity of the political risk phenomenon, a number of 2 case examples are presented from the international oil and gas exploration and production industry and the energy sector.

Key words: risk, political risk, foreign investment, multinational companies

J.E.L classification: F21, F23, G32

1. Introduction

Nowadays it is a fact that exists a viceversa relation between politics and economic. But when we talk about foreign investment political field stands out because of his impact on the decision of multinational companies to invest or not in a specific country.

Today's events, the turmoil in Africa, brings back in the highlights the principales types of political risk and here we refer to

war and civil disturbance, that can affect the operations of a foreign investor in developing countries.

Political risk is an evolving concept. In the 1970s expropriation dominated discussions; in the 1980s the debt crisis moved to center stage; in the late 1990s the meltdown of developing country capital markets was the predominant theme. Since September 11, 2001 the main topic of political risk was switched on terrorism and on friendly and unfriendly nations.

In this context our study tries to point the main theoretical issues regarding political risk and foreign investment and trough some case studies to demonstrate that an inappropriate assessment of political risk brings major loses.

2. Political risk and multinational companies – theoretical framework

The implications of capital controls in international business are just one aspect of the uncertainties or risks involved in doing business outside a firm domestic market. The risks that face a MNC in an international environment are largely debated in quite a number of studies focused on assessment of such risks.

Here we can discuss the theoretical approach on country risk and political risk. First of all country risk is a broader measure of international risk than political risk including besides political risk, credit risk and other economic measure.

Throughout the literature there is little consensus on a "clear-cut" definition of political risk [2,4,5,7,8]. Still two characteristics resides when we analyze the concept of politic risk: the instability of a political regime and the uncertainty of the policies pursued by such a regime. It should also be noted that the crystallization of the

concept of political risk takes place in a period of history, 1960-1970, characterized by violence (coup, revolutions) and/or dramatic shifts of politic regime, when the nationalization and expropriation where the principal types of risk in international business.

Probably the most restrictive definition on political risk belongs to Kobrin (1979), one of the first academic who debated this issue. He observed that the most used statement for defining political risk is "the host country interference in business operation" or "political acts or constraints imposed on the firm" such as creeping expropriation, devaluation and revaluation, foreign exchange controls and foreign wars [8]. Thereby in 1982, Kobrin defines political risk as politically generated circumstances which may have significant implications for the MNC management [7].

Simon views political risk as "governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of, foreign business operations and investments"[14]. Howell dichotomizes political risk definitions in terms of those that require acts of national governments and those that include political acts not originated by governments, such as rebellions.

Political risk that firms face can differ in terms of incidence as well as the manner in which political events affect them. Depending on the incidence, political risk can be classified into two types: (a) macro risk – where all foreign operation are affected by adverse political developments in the host country and (b) micro risk – where only selected areas of foreign business operations or particular foreign firm are affected [4].

At the macro level, firms attempt to asses a host country`s political stability and attitude towards foreign investors. At the micro level, firms analyze whether their firm-specific activities are likely to conflict with host country goals as evidence by existing regulations. The most difficult task, however, is to anticipate changes in host countries goals priorities, new regulations to implement reorder priorities, and they likely impact of such changes on the firm`s operations [13].

The distinctions between different categories of political risks are summarized in the table below.

Table 1. Classification of political risk

	Government Risks	Instability Risks
Firm Specific Risks	Discriminatory regulations	Sabotage
	"Creeping" expropriation	Kidnappings
	Breach of contract	Firm-specific boycotts
Country Level Risks	Mass nationalizations	Mass labor strikes
	Regulatory changes	Urban rioting
	Currency inconvertibility	Civil wars

Source: modified after Simon (1982)

The analysis on political risk includes some key factors as [12]:

- The host country`s political and government system – if a country has a lot of changes in government, the policies supported by the government may become inconsistent and discontinuous, creating political risk.
- History of the political parties and their strength – this analyze reveals the way of how a particular party run the country; the history of a party shows if he has nationalistic or liberal believes and the way he handles foreign assets. This analyze also reveals what can happen if a party or another wins the elections.
- The host country`s ethnic and religious stability – is well known that are a several countries with problems on the ethnic or/and religious field such as Northern Ireland, Nigeria, Turkey,

Israel, etc. These issues could have a great impact on the international operations of multinational corporations, especially those who exploit natural resources.

- Regional security
- Keys economic indicators
- Integration in the world economy

One of the most important ways to avoid any problems in the future is signing on well negotiated investment agreement between the foreign firm and the government. The presence of MNCs is as often sought by development-seeking host governments as particular foreign location sought by MNC. All parties have alternatives and so bargaining is appropriate [14].

Also political risk has an important impact on the value of MNC. Kyaw, Manley and Shetty argue that greater the political risk, the lower the market performance of MNC as measured with Tobin's Q equation.

The easiest way to manage political risk is through insurance companies specialized in the area. There are, however, alternative ways to protect a company against political risk, for example through risk preventive- and loss-limitation measures. Another method is to form a partnership with one or several parties.

3. Political risk – a major constraint to foreign direct investment in developing countries

The developing world absorbed about 37 percent of global FDI flows in 2009 - a proportion that has risen over the past decade and is expected to continue expanding. After appearing of the global crisis in 2008, FDI inflows to developing countries slumped by 40 percent in 2009 - a decline similar to high income countries - \$354 billion (2.1 percent of GDP), compared to \$587 billion (3.4 percent of GDP) in 2008.

MIGA (Multilateral Investment Guarantee Agency) 2010 report on *Political Risk and World Investments* shows that MNCs investing in developing countries rank political risk amongst their top three concerns more often than any other preoccupation, including macroeconomic stability and access to finance [15].

Referring to the types of political risk that multinational companies think that will face in the next year regulatory changes followed closely by civil disturbance in developing countries.

The global survey made by MIGA indicated that more investors are concerned about breach of contract, non-honoring of government guarantees and adverse regulatory changes—which can result in investment loss—than outright expropriation [15].

4. Case studies

In this section of the paper we illustrate the kinds of political risks multinational companies face in international environment.

So we present 2 case studies representative for the natural resources exploitation industry. The first presents a case from the oil and gas exploration and production industry and the second one from the energy sector.

a) The Russian experience of BLACK SEA ENERGY LTD

If in the '60 and '70 the principal type of political risk was expropriation without compensation, the major problem of the '90 was the lack of consistent legislation and proper law enforcement and no willingness on the part of the government to enforce contracts and protect private property.

For the illustration we choose the case of Black Sea Energy Ltd., a Canadian oil exploration firm [9].

The company in cause jointly formed Tura with TNG in 1996, through a Russian closed stock company, to enhance production at the Kalchinskoye oil field in the Tyumen Region of western Siberia. At that time, the Russian government held a controlling interest in TNG's parent Tyumen Oil Company (90%).

So Black Sea Oil negotiated the joint venture directly with the central Russian government. Each member in the joint venture agreed to contribute about USD 50 million, Black Sea Energy in the form of cash as well as new technology and expertise unavailable to Tyumenneftegaz. The Russian partner contributed in the form of infrastructure projects and the licenses for the oil and gas production of the Tura oilfield in western Siberia [9].

During 1997 and the first half of 1998, was achieved substantial technical success at the Tura Project. The introduction of western capital and technology to the project resulted in daily production at the field more than doubling, from 4,900 barrels of oil per day to 11,500 barrels of oil per day [17].

On June 11, 1997 the shares were listed on the Toronto Stock Exchange, trading at CAD 4.65. In August 1998, the share price was CAD 0.12.

So what happened?

In May, 1998, shortly after the privatization of Tyumen Oil Company, its new owners began to assert direct management control over TNG and began to dispute the terms of our Tura joint venture (the new owners thought that the original deal was not fair to them and wanted it cancelled). They then commenced a number of legal actions against the Tura joint venture company in the Tyumen regional courts challenging the validity of the foundation agreement which created the Tura joint venture company and the transfer from TNG to the Tura joint venture company of the licenses required to develop the Kalchinskoye oil field [17].

Although the operations had a real success Black Sea Energy Ltd. did not only not earn any return on its investment, but the firm faced expropriation of its initial investment due to political problems.

They found some conflicting legislation on the legality of the oil exploration license that was held by Tura and argued in court that the licenses belong to Tyumenneftegaz and not Tura Petroleum. All courts, the Ministry of Natural Resources and the arbitration courts in Russia consistently ruled in favor of Tyumenneftegaz, even though the joint venture was originally negotiated with the Russian government.

In early 1999, Tura succeeded in negotiating an interim sales agreement with Tyumen Oil Company, with the assistance of the Russian Ministry of Fuel and Energy. This agreement facilitated the sale of 1998 year end inventory as well as production through the second quarter of 1999. While the terms of the agreement were unfavorable to Tura, oil sales produced cash flow which allowed Tura to maintain oil field operations while the dispute continued. This interim agreement expired in June, 1999.

In June 1999, Black Sea Energy Ltd. finally initiated an arbitration at the Stockholm International Arbitration Tribunal suing Tyumenneftegaz for willful breach of numerous provisions of the Tura joint venture charter and seeking an award for damages of more than \$110 million representing the initial investment and the future profits [17].

In August, 2000, the firm entered into a settlement agreement with TNG, Tyumen Oil Company and Stesana Enterprises Limited. Under the terms of the settlement agreement, Black Sea Energy Ltd. disposed of all of the outstanding shares of the two Cypriot subsidiaries through which we held our interest in Tura and in the adjacent Radonezh exploration project. As consideration, the firm received approximately \$29 million in cash from the acquiror, Stesana. They also agreed with TNG and Tyumen Oil Company to terminate all legal proceedings in Russia and all proceedings in connection with the Stockholm arbitration [17].

b) The Indian experience of ENRON

On August 3, 1995, the Maharashtra state government of India, dominated by nationalists, canceled Enron's \$2.9 billion project in Dabhol, located south of Bombay. Immediately after the news Enron's share price fell about 10% [1, 2].

Enron became involved in this project in 1992 when the country was ruled by a new reformist government opened to foreign direct investment in infrastructure. Enron signed then in just 10 days a memorandum of understanding for building the Dabhol power complex. After signing the deal, the Maharashtra State Electricity Board agreed to buy 90% of the power Dabhol produces. Two other companies, General Electric and Bechtel Group agreed to join as partners for the Dabhol project [13].

The mistake that Enron made at that time was that the firm didn't correctly estimate the power of the opposition, nationalist and against the foreign investment, who won the election in 1995.

The first thing that new political power did was to reconsider the deal with Enron and with all the other foreign investors in the country.

With all the fight did by Enron to keep the details of the contract, the firm lost in court and it was obligated to reveal the deal made. The rate of return of investment was far higher than 16% over the capital cost that the Indian government guaranteed to others companies, so the critics argued that Enron had overestimated the costs and the fact that the contract involved corruption.

The new chief minister canceled the project citing inflated costs and too high electricity rates.

Enron already invested \$ 300 million and in a last effort the company involved the U.S Energy Department to make a statement in June 1995 to the effect that cancelling the deal could adversely affect other power projects. The Indian government criticized the statement [10].

After months of negotiation, Enron and the Indian government agreed to revive the Dabhol project. The new contract required that Enron cut the project's cost from 2.9 billion to 2.5 billion, lower the proposed electricity rates, make a state-owned utility a new 30% partner of the project and to withdraw a lawsuit seeking \$500 million in damages from Maharashtra for the cancellation of the Dabhol project [2].

5. Conclusions

Lower costs, new opportunities, and access to resources draw the companies to expand into international markets. If the decision of investment abroad is made the facts often shows that the politics of foreign environments adds risk and complexity to business performance.

All companies takes the political environment into management because businesses are often affected by political decisions in the countries where they operate especially abroad.

Political risk facing foreign direct investors is the probability of disruption of MNE's operations by political forces or events originating in either host countries or home countries, or resulting from changes in the international environment. In host countries, political risk typically refers not only to uncertainty over government's and political institution's actions that affect foreign direct investors, but also to dynamics that could result in civil disturbance,

terrorism, civil wars, and cross-border conflict. Because of its longer-term nature and assets on the ground, foreign direct investment is often more vulnerable to political risk than are other types of cross-border capital flows [16].

Perceptions of political risk also condition investor's willingness to invest in developing countries.

The numerous cases of loses due the manifestation of different forms of political risk makes political risk the most unpredictable risk in international business.

Further research is necessary because of the multidimensionality of political risk and the fact that is an evolving concept in an evolving world.

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2020 EU Agenda – A New Lisbon Strategy

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Abstract

European Union is an example of the most advanced economic integration. While talking about a fairly long process, over 50 years, Europeans have adopted the tactics of small steps, but also well coordinated. If you think at any important moment of the European Union such as the realization of the single market or single currency adoption, all of this moments have been announced by the implementation of previous strategies. We are talking about strong and complete strategies, such as the last biggest ones: Lisbon and 2020 strategies. This paper proposes to give and build a synthetic profile of the two strategies, because of the link between them. The 2020 Agenda comes up with recommendations and directions, from which most of them had been found in the Lisbon Strategy.

Key words: Europe, Lisbon strategy, 2020 Agenda, knowledge economy

J.E.L. classification: F15, F43

1. Introduction

In the beginnings of 2000, in the capital of Portugal, appeared the Lisbon Agenda - a strategy for promoting economic growth in the European Union, which aimed to implement a set of measures at the continental level that should have led in 2010 to a dynamic and complex economy, the most powerful and efficient globally. The guidelines of this strategy were taken from the American model, which enjoyed a huge and spectacular progress in the period after 1990's. Mainly, this progress refers to the start of a new era in the economic field: the new knowledge society, based especially on

technological progress. So the European officials were ready to take part of these U.S. methods.

But not the U.S. model was the principle cause of adopting the Lisbon strategy mainly because it was seen firstly as an Agenda that will continue the integration process in the European continent. Considering the complex and advanced integration process, namely completing the stage on the trade for first – with the creation of custom union, and then creating the single market, followed by monetary union – by euro adoption, the next target is linked to the final stage, the political union. In many of its aspects, the strategy was seen as a "frame" in which the integration process would become deeply advanced, especially at the political level.

Anyway, though ambitious in the beginning, both proposing objectives on the economic, social or political level, this strategy experienced the economic imbalance generated by the economic crisis that we are facing in this period. So, next we are intending to make an overview on the failure of the Lisbon Treaty, and then to mark the main aspects concerning the 2020 Agenda of the European Union.

2. The failure of the Lisbon Strategy

In 2000, European Union (EU) leaders launched the Lisbon Agenda to turn the EU into "the world's most competitive knowledge-based economy" by the year 2010, and by 2025 into a "sustainable knowledge-based society". To achieve this goal it emphasized the transition to a knowledge based economy and society, structural reforms to increase competitiveness and innovation, completion of internal market, modernizing European

social model, investing in people and combating social exclusion, sustaining healthy economic outlook and favorable growth prospects by applying appropriate macro-economic policy mix [3]. The key elements of the agenda were: research and development (R&D), lifelong education, information and communication technologies (ICT), liberalization to create a single market and entrepreneurial culture and jobs-led growth leading to improved social cohesion [8]. Taking all these purposes into consideration, we can affirm the complexity of the strategy, which had in one way or another a clearly view on the evolution of the developing process.

As it is noted above, the Lisbon strategy was following a certain similarity with the American model of economic development linked mainly to technological progress and move towards a knowledge society. The difference here was the application of these criteria, that the United States were developing these new information technologies especially linked to private domain, the introduction in the production process to achieve decentralized, unlike Europeans who approached a reverse tactic from top to bottom, putting the public sector, the government actions in the spotlight.

The Lisbon Agenda can thus be considered an exercise in policy coordination. Such an exercise needs to ensure that Member States over-regulated economies comply both with the Single Market and with an adequate European-wide institutional environment for sustainable growth[2], so it can be seen as an exercise of greater collaboration, despite de high level of economics, improve the political aspects of the Union.

Thus the results of this strategy were not the one projected, due to a multitude of factors that have occurred during the implementation, of which the most important is the financial crisis started in 2007-2008, who had strong structural effect and has undergone world of new challenges. Ann Mettler (Executive Director of the Lisbon Council for Economic Competitiveness and Social Cohesion) said: "The problem was that Lisbon 2010 program was not pursued. It was an inconsistency between policies and budget. EU speaks about innovation, but half the budget goes to agriculture."

However, this strategy has represented mainly a passageway through which the EU should have approached to a greater development in the economic and social sectors. In some way this passageway has been narrowed, because of the recent economic and financial crisis.

The Lisbon project has represented a first attempt to find a new compromise through a broad strategy, appeared as a mechanical addition of different aims and goals rather than the solution to such trade-offs. Specific issues are related to the broad policy agenda; the tensions between budget, economic, employment and welfare reforms; and the need to focus more on social and labor market policy. The governance introduced through the Lisbon strategy is still in need for improvements. The aim of increasing participation and transparency seems far from being solved. EU democratic legitimacy has not significantly improved through the strategy, even if improvements in facilitating new forms of meaningful participation of civil society at the domestic level have been discerned [6].

3. A brief look over the 2020 Agenda

The European Commission has launched a new project last year, which comes to replace the Lisbon one, keeping most of the objectives, among which we approach 3 main ways taken into consideration:

- Develop a comprehensive labor market - flexibility balanced social assistance (the concept of "flexicurity");
- Building a "green and competitive economy";
- Promote a "knowledge-based economic growth." [4]

This is actually the growth strategy of the European Union during the next decade. In a world constantly changing, and sometimes cyclical, the EU needs to move to a sustainable economy, coherent and comprehensive to meet the challenges, but especially for the States to drive high levels of productivity, level of employment and social cohesion. This refers to a division of duties and responsibilities of all levels of decision-making, at local, national, regional to the European one, so all they can "reflect the high quality and accountability, and that all important drivers of change - business and

universities to work in partnership with local, regional and civil society "(extract from European Parliament resolution of 16 June 2010 on the EU in 2020).

The Europe 2020 Strategy renews the underlying approach of the Lisbon Strategy, based on a partnership for growth and job creation that relies on a mix of the commitment of member states to take action at the national level with making best use of Community instruments at the EU level [1], keeping in the same time the old will of achieving the political union.

Typically, the EU always brings into question strategies, ways forward, intricate plans, presented in multiple speeches and found in various official documents. Even if the Lisbon Agenda on the other side had encountered reluctance among the population in some EU countries, official voices are more optimistic about the success of this approach. They are therefore included a number of criteria by which to measure the degree of achievement of objectives for 2020: a 75% level of employment for the adult population, reducing carbon emissions by 20%, poverty reduction, mitigation early school leavers and increasing the share of college graduates, and most importantly a rate of 3% of GDP given field of research - development.

This area is important because represents the key element of knowledge, which comes mainly as a result of elaborate research process effectively. Such quantitative criteria set out above may be considered within the scope of relativity; even Gert-Jan Koopman (Director of Department of Economic Evaluation and Structural Reforms in the European Commission) was stating that: "The problem is innovation and application, not the R&D spending". Should therefore be pursued mainly the applicability of research projects, to eliminate the interest for payment.

The results of the research – development (R&D) should be primarily applicable in reality, in the sense that they need to improve upon the various sectors. It should not be regarded as a purposeful process, but should be considered to keep it at a higher level to get better results. Of course, finances are a significant issue, requiring a minimum allocation of resources, but must be combined with efficient management

mechanisms to support research and to properly manage these resources results in the sphere of knowledge. Europe is in this regard, behind countries like U.S. or countries in Southeast Asia, both in terms of resources invested and in terms of cost effectiveness. European countries on the other hand must adapt their reforms so as to remove various obstacles that might interfere with the growth of innovative enterprises, offering favorable framework conditions and facilitating access to finance. This is linked to the 2020 Agenda vision in this sector, of achieving more and more quality information and knowledge in Europeans life.

The contribution of research to innovation is already widely acknowledged: some scientific discoveries have applications that can be turned into commercial innovation. However, the knowledge triangle (R&D, Education and Innovation Policies)[9], underlines the importance of considering also the reverse relation: commercial innovations can leverage research efforts by increasing their efficiency.

The main changes, in comparison with Lisbon, are the radical reduction in the number of indicators (which previously numbered 42 so-called "structural indicators") and the incorporation of the environmental dimension with the already accepted targets (20-20-20) [7] that are realizing in some ways a link within the two strategies.

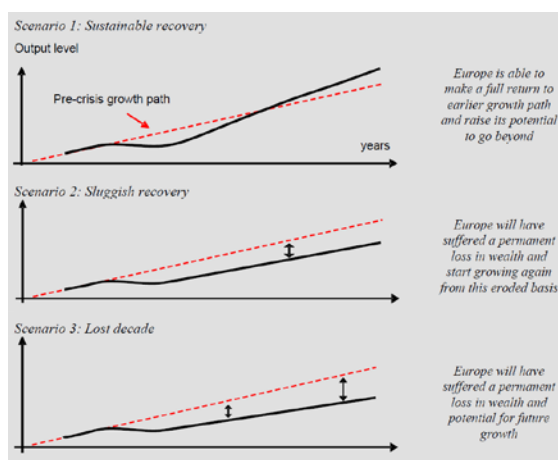
The knowledge-based economy has become the major trend in international society in the 21st century. Exploring the characteristics of the knowledge-based economy and establishing an appropriate economic paradigm for accelerating technological innovation is an urgent task for governments [5]. In their attendance of improving and avoiding the gaps of the Lisbon strategy, Europeans transferred the responsibility for action, which is needed to achieve the Europe 2020 goals, not only to governments, but also to all categories involved in the economic process:

- non-governmental organizations
- trade unions
- businesses
- local authorities and
- individual citizens.

The major reason why a knowledge-based economy can elevate national economic growth is that it can help construct a more effective production structure and improve the products and service quality further. Furthermore, the most obvious feature of the knowledge-based economy is its increasing returns to scale phenomenon [5]. So in the conditions of strong liberalization and internalization, each of the entities mentioned above, has to face a market economy in which "change" and "rapidity" are the main futures. So, in order to position itself as higher as possible on the market, each one has two options: do the "right things", and in the same time do "things right", both of them in the same time. This means a continuous enterprise adjustment of strategy.

Either we face up collectively to the immediate challenge of the recovery and to long-term challenges – such as globalization, pressure on resources, ageing, – so as to make up for the recent losses, regain competitiveness, boost productivity and put the EU on an upward path of prosperity ("sustainable recovery"). Or we continue at a slow and largely uncoordinated pace of reforms, and we risk ending up with a permanent loss in wealth, a sluggish growth rate ("sluggish recovery") possibly leading to high levels of unemployment and social distress, and a relative decline on the world scene ("lost decade") [4].

Figure 1. Three scenarios for Europe by 2020



Source: European Commission

As it can be seen in the figure above, there are 3 main scenarios that can provide some

information about the future of the European Union, related to the guidelines provided by the strategy for the next ten years. Of course there are a lot of variables that we should take into consideration to achieve at a realistic level of our assumption. It is obvious that on short term, all the indicators are depending on the evolution of the crisis, but hopefully, maybe after 2 or 3 years, Europe will pass the crisis, and so the future references on this aspect will not depend on weak indicators.

4. Conclusions

The knowledge economy is a relatively new term and in general represents a economy competitive, strong, stable, primarily based on managing a fairly consistent stock of "knowledge ". It is a process without finish in my opinion, meaning that it cannot assign a peak, a moment of maximum altitude, at the level of knowledge to reach a threshold level. Applicability of such an economy if the EU countries is a current and immediate need, mainly because of the problems they face today. On the other hand, as I mentioned above and the power of example is offered by other advanced economies of the world who have achieved not only economic benefits and applicability of a knowledge-based economic theories.

Strategy on training and education of a population with a high level of skill is essential to promote innovation and growth by investing in quality education, training and lifelong learning throughout life, represent the key to increasing the size of smart, sustainable and consistent economic European Union countries.

Even if the developed countries of the EU, particularly those in Western Europe, are more close to a knowledge society, Agenda 2020 is addressed to all 27 states and each country is free to consider the importance of the imposed criteria, and act within the conscience and the decision of local decision-maker.

We cannot yet talk about the existence of pure knowledge economies, because we cannot make a conceptual and practical separation, but, in the light of this strategy, I think the aim is rather in the manner of influencing the states to focus attention on

this segment, knowledge, and therefore we can say that the EU is moving towards the "knowledge economy", even if the purpose of this process cannot be predicted yet. Clearly, if we will face a failure of the 2020 Agenda, EU decision-making leadership will come with a new agenda in 2030, 2040 and so on, in their characteristic style.

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Rural Tourism and Sustainable Development

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Abstract

In the past 50 years tourism has become one of the most rapidly developing industries. But tourism has become a big cultural and environmental problem in many areas due to strong short-term changes that do not take into account the long-term modifications that may appear.

Key words: Economic crisis, sustainable development, management, industrial tourism, rural tourism

J.E.L. classification: F02, F15

1. Introduction

Tourism is a blend between all the actions, activities, relationships and phenomena caused by the movement and the stay of persons outside their usual residence that should not be motivated by a lucrative activity, permanent or temporary [2].

Currently there is a change in the tourism industry. Issues such as quality, flexibility, awareness about environmental issues and individualization become more important everyday.

Rural tourism is a main sector of the Romanian tourism today and that requires an inclusive and credible strategy in the overall strategy plan of the Romanian tourism and also an association with other local and regional development projects which are developed by the Regional Development Agencies [4].

From the destruction of landscapes to ecological tourism, from concentration to avoidance of congestion, from the sun and

beach tourism to the contact with nature, from agitation to seeking tranquility.

2. The relationship between rural tourism and sustainable development

Sustainable tourism represents a development of the totality of forms of tourism, obtained through a good touristic management and marketing, that respects the integrity of the natural, social and economical environment, so that exploitation of natural and cultural resources to become beneficial for future generations.

The development of sustainable tourism takes into account the following aspects:

- The conservation of natural and human tourism resources for continuous use in the future;
- Developing the living standards for local communities;
- Better knowledge and awareness of local people and visitors regarding the idea of conservation.

The areas where sustainable the development planning process occurs are:

- The economical area, by increasing the exploitation and valorization of resources;
- The environmental area, by avoiding environmental degradation;

The connection between the rural tourism and the concept of sustainable development is relatively recent. In 1978, the United Nations Environment Program, it was highlighted that the environmental and economic problems are linked. If not too long ago the focus on developing tourism was solely economic, its objectives being considered a total success, recently the attention of specialists turned towards other

aspects relating to the socio - cultural impact on the local population, and also on the environment [3].

These new guidelines are components of sustainable development, thus a link is achieved between this new concepts and rural tourism.

Sustainable development responds to the present needs without damaging the chance for future generations to develop. The development of rural tourism is a way to ensure transmission of traditions to future generations, to not deprive the descendants of their identity.

Sustainable tourism can be defined as a form of developmental tourism that does not affect the conditions of existence of a certain area, enabling future generations of local people, and guests to enjoy these destinations further. It is a form of tourism that respects human beings, the environment and local culture of the host region and that brings an overall balance between the three dimensions (social, economic, natural), resulting in both improved quality of life that benefits all parties involved and also in economical profitability for local communities.

The rural tourism, in the perspective of sustainable development, is aimed towards other environmental problems, ie offering to future generations an environment as healthy as possible. This global problem is now becoming a topical issue. At the national level, actions and measures are needed in order to take into consideration the interests and concerns of all individuals with emphasis on the educational side and self-consciousness of each individual.

Rural tourism is a real hope for Romania. That is why this form of tourism has been reconsidered and redefined as an area of practice extended over the entire territory of the country. The form of organization of rural tourism was introduced also through commercial companies whose sole purpose are rural tourism activities. Currently, rural tourism has about 3% of the total touristic offer and will be supported to reach 5-10%.

3. E. U.'s decline in the tourism industry between 2008-2009 and the increasing interest in alternative forms of tourism

In September of 2009 revenue per available room in Europe presented a decrease of 19.2%. In the euro area a minus of 16.8% was recorded and in countries outside the euro area, the percentage was 21.9% (Table 1) [6].

Table 1. Evolution of revenue per available rooms in Europe

Regional performance rate (in euro)	Occupancy rate (%)	Average cost per room	Revenue per room on camera available room	Evolution income per available room (%)
Europe	61.6	94	58	-19.2
Euro areas	59.5	97	58	-16.8
Countries outside of the euro zone	63.5	92	58	-21.9

Source: <http://www.strglobal.com/>.

European tourism industry has undergone a hectic year in the context of the crisis becoming more deep. Rising unemployment, increasing the euro against other currencies have had a serious impact on the performance of specialized operators from Europe [1]. Many people chose to stay home rather than travel abroad, and the number of business travel was reduced, which has attracted the decrease in sales and also in the results of the hotel operators, airlines and travel agencies.

In this context, Romania has encountered in 2009 the most drastic decrease of all EU countries, occupancy rates of hotels in Romania reaching 57%.

In November 2009, compared to the previous year, both arrivals and overnight stays in tourist receptions with functions of accommodation, decreased by 15.8% and 17.9% (Table 2) [5].

Table 2. Arrivals and overnight stays in tourist receptions in November 2009 compared to November 2008

	Arrivals ^{*)}			Over-night ^{*)}	
	November 2008 - Thousands	November 2009 - Thousands	November 2009 Compared to November 2008 - %-	November 2008 - thousands	November 2009 - thousands
Total	495,5	417,4	84,2	1403,6	1153,7
Romanian tourists	405,1	327,6	80,9	1196,4	970,2
Foreign tourists	90,4	89,8	99,3	207,2	183,5

*) In the establishments of tourist reception

Source: INSEE, no. 11/2009

Our research revealed three groups of possible causes of the decline in Romania:

a) Tariffs

The crisis made the hotel rooms in Bucharest less expensive, almost 20% in 2009, the average price of accommodation is 81.43 EUR in November comparing to 100.61 EUR in November 2008. But the decline was modest compared to countries with important traditions in tourism resulting in lower revenues per available room whit 12.7% on average in 2009, compared to 2008's average.

b) The decrease of purchasing power

According to data from May 2008 from the National Institute of Statistics [7], the net average wage per economy was in March 1192 lei, increasing by 5.1% from the previous month. But both the amount and its dynamics in recent months show that in the first quarter, purchasing power has eroded significantly, due to the rises recorded in the same period.

In January, the wages compared to December [8] were showing 5.2%, then in February than in January, 5.5%. There was an increase of 5.1% in March, resulting in reduction of overall revenue in the period from January to March, 5.6%. On the other hand, however, prices have risen continuously, with 0.86% in January, then

0.7% in February and 0.67% in March, thus means a rise of 2.23% during the analyzed period of time. If we compare this to the earnings, we size the erosion of purchasing power in the first quarter: the gap between the plus and minus the price gains as almost 8%.

c) International Terrorism

By its nature, tourism is a highly competitive global industry. In this context, the lack of safety and security and the incidence of crime is a more serious threat to tourism and travel than any other negative factor.

4. Key factors for a sustainable tourism strategy

The key factors for a sustainable tourism strategy in rural protected areas, include:

Working with Rurality: the uniqueness and the special nature of the market niche of rural tourism is the rurality itself, the contact with nature, the traditional rural society, animal breeding, with forests or fishing communities. Sustainable tourism should not only be located in the country but it should be a part of a functional rural society and not a tourist resort located on a former farm.

Diversification not replacement: The goal of sustainable tourism should be diversifying the local economy and not replacing farming activities with tourism activities. Substitution would have three dangerous effects: the addiction concentrated to a sole activity, causing the start of resort-type development and thus losing its uniqueness based on ruralism and nature, thus beginning the decline of agriculture leading to the destruction of landscapes and habitats. The loss of traditional landscapes and habitats is the default loss of uniqueness and of the market niche (unique selling point) for tourism, causing irreparable loss of cultural and natural values.

Tourism as a Tool: Tourism can be developed in two ways. Tourism can be developed only for itself and it is possible that this process will bring jobs and prosperity in the area or can be viewed in a broader context and used as a tool to solve or mitigate certain specific problems. For example, accommodations can be developed as hotels belonging to various national and international hotel chains. These networks,

that already have the existing marketing and management facilities, can be successful and create jobs in rural areas. The concepts of sustainable tourism development suggests an alternative: If the local owners of tourist facilities would be developed following the restoration of traditional houses or new buildings, would create a number of additional advantages. First of all residents would be strongly motivated to remain in the area and to maintain traditional activities. Locals would thus increase their horizon, acquiring skills and knowledge they will need training, which is beneficial for the diversification of the activities. The community also has an interest in renovating existing buildings rather than build new ones that would probably not fit into the context of existing areas. Profit resulting from tourism will remain in the community. The concept of tourism as a tool can be used for natural conservation in protected areas, revitalization of rural rail services, increasing revenues in the retail markets for functional preservation of other types of services provided by local communities.

Conservation: The need to conserve natural habitats and host communities is crucial to the concept of sustainable rural tourism. While some types of tourism can destroy communities and habitats, sustainable tourism aims to use income and opportunities of tourism activities as a tool for conservation. For example, revenue from the millions of tourists worldwide who practice bird watching can be used to help preserve the specific habitats that would otherwise be used for agriculture or intensive deforestation. Income from the sale of food and non-traditional products can become similarly part of a conservation tools.

Empowerment and local control: The concept that control and tourism benefit should be to focus on local communities represents the essence of sustainable tourism. This can help to conserve local values, can make areas of declining revenues, may reactivate the political and social life in areas that have lost hope. Local control involves the formation of different skills, the successful development always involving training, continuing education and community information from and to his members.

Diversifying the economy: while tourism may seem to many rural communities and their leaders as the panacea to their problems, there are big threats related to development of tourism as the sole source of economic activity. Tourism is a competitive industry with a "fashion" that can change very quickly. Rural communities may face serious problems if they only rely heavily on the tourist market. In order for tourism to remain a rural one, an authentic economy should be encouraged, one with prosperous farmers, with a rural life and on a cultural authentic and original scene.

Marketing: There is a trend towards marketing not being considered important enough on the priority list when designing strategies for environmentally friendly tourism. However, in the cases of sustainable rural tourism strategies, effective marketing is vital. It is an activity requiring a high professional expertise without which the whole strategy can fail. A key element is constituted by specific market niches that take into account specific attributes of protected areas.

5. Conclusions

In the concept of sustainable tourism activities not only planning and tourism development are included, but also tourism fits into a balanced relationship that includes future development in the context of achieving conservational goals. Asserting and maintaining a brand image for the services requires a balance between supply-side report, service quality and perceived price, which must be protected against financial abuse and professional negligence.

Each type of private rural location offers opportunities and poses specific problems. Therefore, the tourism product offered should be prepared exactly according to the presence of various components in relation to the individual character of the settlement. Romania can meet the most demanding tastes and preferences of Romanian and foreign tourists.

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The Seniority Principle and the Conversion Principle in the Defense of the Community Trademark

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Abstract

The existence of an international registration system of marks and the creation of a Community trade mark allows a holder to receive a much wider protection from a geographical scope. Harmonization in the context of trade marks is desirable, as it provides the skeleton on which trade marks holders can plan their marketing strategy, while being sure that their trade marks can be protected in different countries in an identical or similar way.

The European Union is an area in which suppliers of goods and services can benefit from a unique protection within all Member States.

Key words: Seniority Principle; Conversion Principle; Community Trademark; intellectual property.

J.E.L. classification: K11

1. Introduction

Compared to the known trade mark protection systems - the national system and the Madrid system – the Community trade mark system brings two new principles, namely: - the principle of seniority and the principle of conversion (transformation), a feature in itself known as being introduced in the international protection system by the Protocol on the Madrid Settlement.

The holder of a Community trade mark, which is identical to one obtained by means of a national or international registration, will be able to claim the seniority of the respective trademark, according to the so-

called principle of seniority, whose main effect is the following: when the claimed and accepted national registration lapses, in order to maintain the rights granted by protection, it will not be renewed [1].

2. The Seniority Principle

The term "seniority" adopted within the area of the Community trade mark has the same meaning in English and French [2].

According to articles 34 and 35 of Council Regulation 40/94, the applicant or proprietor of a trade mark may claim the seniority of a national trade mark previously registered in a Member State or a previous international registration having effects in a Member State.

The claiming of seniority may be made:

- with the Community trade mark registration application or
- within two months from the registration of the Community trade mark application.

Also, the seniority claim of a previously registered national mark may also be made after the registration of a Community trade mark.

The seniority of a national or international trade mark may be claimed when filing the application, within two months, or any time after the trademark registration.

The applicant or the holder of a trade mark may appeal to the seniority of a trademark registered in a Member State.

2.1. The unitary nature of the Community trade mark

The community trade mark has a unitary nature and produces valid effects throughout the European Union, granting the holder an exclusive right to prevent third parties to use the sign registered as a Community trade mark in commercial or industrial activities across the Union; the Community trade mark will coexist (or should coexist) with the national trade marks in Member States; by means of accession treaties, the previously registered Community trade marks shall automatically extend its effects in all states joining the Union.

2.2. Coexistence

The community trade mark does not exclude the other registration systems of trade marks; the Community trade mark registration system coexists with the national registration system and also with the international registration system of trade marks, an applicant being able to choose the most convenient registration system, depending on its economic and financial interests and not only; according to this feature - or as a consequence of it - under certain conditions, the Community trade mark may be converted into a national trade mark and the national trade mark may be transformed in a community trade mark.

2.3. Transforming the Community trade mark application in a National trademark

The applicant for a Community trade mark application, where it could not be registered, is able to transform the Community trade mark application in a national application in those States where there is no a barrier regarding its registration, benefiting from the date of filing the community trade mark application; the same right is also granted to the holder of a registered Community trade mark which is no longer effective in one or more member States.

2.4. Seniority Effects

The only effect of invoking seniority is as follows: if the Community trade mark holder renounces to the previous national mark, or from some reason it (the national brand) ceases to "live", the owner benefits from the same effects as if the previous national mark would be still registered.

2.5 Seniority Claim

In order to claim the seniority of a previous national mark, the latter must be identical to the Community trade mark for identical goods and / or services (or which are contained in the list of products belonging to the previous national trade mark).

The benefit of a possible claimed and accepted seniority is that it preserves the advantages offered by the investment and advertising campaigns conducted previously, in the countries where the original registrations subject to seniority are in force.

2.6. The seniority claim application

The seniority claim application shall be submitted to the OHIM, with the Community trade mark application or within two months after filing the Community trade mark application. The same seniority claim application shall be submitted to the OHIM if the holder of an already registered Community trademark wishes to do so at any time during the Community trade mark protection, according to the interests of its owner. A seniority claim application for one or more previously registered trade marks under Articles 34 and 35 of the Regulation includes:

- the registration number of the Community trade mark application or of the community trade mark, if applicable;
- name and address of the applicant or of the Community trade mark holder;
- professional name and address of the trustee, if applicable;
- the name of the Member State or States in which the previous mark is registered, the date on which the registration entered into force, and the products and services for which the

Community trade mark registration was applied for or the registered Community trade mark products and services;

- specification of products or services for which seniority is claimed;
- a copy of such registration, certified by the competent authority

2.7. Termination of the seniority effect

According to article 34, paragraph 3, and article 35, paragraph 2, of the Regulation, the seniority claimed for the Community trade mark terminates when the holder of the previous national mark, subject to seniority claim, is lapsed or when the mark is declared invalid or when it is given up to before the registration of the Community trade mark. The effects of seniority shall terminate if the substantial conditions (identity of the community and national trade mark holders, trade mark identity and identity - in whole or in part - of products and / or services contained in the two trademarks) are not met.

The effect of seniority ceases if the Community trade mark application is withdrawn, deemed to be withdrawn or denied, or if the Community trade mark ceases to have effects. In this situation, if seniority had not produced effects yet, the holder of the previous national mark can simply maintain the national mark with all the rights arising from holding it.

If the claimed seniority had already produced its effects, the Community trade mark and the rights relating to the national trademark are lost.

Currently, for a Romanian applicant for a Community trade mark, seniority may be established by a trade mark registered in one of the 27 EU Member States (registered by national means or by the Madrid system). Upon accession, the Romanian applicant may claim seniority also based on a previously registered national trade mark.

3. The Principle of conversion

The principle of conversion was introduced as a facility for international trade mark owners in the Protocol relating to the Madrid Settlement (art. 9 quinquies).

The Community trade mark Regulation (in article 108, paragraph 1) provides that:

- "the applicant or proprietor of a trade mark may request the conversion of the Community trade mark application or the registered Community trade mark in a national trade mark application producing effects in the Member States indicated in the conversion application starting with the date of the Community trade mark application or with the date of the registered Community trade mark, if the Community trade mark application has been refused, withdrawn or considered withdrawn or if the Community trade mark ceases to have effects".

In other words, if the Community trade mark application was refused on the basis of the objections issued by one or more national jurisdictions, the Community trade mark application registration can be converted in a national registration application in the Member States which did not object to the registration of the community trade mark, preserving its terms for these States, i.e. an eventual priority date and / or the seniority claimed in the Community trade mark application.

The transformation can not be done when:

- the Community trade mark proprietor has been lapsed for lack of use of the trade mark;
- for the protection in a Member State where, under the Decision of the National industrial property services, there is a reason for the refusal, revocation or invalidity of the Community trade mark application.

The national trade mark application resulting from the conversion of an application or of a registered Community trade mark shall enjoy, in the Member State concerned, at the priority date of that application or trade mark and, where appropriate, the seniority of a trade mark of that State claimed under Articles 34 and 35 of the Regulation.

The community trade mark application, which is accepted for protection in one or more EU countries, can be converted into national trade mark applications in the other EU countries where there are grounds for refusal, while retaining the priority date or the filing date of the initial community

trade mark application - the so-called "conversion procedure"[3].

The conversion procedure is triggered upon the presentation of the application to the OHIM, which takes into account the application presented only after the payment of conversion fee, which is 200 Euros.

The conversion application must be filed within three months from event related to the Community trade mark registration application or to the registered Community trade mark, which allows the formulation of such a conversion application (application for a community trade mark which was withdrawn or deemed withdrawn, definitively rejected by OHIM or as a result of a Decision of the National industrial property service, the Community trade mark ceases to have effect as a result of a final decision of the OHIM, the renunciation to the Community trade mark, the non-renewal of Community trade mark).

Exceeding the three months due date leads to failure to take into account the conversion application.

The conversion application of a Community trade mark application or of a registered Community trade mark in the national trade mark application must include:

- name and address of the applicant;
- professional name and address of the trustee, if applicable;
- the Community trade mark application number assigned and the registration number of the community trade mark;
- the date of the community trade mark application or of the registered Community trade mark and, where appropriate, information on priority and / or seniority;
- a representation of the mark as contained in the application or as registered;
- the Member State or States where the conversion is requested;
- identifying the goods and / or services - in whole or in part and differently from a state to state, if applicable;
- statements about the reasons that led to the conversion application (rejection, withdrawal, renunciation, non-renewal etc.) and the date of the event which caused this reason.

If all these conditions are met (listed in Art. 108 of the Regulation), the request for conversion is allowed and the OHIM immediately forwards it to the National Service of Industrial Property of the States mentioned in the application, including, if applicable, the Benelux Trade Mark Office, and it is published in the Community Trade Marks Bulletin. The OHIM communicates to the applicant the date of the transmission of the conversion application.

At the request of the National Service of Industrial Property from a State designated in the conversion application, the OHIM communicates any information which enables it to decide on the possibility of accepting the application for conversion. The National Service of Industrial Property of the designated State may not submit the conversion application in which it has been designated to different conditions from those provided in the Community Trademark Regulations and in the execution Regulations regarding the request.

4. Conclusions

To conclude with, we can say that there are three ways for the registration of trade marks, which provide a level of protection adapted to the business interests of companies. Thus, the nationally registered trade mark provides limited protection on the market of a single country, the internationally protected trade mark in particular solves the problem of extending such protection in the Member States of the Madrid Union [4] and the Community trade mark offers protection for the entire market within the European Community,

If a registration system is more advantageous than the other, everything is up to the companies interested both in terms of territorial protection, and of the actual costs.

The Community trade mark system is not restrictive; a community trade mark applicant or holder does not lose any previously held national right, under the condition of observing the terms, forms and payment of fees under the Community trade mark Regulation.

At present, a Romanian holder of the national mark registered in Romania is not able to rely on any right arising from ownership of the mark if he/she does not want to register an identical mark as a community trade mark; he/she may claim the seniority of an international trade mark right registered through the Madrid system, in one or more EU Member States.

The transformation of the Community trade mark application in national applications in countries that have not objected to the Community trade mark registration is allowed.

Since the accession of Romania to the EU, a Romanian applicant may claim the rights resulting from a trade mark registered in Romania.

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Capital Requirement under the Three Approaches for a Credit Institution in Romania

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Abstract

The phenomenon of current financial market globalization is accompanied by increasing manifestation of the risks related to operations in the financial market. Therefore it can be considered that capital adequacy to operational risk is a current research topic whose purpose is to evaluate its practical application. Basel provisions call for complex solutions through the development and use of advanced models by imposing capital adequacy requirements. From the moment the international financial crisis appeared, more and more obvious risks were recorded by credit institutions. These are the type of operational risk incident causing significant losses.

Key words: operational risk, basic indicator approach, standardized approach, advanced measurement approach, internal measurement approach.

J.E.L. classification.: C13, C81, D24

1. Introduction

Basel II proposes three methodologies for the measurement of own funds requirements for operational risk: basic indicator approach, the standard approach and an advanced approach. In Romania (NBR assessment on 10 November 2010), the manner of computing and reporting the operational risk capital requirements within the 33 credit institutions (the 10 branches do not report to the central bank capital requirements) was as follows: 27 credit institutions apply basic indicator approach, four credit institutions the

standardized approach and two credit institution apply advanced measurement approach. In this paper we use all three methodologies for a bank in Romania, the conclusion being that, unlike credit and market risk, which approaches are based on internal models and refer only to unexpected losses, operational risk for credit institutions should include both expected losses and unexpected losses. Information on operational risk losses have been divided into business lines and event types.

Basic Indicator Approach is the simplest of methods, and as its name says, this method is used to compute the capital requirements by using a single indicator of risk (i. e. the gross operating income). Banks using this approach must have its own funds to cover operational risk corresponding to a percentage of the average operating income recorded in the last three years. This flat rate risk, expressed by a capital adequacy ratio (denoted α) was set by the Basel Committee at 15%.

Standardized Approach is a redefinition of the basic approach - applying the same method for determining capital requirements – but the gross operating income is detailed in eight categories (business lines): corporate finance, trading and sales, payments and settlements, commercial banking, agent services, retail banking, retail brokerage, asset management. Gross income for each business line is considered as an indicator of exposure to operational risk. Equity requirement is determined separately for each category by applying a specific coefficient (denoted β) on gross income. β coefficients are between 12% and 18%. They approximate the relationship between

workload intensity in the line and losses generated by the event.

The third approach, the advanced approach allows banks to develop their own model for computing the capital requirement based on their internal estimates. To use this approach, banks must have the approval of the supervisory institution and must meet a number of conditions including to demonstrate that their methodology is sophisticated enough to capture the severe events, events that may occur with a probability of 0.1 % (or corresponding to a confidence level of 99.9%).

Unlike credit and market risk, which approaches are based on internal models and refer only to unexpected losses, operational risk institutions should include both expected losses and unexpected losses. Information on operational risk losses should be divided into business lines and event types of operational risk. Credit institutions have adopted a slightly advanced measurement approach. Even though the vast majority chooses the simplest method for computing the capital requirement for operational risk, banks in Romania are working to obtain approval to use the standardized approach, providing the premises transition to advanced approach, regarded as effective operational risk monitoring.

2. The Analysis

For the first pillar of Basel II on the minimum capital required to cover operational risk, financial institution, whose name Y will not be determined for reasons of confidentiality, has adopted an advanced model for measuring operational risk which aims to locate risk potential products and / or support activities, to estimate the potential impact.

In the analysis of the relevant financial institution concept is called "gross income" and to the design group is the sum of profit and loss of interest and similar income, income on commissions, income from financial operations, income from shares and other variable-income securities, and other operating income.

As the main business lines of credit institutions considered for the analysis of losses from operational risk: trading and sales, retail banking, commercial banking

and other activities (which includes overlapping corporate financing activities, payment and settlement services as agent) , classification of operations performed on the basis of specific criteria and policies developed and implemented in internal procedures.

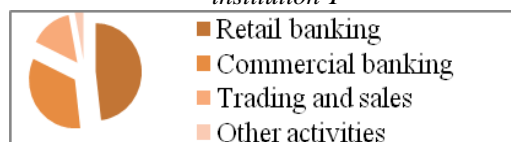
For the all business lines analyzed the financial institution used as an indicator the "gross income", considering it as the Basel Committee recommends a clear indicator present in annual financial statements, on which the calculations can be easily done and national and international comparisons are easily audited and reflecting good operational risk sensitivity.

To determine the capital requirements for operational risk under the basic approach is was applied the factor 15% of average gross income received by each credit institution over three consecutive years.

Where the standard model for determining the capital requirement should be started the process of allocating gross income for each business line as can be seen from Figure no. 1, the average gross income for each business line will apply the appropriate risk weight (between 12% and 18%) to calculate the capital requirement.

Obtaining high values for a particular business line shows the size and intensity of activity gross income of the institution concerned on those industries. It also provides information about the departments concerned with potential losses that may occur and the amount necessary to cover losses related to operational risk business lines.

Figure 1 Capital requirement under the standardized approach to business lines of credit institution Y



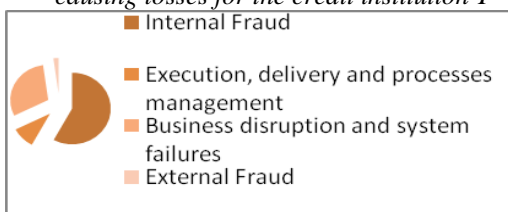
Source: author's computation

Looking at Figure 1 we can conclude that the most risky lines of business are commercial and retail banking business, which are mainly due to trading and processing errors that may occur with the activities of the bank; errors cashier activity; errors occurring at the time of payment,

errors occurring in the exchange rate, systems malfunction; fraud, garnishment making error, errors in the administration of claims.

Losses arising from operational risk, credit institutions in Y, are identified and related international standards on the seven types of events, such as internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices; losses incurred tangible assets, business disruption and system failures and execution, delivery and management processes. Thus, on the basis of centralized documents by the accounting department, internal audit, IT, risk management, operations department, the Department of Operational Risk losses and the situation may types of events causing losses for the financial institution, which we present and new shown.

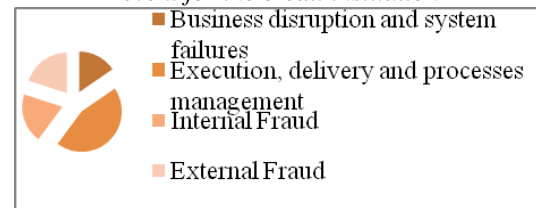
Figure 2: The probability of occurrence of events causing losses for the credit institution Y



Source: author's computation

If the credit institution Y most common losses were due to human error, then it is considered a risk of human resources related to the carrying out of unauthorized activities, due to negligence or deliberate form of unreported transactions, unauthorized, unregistered operations, reporting bad faith etc positions. The second place is occupied by business interruption and losses due to improper functioning of the systems. Also due to interruption of operations or errors in the system are risks related to the availability of hardware and software systems, data quality, problems of computer programs, failure of components, problems related to telecommunications, software, design, implementation and maintenance of the system failure "e-banking, utilities, etc. overutilization.

Figure 3: Operational loss suffered by type of event for the credit institution



Source: author's computation

In terms of the severity of events a conspicuous place is occupied by the events occurring due execution, delivery and management processes. They are characterized by events such as: communications erroneous models or systems malfunction, improper maintenance of databases, errors in placing, operating, maintaining and updating data, or breach the terms of duties, lack of documents, loss, damage to customer property, outsourcing, partners, etc. controversy. category followed by customers, products and business practices, including losses due to: defective products, negligence, poor training or non-professionalism, selling products using aggressive strategies, compliance with rules of conduct or breach of trust, misuse of confidential information, erroneous analysis of needs customers, exceeding exposure limits, etc.

Then we use an advanced model, namely the Internal Assessment Approach (IMA), in order to calculate the capital requirement for operational risk.

The operational risk matrix established will consist of 16 cells, corresponding to four lines of business (trading and sales, retail banking, commercial banking and other activities) and four types of events (external fraud, internal fraud, Business disruption and system failures, execution, delivery and management processes).

Calculation of capital requirement under this approach will achieve the following steps:

a) for each business line should be determined average gross income, which I summarize in the following figure

Figure 4: Average gross income business lines

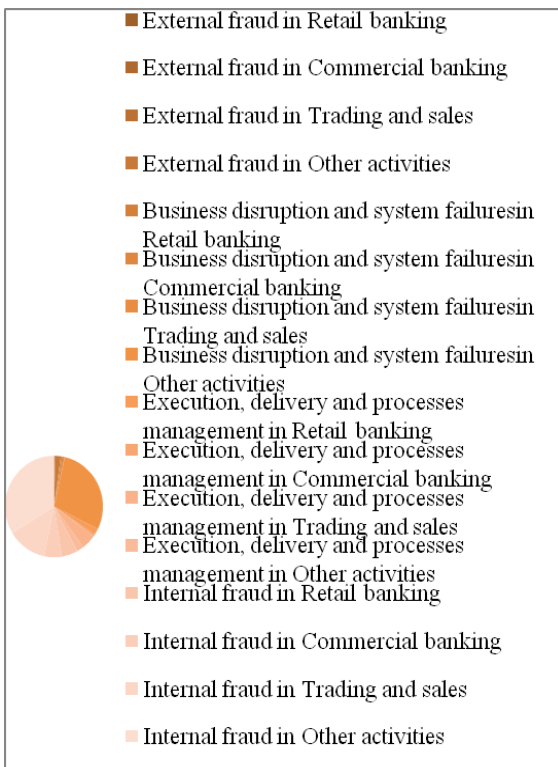


Source: author's computation

b) calculation parameters:

- Probability of Loss Event is used for internal historical data on the number of transactions with an operating loss and the total number of transactions per business line

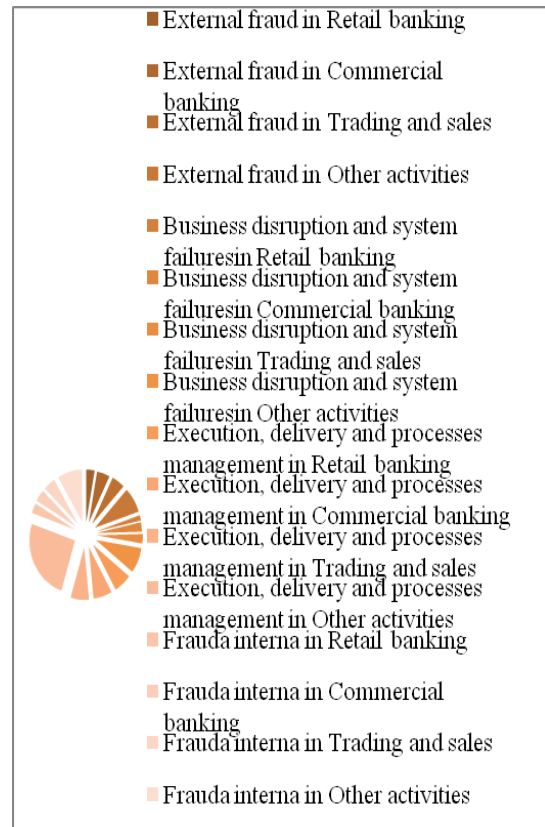
Figure 5: The probability of occurrence of events causing loss to each cell of the matrix of operational risk



Source: author's computation

- Loss of Given Event - proportion of exposure that should be recorded as operating loss

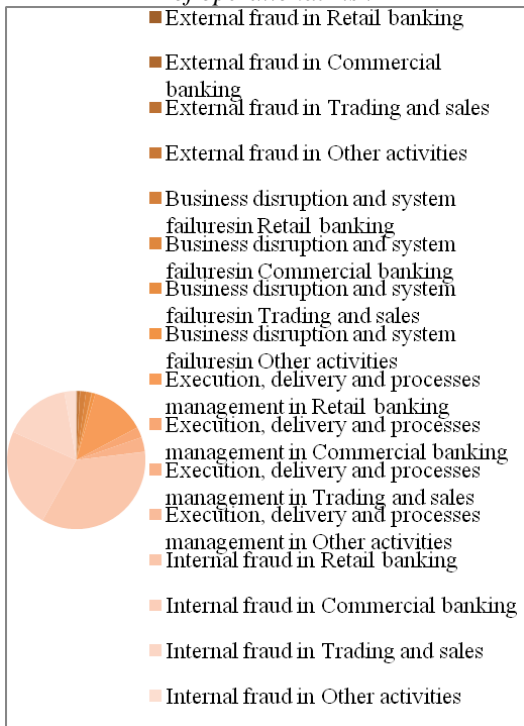
Figure 6: proportion of exposure that should be recorded as operating loss for each cell



Source: author's computation

c) Determination of the expected loss that occurred between the previously determined parameters and the average gross income.

Figure 7: Expected loss for each cell of the matrix of operational risk



Source: authors working

d) Determination of unexpected loss that occurred between the expected loss of the credit institution Y and the maximum loss for a period of one year and a confidence interval 99,9%.

Figure 8: Unexpected loss for each cell of the matrix of operational risk

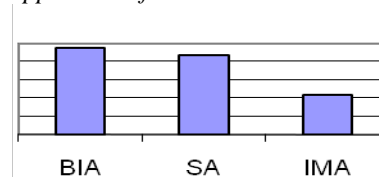


Source: author's computation

Capital allocated by the credit institution is calculated as the sum of expected loss and unexpected loss for each cell of the matrix of operational risk for the latter institution, the bulk of capital for operational risk assessment approach led by Internal Affairs for distribution to the line for activities carried out by the credit institution with clients as business partners, a situation explained that this line of business is and better developed by this institute, and distribution of gross income.

Thus summing up the analysis for the credit institution Y, we can see, and Fig. 9, that once the bank uses a means of measuring the more complex operational risk, capital requirement for this risk is reduced. Thus the minimum capital mobilized using Internal Assessment Approach, because it can identify measure and manage operational risks more effectively being able to discover what business lines manifested a higher operational risk and who the most important risk factors are.

Figure 9: Capital requirement under the three approaches for the credit institution Y



Source: author's computation

3. Conclusions

In the literature, it is considered that the capital requirements for operational risk can be decreased by using more advanced methods, as demonstrated in the case of applying the basic indicator approach and standardized method, of data provided by financial institutions on which the analysis was performed. Decreased capital requirements are explained by the fact that if the Basic Indicator Approach assumes that capital requirements for operational risk is 15% of the gross income of the institution, in the Standardized Approach the risk level varies from one business line to another, and the main business line is the line for retail because the degree of risk is only 12%.

The credit institution has a clear and precise vision of the events causing the losses caused by operational risk and allocates capital based on the actual losses saving capital and retaining customers, thus providing a much better picture on the Romanian market.

By using advanced methods, credit institutions can identify the operations which cause operational losses and thereby demonstrate the progress made in the procedures of this type of risk management. But to use such methods, the supervisory authority must demonstrate that it has complete databases and well-documented, and in some cases must also have additional funds to be able to invest large sums of money in the operational risk assessment process. Setting the actual optimal level of capitalization for financial institutions is particularly important, because by allowing capital to meet the operational function of protection, which involves the absorption of losses for any contingencies that may arise during the course of business, will allow a decreasing of the probability of the bank's default rate and an increasing of the public confidence in the domestic banking system.

4. Acknowledgement

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The Transfer of Human Resources Management Practices Within Romanian Companies

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Abstract

This paper presents the issues related to the transfer of human resources management practices in Romanian companies. It is based on the results of several specialized studies. Romanian companies are looking for an improvement of their human resources management in order to remain competitive, especially in these difficult times. Transferring the most appropriate and efficient practices proves to be no easy task. There are many aspects that should be considered in the transfer process. It should be mentioned the limitations related to the institutional and legal framework, cultural dimensions of Romanian society etc. That limits will determine which practices are suitable for transfer and which will be rejected. It is also important to point out that in the past few years a more relaxed attitude was identified by specialized studies regarding the transfer process, leaving more space for new improved hrm practices. This trend represents an interesting lead for further research.

Key words: human resources management practices, transfer process, Romanian companies.

J.E.L. classification: M 12

1. Introduction

Human resources have become the most valuable assets of the modern organizations. The most dynamic and efficient companies found out that their personnel represents an important source for competitive advantages.

The Romanian companies are struggling to obtain and to maintain a level of efficiency that will allow them to survive within the actual economical background. An important step in this process should be represented by the necessity of develop a modern human resources management.

A modern approach of human resources management can be achieved by transferring modern practices that will allow the Romanian companies to become and stay competitive. This paper tries to analyze the different perspectives of such process based on the existing information supplied by different studies.

2. Theoretical approaches on human resources management practices transfer

The modern companies have to face constant and various changes within the actual economic background. These changes are reflected upon all functional field of an organization. The human resources domain makes no exception. In the same time, the human resources management within a company provides a great support for successful changes.

The process of European integration generated different debates among human resources management specialists about the convergence/divergence process of human resources practices [1].

There are many arguments for both theories. Convergence theorists sustain the idea that we can talk about an ongoing process of diminishing the differences between European countries based on the common institutional framework promoted across the European Union.

Divergence theory promotes the idea that noticeable differences exist between European countries (groups of countries are identified) based on specific institutional regulations, cultural dimensions etc.

Therefore, when a transfer process is brought into discussion those issues and specific approaches towards international human resources management practices are important matters to be considered.

The human resources management practices are analysed at the international level based on two major approaches [2]:

- **The rational approach** – the companies will develop the practices that will enable them to fulfil their objectives in a rational manner and efficiently. According to this point of view the managerial practices will be similar within a specific sector of activity for the same country, even for different countries. This approach assumes a high degree of managerial autonomy.
- **The institutional approach** assumes that the companies are influenced in a decisive manner by their environment. Thus, their practices will be adjusted considering the regulations and compulsions of this environment. Therefore the managerial practice will be different not only from a country to another, but from a sector of activity to another. These differences are explained by various elements such as different regulations concerning the business within a country, the relation between unions and management etc.

There are many issues that are related to the transfer of the human resources management practices. It is necessary to

establish in a clear manner what has to be transferred and what can be transferred, what elements can enable or jam the transfer process.

3. Human resources management practices within Romanian companies

In the past few years, the Romanian companies have assumed different principles, especially from the theory and practice of angle-saxon countries, regarding the human resources management practices.

In order to present the stage achieved by the human resources management within the Romanian organizations, a study undergone by Interact and Gallup Romania have revealed interesting results. This study tried to determine the main cultural values of our society, using the G. Hofstede methodology. Based on this, the most suitable approaches and practices of human resources management have been identified.

The most relevant results of this study are presented below [3]:

- **Human resources planning** due to the dimension of uncertainty avoidance, in the human resources planning process the human resources department has to analyze the job positions and to avoid the frequent changes within the organizational structure;
- **Recruitment and selection** in the recruitment and selection process the fact that the Romanian people are more compelling with the job satisfaction than the promotion opportunities or the stimulating side of job position has to be considered. The Romanian managers consider that the employee's loyalty is more important than the level of their performances;
- **Performance appraisal** the use of a system for the appraisal of the performances proves to be a difficult task. This is due to the fact that a clear statement of specific objectives and an enhanced attention paid to performance measurement generates anxiety among the subordinates;

- **Reward** for the Romanian employee the level of payment, the certitude at the work place, the working condition are more important than the job perspective or the content of job position;
- **Employee's training and development** the cultural dimension of collectivism determines that the employees are waiting for the company to provide them training and protection. The accent is based on complex and theoretical training. The employees seldom have initiatives toward action that will ensure a higher level of competency.
- The considerable degree of HRM transfer and adaptation to the globalization of the market lead to the use of HRM practices in Romanian companies.
- The subsidiaries have adapted their HRM practices to a considerable extent.
- Some practices are more localized than others. Specifically, practices that do not fit well with Romanian culture or are in contrast to employee regulations show a low level of transfer.
- The changing environment leads to the conclusion that there should be a constant research and evaluation of which practices are best suited to a specific socio-cultural context at a certain period.

The results of the above mentioned study indicates that the cultural context of our society represents an important issue that should be considered when the transfer process is developed especially by the multinational companies.

Another study regarding the Romanian employees revealed the following results [4]:

- ✓ The recruitment process is subjective and slightly formal;
- ✓ The selection is centralized and is often linked to friends and family members;
- ✓ Academic qualification is considered important but it is not always asked;
- ✓ The experience and references play a significant role when hire;
- ✓ The wages are connected with national wage level;
- ✓ The evaluation of performances is influenced by personal relations.

According to this study the human resources management practices reflects the cultural values of Romanian society.

4. Evidences concerning the transfer process

For the Romanian companies, the models offered by the multinational companies acting within our country, represent the most important source regarding the transfer issues.

The results of another study concerning the transfer of human resources management practices that involved local companies and multinational companies' subsidiaries pointed out the following conclusions [5]:

Another fact that should be considered when the transfer process is initiated is the legislative framework in our country. The last Labor Code promoted by the Romanian Government generates a more flexible legislative context for the companies in order to promote different human resources practices such as:

- Working time;
- Hiring and firing process;
- Reward and its connections with employee's performance etc.

Above mentioned facts indicates that the institutional theory regarding the transfer of human resources management practices is more suitable for Romanian companies.

The transfer process should consider the constraints of legal framework, cultural dimensions of Romanian society and other issues that will determine which practices are suitable for transfer and the ones that are not.

As we mentioned before an important role within this process is played by the legislative framework which can provide changes that will be perceived as compulsory by the companies and therefore accepted.

4. Conclusions

The Romanian companies need to constantly improve their management practices in order to stay competitive and survive in this difficult economical background. Considering the importance of human resources for the modern companies,

the specific practice should represent an important objective for them.

Transferring the most appropriate and efficient human resources management practices represents the solution for our companies.

Therefore, such a process proves to be no easy task. There are many issues to be considering when the transfer issue is discussed.

This paper aimed to present the main approaches related to the transfer issues at international level, considering the EU membership of our country. These approaches underline the main possibilities and also the potential difficulties related to that process.

The results of several specialized studies indicate that the Romanian companies have made important progress toward a modern human resources management in the past few years.

An important source for new human resources practice is represented by the multinational companies acting in Romania.

Although, there are important opportunities for our companies to transfer new practices it should be acknowledge the limitations regarding such process.

The results of specialized studies indicate that an institutional approach regarding the transfer process is the most appropriate for our country. In this situation there are several limits related to the institutional and legislative framework, the cultural dimensions of Romanian society etc.

Therefore, there are some practices that are more suitable to be transferred in Romanian companies, meanwhile others will be rejected.

Other studies confirm the above mentioned situations, but also indicate that it could be considered a change of perspective toward a more relaxed attitude. In this case we can argue that the possibility to transfer more new human resources management practices has increased. It could be an interesting field of work for further research.

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Development of Exchange-Traded Derivatives Markets in Selective Central and Eastern European Countries

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Abstract

The transition economies of Central and Eastern Europe are trying to construct viable modern financial markets which provide a wide range of financial instruments. The paper focuses on the evolution of exchange-traded derivatives in Czech Republic, Hungary, Poland and Romania. The results indicate that the most developed exchange-traded derivatives market is the Polish one. In Hungary, the derivatives on currency rates and stock index futures are the most popular, while in Romania, trading takes place almost only in the market for futures on individual stocks. The use of derivatives in these countries is still limited even though some of these markets have registered a significant development. The main products have as underlying stock and currencies, while interest rate based instruments are still illiquid and underdeveloped.

Key words: stock exchange, derivatives, futures, Central and Eastern Europe.

J.E.L. classification: G13, G15, O16, O52.

1. Introduction

Along with globalization and liberalization of financial markets, there have been registered rapid changes in interest rates, exchange rates, prices of financial assets, thereby giving rise to increased financial risks. In this regard, an important role is taken by derivatives instruments to manage efficiently the risks caused by uncertainty and volatility of the underlying assets. Derivatives are risk management instruments that help a player in the financial market to

transfer the related risk. Such derivatives may be used for speculation, for hedging a portfolio of assets, for arbitration, and to structure the desired positions.

In this article we analyze the evolution of exchange-traded derivatives (ETD) in emerging markets in Central and Eastern Europe, by describing and analyzing statistical data. The analyzed states are members of the EU, but outside the euro area, namely: Czech Republic, Hungary, Poland and Romania. We use data on exchange-traded derivatives from individual emerging market exchanges.

2. Literature Review

In the literature there are numerous studies regarding derivatives markets in some countries or regions, on different time intervals and with different objectives. Ghysels and Seon (2005) analyzed the role of derivatives during the Asian financial crisis in Korea, showing that the market trades futures and foreign investors have played an important role during the 1997 stock market turmoil. Also, Baigent and Massaro (2009) examine the role of derivatives in the overstatement of prices and market corrections, making the link between the turmoil of 1987 and the 2007 crisis. First, they have demonstrated the existence of a stock bubble in 1987. Secondly, they have showed that the existence of derivatives and portfolio insurance is an explication for a market collapse, namely the idiosyncratic errors can lead to aggregation of the traders and an increase in leverage, both of which can cause prices supra evaluation. Hrovatin et al. (2009) pointed out that the financial derivatives contributed to the disruption of

financial system stability, with reference to the financial crisis started in 2007. References in this respect are: exponential growth derivatives in the last decade, increasing leverage and interconnection of financial institutions.

3. A Brief Review of Global Derivatives Markets

After several years of rapid growth, the development of derivatives markets has stopped and started a downward trend - with the exception of futures contracts on commodities - since 2008. In 2010, the global derivatives market has experienced substantial growth compared with the previous year. Year 2010 recorded a continuation of this growing trend in the regions of Asia-Pacific and South America (with 52.0% and 63.1%, respectively) and a resumption of the upward trend on the derivatives markets in Europe and North America (24.2% and 15.6%, respectively). Futures contracts have registered the highest growth rate of 47.0%, on one side, while derivatives on precious metals and currencies have increased mostly in this period (251.85% and 95.53%), on the other side.

Derivatives markets of Central and Eastern Europe are in an early stage and of a smaller size in comparison with the developed markets, like NYSE Euronext and Deutsche

Börse Group. The main products have as underlying stock and currencies, while interest rate based instruments are still illiquid and underdeveloped. The presence of substantial foreign exchange instruments is explained by the process of capital account liberalization and access to foreign investors in these markets. Although the derivatives turnover has increased considerably, especially in the Czech Republic, Poland and Hungary, both regulated and unregulated markets present a low liquidity. With regard to regulated markets, the derivatives are not traded in Bulgaria, but they will be introduced in the near future. Also in countries like the Czech Republic and Romania, derivatives were introduced relatively late in the stock exchanges, in 2006 and 2007 respectively. Finally, the greatest diversity of the stock exchange is the futures contracts, even if options contracts create more opportunities though they are more complex and costly and appeared relatively late. Thus, the options market is in an early stage in this region. It should be noted that on the Budapest Stock Exchange commodities futures contracts and options on commodities are traded, because BSE includes the Budapest Commodity Exchange. Table 1 gives an overview of the derivatives traded in CEE exchanges. Prague obtained the permission to organize derivatives trading in August 2001.

Table 1. CEE-5: Availability of Local Exchange-Traded Derivatives Instruments 2010

	Exchange-Traded								
	Stock Futures	Stock Options	Stock Index Futures	Stock Index Options	Interest Rate Futures	Interest Rate Options	Currency Futures	Currency Options	Commodity Futures and Options
Bulgaria	-	-	-	-	-	-	-	-	-
Czech Rep.	X	X	X	X	X	-	-	-	-
Hungary	X	X	X	X	X	-	X	X	X
Poland	X	X	X	X	X	-	X	-	-
Romania	X	X	X	X	X	X	X	X	-

Source: World Federation of Exchanges

3.1. The Exchange-Traded Derivatives Market in Czech Republic

Prague Stock Exchange (PSE) began its development in 1995, with the liberalization of trading in the three markets, followed by several measures taken in 1998 within the financial system and implicit the derivatives

area. The main factors that led to the development of Czech derivatives markets are: active involvement of foreign banks on the capital market and the banking system concentration.

At Prague Stock Exchange derivatives trading began in 2006 through the licensing of new types of financial instruments (PX

index futures, warrants), thereby enabling access to these types of instruments to individual investors. At the end of 2010, stock and index futures contracts and stock options and index options were available for trading on the Exchange. The table 2 shows the evolution of the Czech exchange traded derivatives in terms of notional turnover and number of contracts traded.

Table 2. Derivatives market on PSE

	2007	2008	2009
Notional turnover (EURm)	67	28	8
Contracts traded	11,528	5,581	2,332

Sources: European Exchange Report 2007, 2008, 2009, www.fese.be

In 2007 the derivatives have registered a growing trend; the main contracts traded are the futures contracts, while the main category of underlying assets was the stock indices. The boom from 2006, since their introduction, was stopped on the Czech market in the year 2008, when the turnover dropped to more than half, because of the global financial crisis. The main reason for the decline of this segment was the distrust of investors that lowered the price of the underlying assets, increased the volatility and the withdrawal of foreign investors. This is provided that the latter had the largest share of total investors. In 2009 the downward trend has continued, the indicators of the PSE derivatives traded almost reached the value of 2006, the year of launching for these financial products.

3.2. The exchange-traded derivatives market in Hungary

Hungary was the first ex-socialist country that has reactivated the capital market. The first derivative, a currency futures contract, was launched in Budapest Commodity Exchange (BCE) in 1993. The Budapest Stock Exchange (BSE) derivatives market was launched in April 1995, when index futures on the BUX, the main stock index in Budapest, interest futures, and currency futures on the US Dollar, the Euro, the Japanese Yen, the British Pound and the

Swiss Franc were introduced to trading. The two regulated markets merged in 2005 and in present the derivatives are traded on the BSE. This integration leads to an increased development. Derivatives are an important part of the BSE, the main derivatives traded being foreign exchange contracts followed by stock derivatives.

Table 3 presents the evolution of derivatives traded on Budapest Stock Exchange. The BSE derivatives market turnover rose by 116% and hits the turnover of the spot market in 2005.

In 2006, the total value of deals was 24,357, the most consistent growth of about 50% was made by currency futures. This is due to the high volatility of forint. The growing demand for currency derivatives is driven mainly by three factors. Firstly, it is supported by foreign exchange regime applied by Hungary which is characterised by a 30% wide fluctuation band, reason why currency risk is taken into account by traders and hedgers. Secondly, the increasing trading volumes of currency derivatives are the consequence of decision of Hungarian Financial Supervisory Authority which in 2003 permitted trading on cross rates derivatives. Not least, next few years the derivatives market was affected by the merger between Budapest Stock Exchange and Budapest Commodity Exchange, the result of which was the introduction on BSE of the contracts with one week settlement date and the influx of new investors.

In 2007 the accelerated growth ritm of futures contracts has stopped. The annual growth rate was only 8.6% and in addition, on some segments (like index futures), it has recorded a drop in the value of transactions. Like other derivatives market from CEE it can be distinguished an increase in the use of single stock futures, which shows an investors' appetite for speculations.

Beginning with 2008 the derivatives market started to fall as a result of the impact of financial crisis. The decrease of Hungarian derivatives market was bigger than in other analysed CEE derivatives market. This was due to the fact that the global crisis had a bigger impact on Hungary in a view for European emerging markets. This caused enormous fall on Hungarian currency – forint and on Hungarian Stock Exchange Stock

Index (had lost almost 30% in only two weeks). The Hungarian crisis situation is more complicated than in other countries (i.e. Poland or Austria), because it started in 2006 when the political impact was very big.

Traditionally, one of the most popular products of the BSE futures market was the BUX index contract, but the top has changed in the last two years. The currency market woke up from a long sleep by the end of 2002, and by 2003 there was an exponential upswing in the market. The most popular product was the HUF/EUR contract.

Table 3. Evolution of futures market in Hungary 2006-2009 (EURm)

	2006	2007	2008	2009
Currency futures	11,449	12,984	8.153,4	7.244,9
Single stock futures	7,137	9,899	5.073,0	3.853,6
Index futures	5,761	4,183	2.914,6	1.745,2
Interest rate futures	9,82	4,52	0,0	0,2
Total	24,357	26,471	16,141	12,844

Source: Budapest Stock Exchange, www.bse.hu

The success of the derivatives market on the Budapest Stock Exchange was due to the following factors: a boost on the foreign exchange markets that started in 2003, which could take place due to the increase in the volatility of the forint, on the one hand, and as a result of more advantageous taxation rules, on the other; the continuously widening product palette of the BSE, to which cross currency contracts were added in the autumn of 2002.

3.3. The Exchange-Traded Derivatives Market in Poland

The Warsaw Stock Exchange derivatives market was launched on January 16, 1998, when WIG20 index futures (the main stock index in Warsaw, covering the 20 largest and most liquid companies listed on the WSE) were introduced to trading. In the subsequent years, futures on currencies, individual stocks and other indices have followed.

Table 4 gives a summary of recent historical turnover volume for futures in Poland. In 2009, the volume of trading in futures on the WSE exceeded 13.9 million contracts, more than 10% up compared to the previous year. This put the WSE in fourth place among European exchanges (if the Euronext exchanges are counted as single institution) with regard to the volume of trading in the leading index futures contracts. High turnover on futures contracts is generated above all by individual investors, who in 2009 accounted for around 52% of trading volume in futures contracts and 65% in options. Domestic institutional investors were responsible for 37% of the futures trading volume and 31% of options trading, whereas foreign investors generated 11% of futures trading and 4% of options trading.

Table 4. Evolution of futures contracts indicators at Warsaw Stock Exchange in 2005-2009

	'05	'06	'07	'08	'09
Turnover value (PLN bil.)	238	377	662.8	606.8	509.1
Number of contracts *	54	48	41	40	37

*Note: number of contract at year-end.

Source: Warsaw Stock Exchange Fact Book 2002-2010, www.gpw.com.pl

Futures contracts are the most traded instruments in the WSE, the number and value of transactions is high compared to options. By 2008, the exchange traded derivatives have registered a rapid growth rate. The main reasons are the internationalization of the Polish stock exchange market, the fact that they signed a number of memorandum of cooperation with foreign exchanges, the presence of foreigners.

The next years so far brings new records for the WSE derivatives market and a promise of another successful year for this dynamic segment of the Warsaw Stock Exchange. The reintroducing of stock options and the launching of new currency contracts (GBP/PLN and CHF/PLN) in global crisis situation shows the strength of the derivatives segment from Polish Stock Exchange Market.

Since the launch of the WSE derivatives market, the WIG20 futures market has been the most dynamically developing segment in terms of trading volume. At the end of 2009, the future trading on the WIG20 reached a value of PLN 493,312 million. In contrast, the turnover value of futures contracts with a single underlying stock and currency futures is very low comparing to the trading volume in WIG20 futures, as table 8 shows. One reason for the rapid development of this contract is the fact that the nominal value of WIG20 is the contract size multiplied by 10 PLN, which is considered to be very low. So, this low value has attracted smaller investors to the market and, up to now, mainly the small traders have maintained the futures market liquidity.

The WIG20 futures is, in the same time, the most popular derivative instrument in Poland, and the most traded stock index futures of Central and Eastern Europe, ranking among the top five European stocks index futures. The high use of WIG20 stock index futures contracts in the context of increased volatility in the Polish capital market shows that Polish investors use these tools in order to cover market risk. Despite the impact of the financial crisis, the popularity of WIG20 futures contract did not suffer at all.

Also, on this market, options are being traded. At the end of 2009 from a total of 110 series of options traded, all of them were WIG20 options. The trading volume for these instruments reached nearly 422,000 items, nearly 30% up versus 2008.

Financial and commodity derivatives are also traded on the Warsaw Commodity Exchange, the most popular traded derivatives being currency derivatives. However, none of the derivatives listed on Warsaw Comodity Exchange is so liquid as the WIG20 futures contract. In addition, the most liquid are those based on EUR/PLN and USD/PLN exchange rates.

3.3. The Exchange-Traded Derivatives Market in Romania

Derivatives market in Romania is composed of: Sibiu Monetary Financial and Commodities Exchange (SMFCE) and Bucharest Stock Exchange (BSE). The

beginning of these instruments is placed in 1997 by the launch of a futures contract BMFMS BMS1. In subsequent years, futures and options on futures on currencies (ROL/USD, ROL/EUR and EUR/USD), cross rates, stock index, interest rate (BUBOR3) were available for trading on the exchange. The evolution of financial derivatives traded at Sibex are presented in table 5.

Table 5. The Dimensions of derivatives market from SMFCE

	Number of futures contracts	Number of options contracts	Total contracts
2005	696,109	11,629	707,738
2006	4,232,059	36,651	4,268,710
2007	3,456,023	34,900	3,490,923
2008	3,578,582	40,184	3,618,766
2009	2,430,849	52,438	2,483,287
2010	1,620,078	17,716	1,637,794

Source:

<http://www.sibex.ro/index.php?q=fu&a=st&lang=ro>

At SMFCE the volume of traded derivatives had an accelerated growth since 2005, due to the volatilities of shares. By far the most commonly traded derivatives at the SMFCE were in 2004 the futures on currency rate, which held over 86% of the total trading contracts. In 2005 the transactions with currency futures accounted only 5% (35,813 contracts) of the total trading contracts, while single stock futures have faced a real boom regarding the volume of trading reaching 95% (660,296) of the total trading volume. This change in investors' preference was due to many factors: the shares' bulge in the first two months of the year 2005, the relative stability of the exchange rate of the main currencies, the possibility to protect the stock portfolio against the down trend, which followed the January-February market boom. The increased liquidity of derivatives stock in 2005 is the result of the investors' interest in only six contracts that have counted 95% of total transactions: DERRC, DETLV, DESIF2, DESIF3, DESIF5, and DESNP. In 2006 stands out an increase in the volume of transactions in futures contracts by 900% and starting with 2007 this value began to decline

as a result to the effects of the financial crisis, which is present on the Romanian capital market. However, even if stock futures fell in 2008 the currency futures based on EUR/RON grew with 500% because of the increased price volatility of Euro.

The share of options in total contracts traded stands at the value of 1%. This fact is due to the simplicity of futures' mechanism compared with the options' mechanism.

At BSE the futures trading was launched in 2007 and the activity on derivatives market is very modest. The listed derivatives are futures that have underlying indices, stock and currencies. The activity on this market was restricted until 2009, when it was introduced the market maker activity on EUR/RON contract. So, the volume of currency futures based on EUR/RON grew because of the increased price volatility of Euro. The interest for derivatives products traded on BSE increases as more and more products are launched. So, the increase trend of derivatives in 2010 was due to the launch of structured products in July.

Compared with other exchanges, however, the number of derivatives contracts is relatively small and the offer is limited and not least unlike other developed markets, the largest industry is represented by futures, other segments being poorly developed.

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4. Conclusions

While in Bulgaria there is no exchange for financial derivatives, in the other countries the derivatives market are in different stage of development. In Poland, the market for stock index future is the most active in terms of trading volume. In Hungary, the derivatives on currency rates and stock index futures are the most popular, while in Romania, trading takes place almost only in the market for futures on individual stocks. As an important segment of capital markets, the development of the derivatives markets will bring more investors in the emerging countries, higher market liquidity and efficient risk management instruments. Furthermore, a developed derivatives market represents a step of the integration into the European capital market.

5. Acknowledgements

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Economic and Accounting Issues Regarding Business Combination

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Abstract

Some businesses units do not survive the competition and finally close the business. Hence the excessive competition became a very powerful cause of business combination. Elimination of competition means creating monopoly in the market. Adopting IFRS 3 was to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

Key words: business combination, fair value, intangible asset, goodwill

J.E.L. classification: M41

1. Introduction

In the earlier stage of business firms there was no strong competition among the business units due to small scale and direct contact between the producer and consumer. Now a day there is stiff competition among the business units due to expansion in the market. The stiff competition among the business units has increased the capital risk and lowered the profits of the firms. Often, the firms do not survive the competition and finally close the business. Hence business units combine together in order to enjoy the benefits of monopoly, like high profits. Ups and downs occur at regular intervals in the capitalistic economy. It consists of booms and depressions. It leads towards the combination of many business units. In the period of boom business units combine with each other in order to enjoy maximum benefits, because each economic indicator is going in positive direction, while during the tenor of depression business units combined with each other for their survival, because

each economic indicator is going in negative direction.

2. Economic issues Regarding Why Business Combination

A **business combination** occurs when one corporation obtains *control* of a group of *net assets* that constitutes a *going concern*. A key word is *control*—**control** can be obtained either by: 1. buying the assets themselves (which automatically gives control to the buyer), or 2. buying *control* over the corporation that owns the assets (which makes the purchased corporation a subsidiary).

A company may expand in several ways. Some firms concentrate on **internal** expansion. A firm may expand internally by engaging in product research and development. Hewlett-Packard is an example of a company that relied for many years on new product development to maintain and expand its market share. A firm may choose instead to emphasize marketing and promotional activities to obtain a greater share of a given market. Although such efforts usually do not expand the total market, they may redistribute that market by increasing the company's share of it. For other firms **external** expansion is the goal; that is, they try to expand by acquiring one or more other firms. This form of expansion, aimed at producing relatively rapid growth, has exploded in frequency and magnitude in recent years.

Any company may achieve significant cost savings as a result of external expansion, perhaps by acquiring one of its major suppliers. In addition to rapid expansion, the business combination method, or external expansion, has several other potential advantages over internal expansion:

1. **Operating synergies** may take a variety of forms. Whether the merger is **vertical** (a merger between a supplier and a customer) or **horizontal** (a merger between competitors), combination with an existing company provides management of the acquiring company with an established operating unit with its own experienced personnel, regular suppliers, productive facilities, and distribution channels. In the case of vertical mergers, synergies may result from the elimination of certain costs related to negotiation, bargaining, and coordination between the parties. In the case of a horizontal merger, potential synergies include the combination of sales forces, facilities, outlets, and so on, and the elimination of unnecessary duplication in costs. When a private company is acquired, a plus may be the potential to eliminate not only duplication in costs but also unnecessary costs.

2. Combination may enable a company to compete more effectively in the **international marketplace**. For example, an acquiring firm may diversify its operations rather rapidly by entering new markets; alternatively it may need to ensure its sources of supply or market outlets. Entry into new markets may also be undertaken to obtain cost savings realized by smoothing cyclical operations. Diminishing savings from cost-cutting within individual companies makes combination more appealing.

3. Business combinations are sometimes entered into to take advantage of **income tax** laws. The opportunity to file a consolidated tax return may allow profitable corporations' tax liability to be reduced by the losses of unprofitable affiliates. When an acquisition is financed using debt, the interest payments are tax deductible, creating a **financial synergy** or "tax gain." Many combinations in the past were planned to obtain the advantage of significant operating loss carryforwards that could be utilized by the acquiring company.

4. **Diversification** resulting from a merger offers a number of advantages, including increased flexibility, an internal capital market, an increase in the firm's debt capacity, more protection from competitors over proprietary information, and sometimes a more effective utilization of the organization's resources.

Combination accounting has long been controversial because of divergent views on how to provide the most useful information. In addition, many implementation problems arise from specific and often unique features of individual combinations. The accounting profession's struggles with these challenges are reflected in diverse and often inconsistent practices. Debate has swirled around goodwill and other intangibles. Minority interests have also been reported in several ways. These inconsistencies diminished the usefulness of the information to the point that new standards were needed.

3. Implementation of IFRS 3 Business Combination

IFRS3 was designed to improve the transparency of acquisition accounting, an area where a lot of accounting manipulation has occurred in the past. IFRS 3 requires in essence, that all assets on an acquisition, both tangible and intangible, be restated at their market values when accounting for the acquisition. The key implications on financial statements from IFRS3 Profit and loss account – goodwill and intangibles are: there will no longer be a charge for the amortisation of goodwill. This is useful as such charges were often previously disregarded; there will be charges for the amortisation of intangible assets which have finite estimated lives. As the values of such assets could be based on the present value of future profits their amortisation will be effectively eliminating those profits as they occur after acquisition. In extreme cases it could mean that little or no profits are reported for many years after the acquisition, a highly contentious area; there could be charges for impairment where the carrying value of intangible assets is higher than its value. These might occur through a change in strategy, or they might reflect badly on management. Impairment charges will be a highly sensitive area. The implications from IFRS 3 Balance sheet – goodwill and intangibles are: goodwill brought forward at the date of adoption of IFRS (which will often be significant) will be frozen at its brought value. So this figure will be stated at historic goodwill at the dates of pre IFRS3 acquisitions (including IFRS3 intangible values not required pre IFRS3), less pre

IFRS3 amortisation, plus post IFRS3 goodwill at the dates of acquisitions and less impairment charges. This is such a complicated combination of concepts that the figures given will most likely be impossible to understand; some intangible assets will be stated at their historic valuations, and some intangible asset values will be after charges for amortisation and impairment; values of goodwill and intangible assets are stated at historic amounts and not revalued; goodwill and intangible assets which have not been acquired will not be shown.

According with the recent amendments the objective of IFRS 3 is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, principles and requirements are established for how the acquirer: 1. recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire; 2. recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and 3. determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Also the IASB has determined that Costs incurred in an acquisition are period costs. Costs of issuing debt or equity instruments are accounted for under IAS 39 Financial Instruments: Recognition and Measurement. All other costs associated with the acquisition must be expensed, including reimbursements to acquire for bearing some of the acquisition costs.

Some of the most significant changes are in relation to the purchase consideration. Consideration now includes the fair value of all interests that the acquirer may have held previously in the acquired business. This includes any interest in an associate or joint venture or other equity interests of the acquired business. Any previous stake is seen as being 'given up' to acquire the entity and a gain or loss is recorded on its disposal. If the acquirer already held an interest in the acquired entity before acquisition, the standard requires the existing stake to be re-measured to fair value at the date of

acquisition, taking any movement to the income statement together with any gains previously recorded in equity that relate to the existing holding. If the value of the stake has increased, there will be a gain recognized in the statement of comprehensive income (income statement) of the acquirer at the date of the business combination. A loss would only occur if the existing interest has a book value in excess of the proportion of the fair value of the business obtained and no impairment had been recorded previously. This loss situation is expected to occur infrequently.

4. A short view between UKGAAP reviews and IFRS 3 about intangible assets, fair value of stocks and goodwill

UKGAAP requires recognition of an intangible asset of an acquired entity only if its fair value can be reliably measured. In practice, this meant that few intangibles are valued and reported on the balance sheet. IFRS3 requires recognition if the asset is identifiable; that is if it is separable or arises from contractual or other legal rights. In this context, separable means that the asset can be separated from the rest of the entity and sold, licensed, rented or transferred. While the requirement for reliable measurement is still present, IAS 38, Intangible Assets, assumes that this will be possible, stating that: *The fair value of intangible assets acquired in business combinations can normally be measured with sufficient reliability to be recognised separately from goodwill.*

As a consequence of the strengthened requirement to recognise intangible assets, more intangibles are being recognised within business combinations and this trend is likely to continue as companies and auditors become more familiar with the process. Published accounts in the United States in the years following the introduction of SFAS 141 (the US accounting standard equivalent to IFRS3), have shown increases in the percentage of purchase price allocated to intangibles within market sectors, but the progress has been fairly glacial and goodwill remains the dominant component.

Methods of valuation of intangibles are a subject on their own, but suffice it to say that there are a number of well understood techniques with most reliance being placed on the relief from royalty method. One practical area of difficulty is where intangible assets overlap, for instance brands and customer relationships. Care is needed to ensure that fair values are separated and not double counted, and the commercial realities of the market in which the entity trades must be considered. For instance, in a consumer products business such as wines and spirits, broad distribution and good customer relationships are key to success, but these will ultimately be worth little when there is a strong portfolio of brands. Most of the intangible asset value rests with the brands. In addition to any amortisation, it is necessary to review annually the value of intangibles for any impairment. If the present value of future anticipated cash flows is lower than the book value, that value must be written down to the impaired value. If, in future years, the value of future cash flows increases again, the write down can be reversed.

Whereas UK GAAP requires stocks acquired as part of a business combination to be valued at the lower of replacement cost and realisable value, IFRS 3 defines fair value as selling price less the costs of disposal and a reasonable margin for selling effort. For high margin consumer goods this raises questions about how the margin is divided between the activities of production and selling, and ownership of the brand. Again great care is needed to ensure that fair value already attributed to the brand is not double counted by overstating the fair value of stock. Even finished goods in their branded packaging do not command the full selling price without the brand owner's approval. Sales of genuine product through unofficial channels achieve substantially lower prices than the same product sold through legitimate sales channels. Much of the value still attaches to the brand and should not be included in the revaluation of stock.

Under UK GAAP, goodwill is presumed to have a useful life not exceeding twenty years and is amortised over that period. Under IFRS 3, amortisation is not permitted and existing partially amortised goodwill is

frozen at its net amount at the date of transition. Impairment testing of goodwill is already a requirement under UK GAAP, if circumstances indicate that the carrying value may not be recoverable. In practice, this happens rarely because amortisation steadily reduces the carrying value. Under IFRS, however, goodwill impairment becomes a much bigger issue and tests have to be carried out annually. Any impairment of goodwill is deemed to be permanent and cannot be reversed in the future. As goodwill does not generate cash flows directly, it must be assigned to a cash generating unit and it is the total value of all the assets, including goodwill, of the cash generating unit (CGU) that is compared to the value of future cash flows. In the event of a shortfall, the goodwill is reduced in value by a charge to profit.

Defining cash generating units as broadly as possible, will minimise the risk of embarrassing goodwill impairment. The broadest level allowable under the standard is that of reporting segment and the acid test is whether the proposed CGU generates largely independent cash flows. If it can be argued that the cash flows within a segment are inter-related, for instance if the segment comprises vertically production and sales and distribution units, it should be possible to assign goodwill at the segment level.

5. Conclusions

All business combinations must be accounted for using the acquisition accounting method. IFRS3 was designed to improve the transparency of acquisition accounting and requires in essence, that all assets on an acquisition, both tangible and intangible, be restated at their market values when accounting for the acquisition.

A further consequence of IFRS 3 is that intangible assets must be recognized separately from purchased goodwill instead of being subsumed within purchased goodwill. Purchased goodwill itself is not amortized, but must be reviewed for impairment annually. The performance of the impairment review is covered by IAS 36, Impairment of Assets, and the identification and recognition of intangible assets is covered by IAS 38, Intangible Assets.

The following steps are involved in accounting for a business combination under IFRS 3: 1. identification of the acquirer and the acquiree; 2. performance of a fair value exercise on the acquiree's assets and liabilities; 3. identification and measurement of the fair value of the intangible assets arising; 4. measurement of the amount of any non-controlling interest in the acquiree; 5. measurement of the amount of goodwill arising from the transaction.

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The Importance of the Service Delivery Process in Achieving High Customer Satisfaction in Banking Services Industry

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Abstract

More and more in recent times credit institutions are replacing traditional brick and mortar agencies with technology focused on changing the behavior patterns of customers and streamlining the delivery process of their services. The main factors that promote this growing trend are the increasing cost of personnel and the reliability associated with these new ways of service delivery with the aid of technology. Although this is an increasing trend, there are still banking services that require a high level of interaction between the client and the bank personnel, thus combining bank employees and technology in one smooth process of service delivery it is often a difficult task to achieve for decision makers.

The present paper examines the different ways that can be taken in order to build and improve a superior service delivery process and the consequences that decisions at this level have on customer satisfaction and retention.

Key words: banking services, delivery processes, quality

J.E.L. classification: M31, G21

1. Introduction

The process is defined as how the service is delivered to the customer. In the banking institutions that can take different forms depending on the service / product that is offered to the client.

If it's a loan, the process will involve a series of standardized steps that allow the credit counselor to interaction with the future credit beneficiary in order to collect data,

calculate and analyze his credit scoring and decide whether the loan terms takes into account the banks rules and regulations. In the case of other banking services such payment of bills or a credit rate, the process is more simplified, even tending toward automation.

Only in recent years researchers focused on this new topic of how the service is delivered and the implications on various aspects regarding the banking customer such as satisfaction, loyalty or retention [1],[2], [3].

2. Service delivery process design in banking environments

Services can be described in terms of operations that are involved in their delivery. They can take three basic forms, namely:

- in-line operations, favorite when the product / service offered by the bank shows a high degree of standardization and the delivery process takes the characteristics of a routine (Ex. cash disbursement from the bank ATMs)
- "shop jobs" type operations, the most type of interactions seen in banking, where the credit institution provides various services that meet the needs of each client, using different processes and sometimes different deliver personnel (credit, taking deposits, granting of letters of guarantee, business consulting, etc.)
- Intermittent operation, used if the service provided has a low degree of repeatability and each process involves a specific way of delivery (advising clients to access different funding sources).

Although recent research [4] indicates that many current bank customers desire a high degree of human interaction that can only be

provided by bank personnel the majority of banking institutions are oriented towards technology investment that aim to replace human interaction with a more reliable and easy to control technological process.

Banks, as the forerunners of the market economy, are quickly seizing the opportunity to invest in technology in order to improve the service delivery process with beneficial consequences on cost control, attracting new customers and meeting the requirements of the existing ones[5].

But recent developments and studies have shown that simply delivering something through a technology-based interface it will not guarantee to work simply because it is technology. This study [6] compared three self service technologies processes widely adopted by the banking institutions (ATM's, bank by phone and online banking) and finds that the technology must be useful and easy to use (ATM's) and simply being useful doesn't ensure adoption by customers (bank by phone).

The present evolution stage at bank level is defined by a combination of both human and technology that form a so-called "human/machine hybrid" system of service delivery. From this perspective some authors [7] have identified seven challenges that banks face in managing this particular form of service delivery processes:

1. Conceptualizing the framework
2. Choosing the value offer
3. Planning and rolling out the process
4. Delivering service through multiple coordinated points of contact
5. Communicating with and educating customers
6. Tracking performance in terms of process, outputs and financial implications
7. Coordinating interdisciplinary activities, including management information systems, marketing, operations, human resources, computing and finance.

The main concern of banks regarding the delivery process is to optimize its efficiency without sacrificing quality service. Under this requirement, banks take into account various aspects such as:

- the steps required by the customer service delivery and their logic succession;

- the possible removal, rearrangement or a combination of certain stages to achieve a more efficient process of delivery;
- involvement of consumers in each step required by the delivery process, reducing or eliminating its participation;
- different ways to automate certain steps or even the whole process.

The importance of ensuring an efficient management of the process is given by the need to ensure high levels of availability and quality of service. In the absence of a coherent process of implementation and monitoring of service delivery, the burden to balance supply and demand for the banks services becomes extremely difficult. Services, by their inherent nature, can not be stored and therefore the credit institutions must find different ways to cope with peak demand times, when requests from customers grow significantly.

Operations Management is an area intensively studied in marketing management of products. In the services sector, where we have to deal with an intangible product, it plays a vital role in ensuring customer satisfaction because very often the delivery process becomes the service itself. A number of factors [8] affect the effective management of critical processes (Table 1.) that have an impact on customer satisfaction. These factors are in fact different ways in which the banks can secure a competitive advantage over competitors.

Table 1. Factors that affect the effective management of critical processes

Nr.	Influence	Explanations
1	Process planning and control	Specifying operations planning and control processes in order to achieve a high level of services quality provided in terms of quantity, quality, delivery and cost
2	Operations planning	Detailed specifications for each operations subsystem
3	Physical facilities design	Physical facilities design, construction, location, maintenance and related materials handling services

4	Planning	Further details of performance times of various operations regarding the service for which that the bank has committed to a more efficient use of available resources
5	Staff planning and control	Planning and control their staff and production capacity in relation with their services
6	Quality control	Imposing and monitoring quality standards in each service system
7	Operations control	Ensuring input and output information flows through the service system and the proper execution of transactions according to a specific program
8	Predicting and long-term planning	Anticipating customer demand and forecast production capacities necessary for the consistent operation of the service

For an easier approach, the service delivery process is often called a service blueprint [9]. This is actually a chain of processes necessary for the effective delivery of a banking service, a map of processes, elements, activities and the interaction between them can be viewed at a glance and therefore better optimized.. For its construction a series of steps are required [10]:

1. Draw all processes and components in the form of a chart. The more complex the service is, the more elements the blueprint will contain;
2. Identifying the 'points of failure "where the process can fail;
3. Setting standards of performance and acceptable tolerances for each operation. They usually take the form of maximum lengths of time required for that phase;
4. Identify all visible elements for the client and their delimitation by a "line of visibility;

5. Analysis the overall profitability and the impact this delays have on the hole process and the different cost that can be incurred by them.

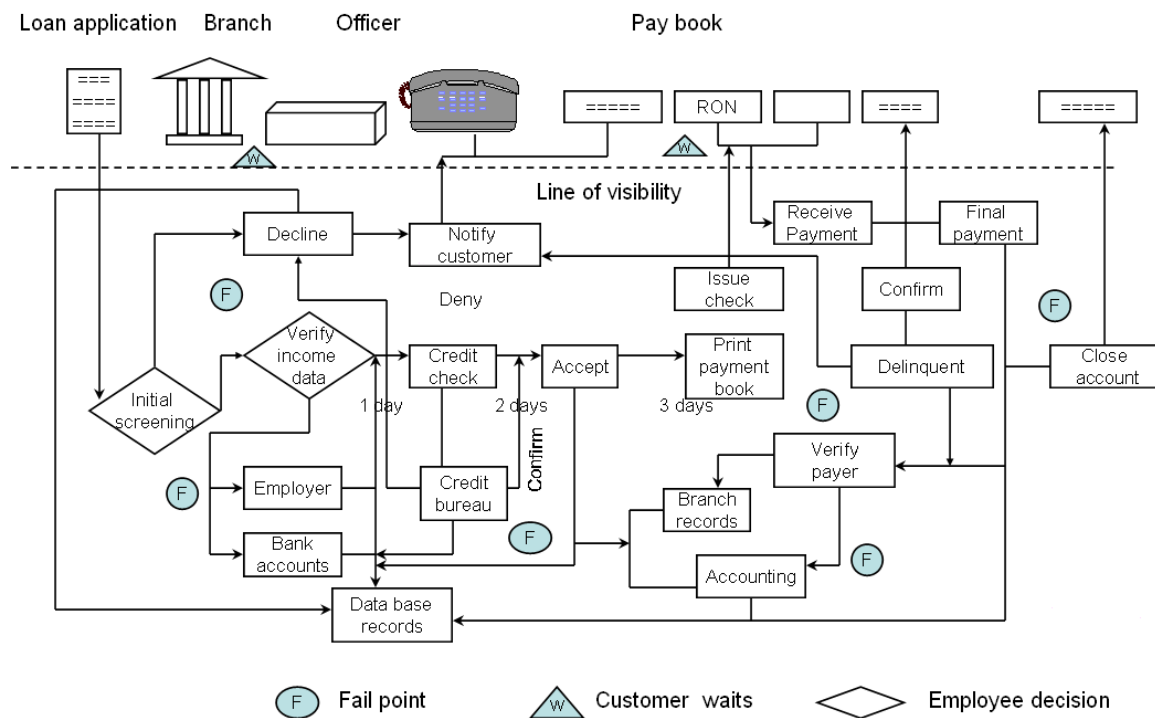
A 2002 study [11] on US bank customer's perceptions of the impact of technology on service delivery in the banking sector the authors note that "managers should determine the parameters of their customers zone of tolerance. In other words, managers need to know the approximate threshold between satisfaction and dissatisfaction with the core service they are receiving from their bank". This is an important prerequisite and also a starting point of the process design mechanism.

The service schematization process is an effective method for its design and diagnosis. In the case of banking institutions, whatever is the ultimate goal of this process, whether a circuit description of the bank's confidential document is desired or an entire service or product evaluation, the goal must always be to improve the delivery process in order to promote customer satisfaction and to increase the efficiency with which the institution uses its human and material resources. This method allows the management to pinpoint the "Failure Points ", moments of truth for customer and employee. Their negative influences and possible consequences should be eliminated or reduced in order for the bank to attain a high degree of customer satisfaction.

Figure 1. [12] presents a service blueprint for the granting of a loan, along with points of failure, line of sight and waiting. It is noted that although the main process is quite complicated, it is located below the most visibility of hidden client, which can cause frustration and discontent on his part relative to the waiting time required to access the credit funds.

It is therefore important for the bank staff to explain in detail the processes and methodology required by the credit analysis in order to eliminate consumer dissatisfaction and not to create unrealistic expectations.

Figure 1. Credit lending Process



From an organizational point of view, service schemes allow each employee to understand the role it plays in the delivery of a specific banking service, highlights unknown tensions in the organization and allows the front-office employees to express their views on how to service is offered. It is therefore very important to assess the perspectives of both management and employees about how the service delivery mechanisms of the services offered should run. This is especially important given the key role of contact employees in delivering high quality services[13].

There are even more important aspects that must be taken into consideration: the attitudes and perspectives of the bank customers about the service delivery process. Although very often they don't have very much insight into the bank operation processes and the regulations that governs them, they can offer surprisingly valuable advices and information regarding mainly front-office processes, information that is often disregarded and passed by the bank staff. The client often has "the small picture" of service delivery processes that must be reframed and included in the "big picture" of bank operations by the management.

3. Conclusions

Designing streamlined service delivery processes for the bank services or products in particular or for the operation as a whole is a prerequisite of customer satisfaction especially in the banking industry where clients are expecting rigor and diligence from their financial services supplier.

Repeated failures in these processes that are not corrected in a timely manner will eventually lead to customer dissatisfaction with the bank, lack of loyalty and, in the end, to losing customers, with a major impact on both market share and financial performances.

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A Comparative Analysis of Corporate Governance Structures in Europe, USA and Latin America

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Abstract

The aim of the present paper is to highlight the characteristics of corporate governance structures in three main areas: Europe, USA and Latin America. This paper offers an overview of the common elements and divergent points of the corporate governance models following the particularities of the selected regions. In order to identify the main directions of reform, we discuss the nature and structure of corporate regimes. To conclude, we can't speak of a single set of global corporate governance standards, but rather convergence on selected issues within regional blocs. New tendencies generated by the financial 'underworld' demand for a solid reform.

Key words: corporation; financial crisis; corporate governance; corporate social responsibility

J.E.L. classification: G30, G34, G01

1. Introduction

The high degree of communications development and technological innovation has revolutionized transfers between corporations, influencing the implementation of decisions orientated to an increasing virtual reality. Corporate perspective changes substantially, from the real economy to artificial engineering so that in recent years, diverse opinions point to an "irrational exuberance" of creating value within companies. In modern society, governance is seen as an interrelated mechanism of government institutions, civil society and economic forces.

In the first part of this paper we proposed a review of the literature in order to outline the features of corporate governance.

Defining a detailed framework of the corporate governance theories, in the second and third sections we offered a three-dimensional vision of corporate governance models in the United States of America (USA), Europe and Latin America.

The analysis has the role to highlight the common solutions for improving corporate governance models and to create a new perspective.

2. Literature review. Corporation and corporate governance-“a true bond”

Considered a reaction to the problems of modern society, corporatism uses the incorporation of divergent interests of manufacturers to control them in order to maintain power.

Initially, corporate governance relied on legal issues, structures, individual skills and independence [13]. The stage of development was completed by the commitment of stakeholders and the emergence of new models of accountability. As current corporate governance features, we distinguish partnerships and complex transactions that require monitoring and performance measurement [4].

Corporate governance can be defined following two directions. In terms of behavior it studies efficiency, growth, financial structure, treatment of shareholders, corporate performance - summarizing its current behavior. In light of the regulatory framework, reporting is done according to the rules under which firms operate (the sources of the legal judicial system, financial market or labor market) [6].

The premises of corporate governance growing importance are the followings: cyclical financial crises; enhancing and repositioning the role of investment process; technological development, liberalization, structural reforms which redefine the local

and global landscape. Institutional arrangements of corporate governance are being replaced by new ones in order to reduce inconsistencies and gaps caused by progress. The allocation of capital, as a complex process associated with financial market liberalization, deregulation and price competition increases market risk exposure. The international financial integration (increased trade and investment flows) has led to controversy on corporate governance due to national characteristics [8].

Corporate governance can be analyzed as a three-dimensional relationship: between shareholders, creditors and corporations, between financial markets, institutions and corporations, or between employees and corporations [2]. The present crisis appeared from the inability of delivering the expected results of corporate governance, as a consequence of poor implementation of an efficient strategy or folly and unauthorized management implementation.

Separation of responsibilities leads to independence, namely in defining and implementing corporate strategy. A stable working environment, solid-built policies and ethical corporate culture are key elements of the efficient functioning of Directors Board. Establishing a balanced financial policy stimulus has been a weakness of corporate governance, increasing financial compensation not being correlated with the performance level [7].

The corporate governance control mechanisms are designed to correct deficiencies that occur, but become ineffective when there is the phenomenon of overvaluation. Fraudulent defending of an excessive market capitalization, leads in fact, to the collapse of some financial institutions well positioned.

Corporations set their goals, measure their performance, which will be independently audited, compared with the three dimensions of sustainable development: economic, social and contextual. Corporate social responsibility influences the profitability level, generates internal loyalty, provides support and discourages foreign criticism [14].

3. Shareholder model vs. stakeholder model

In the academic literature, theories on corporation offer three alternatives in order to understand its purpose. According to a first view, the corporation place as priority the investors' interests and the role and responsibilities of the Directors Board intended only to protect the shareholders interests.

From another perspective, both the interest of investors and other participants affected by decisions are important: suppliers, customers, employees, local community and environment. The management acts as agent for these groups. In this case, the Board of Directors serves the interests of all participants in corporate activity.

A third view, the middle rank one, includes and scale the previous assumptions, so the protection of investors is dominant, but there are also considered the interests of other groups, namely the establishment of corporate accountability, without compromising the needs of society and its members. Practical experience shows that all three approaches are on the market: examples are the USA and the European countries (notably Germany in the case of the second approach).

The legal nature of the corporation is different in United States of America, United Kingdom (UK) and continental Europe. The analyses show similarities between the USA and UK, named Anglo-Saxon corporate governance systems; in Europe there is a continental corporate governance system which includes internal variations.

According to the concession theory, in the USA, the Board of Directors is the heart of corporate governance. In the UK, corporation is defined as a legal member association. The essence of the council is to delegate members as agents of company shareholders. The property and control are dominated by large institutional investors. In continental Europe prevails stakeholders perspective and the public interest but differences came from the corporate control style.

In the last 20 years, the corporate governance system from the USA suffered important changes. Enron, WorldCom, Tyco are examples of dysfunctional corporate governance mechanisms. The question is:

what went wrong?

Before 1980s, the aim of the corporation was to ensure firm growth, the external mechanisms of the governance were rarely used, hostile takeovers were unusual, the corporate management was dominant and the council control was reduced. The major objective of long-term performance plans was to increase selling and shares value. Shareholders behavior led to multiple takeovers and reorganizations [9].

Table 1. Determinants of the shareholder model

Anglo-Saxon-American Model
• Large-scale publicly traded corporations
• Short-term management
• Low concentration of institutional investors
• Decentralized markets and the individual interest function in a self-regulation framework
• Profit orientated behaviors, individualism
• Well developed corporate governance mechanisms (the market for corporate control, regulation, contractual incentives)
• Corporate social responsibility
• Coalition control
• Low influences of investors over corporation management
• Individual investors high protection, strict rules for information dissemination and internal transactions
• A heterogeneous labor market, instability, a reduced internal flexibility, professional and geographical mobility
• Employee's reduced implication in strategic decisions. In the USA, corporations developed special programs for employees in order to participate in operational decisions
• Performance related financial incentives (especially in the USA)
USA, UK

Source: [5]

The Anglo-Saxon model is characterized by a low concentration of investors compared to the continental model. The central elements of the corporate governance system are the stakeholders' interests and the active role of employees in the strategic decisional process [1].

In recent years, the profile of the private investor has become an institutional one. Majority in UK and the United States of America, institutional investors display an increase in continental Europe also.

Differences are related to their interventionist nature, the exposure of Directors Board to certain pressures, appointment of new members and executive remuneration (United Kingdom).

Table 2. Determinants of the stakeholder model

Continental Europe Model
• Small and medium corporations
• Long-term management
• High concentration of private investors
• The major role of banks and the interaction between corporations and banks creates a stable economic environment
• Long-term profit orientation
• Corporate governance mechanisms are related to direct control and low managerial incentives
• Corporate social responsibility
• Shareholders direct control
• Direct and indirect influences of investors and banks over corporation management
• An increased minority shareholders protection, information transparency in order to reduce possible distress
• There is a codetermination chain between the Board of Directors, the Work Council and employees, with the effect of reducing mobility inside corporations
• The employees have an active role inside corporation through works councils and trade unions
• An increased tendency of incentive scheme based on performance
Germany, Holland, Austria

Source: [5] [12]

Concentration of ownership leads to reduced effectiveness of external mechanisms of corporate governance (corporate control exercised by the market and investor activism) in order to protect capital providers (Continental Europe).

Legislative agenda in the USA and UK highlights the need to increase and improve investor activism. Differences between this

two countries relate mainly to shareholder rights (the right to convene extraordinary meetings (UK case), limited access to regular meetings, campaigns, voting initiatives (USA case). As a result of the pressure generated by U.S. institutional investors active in continental Europe the interactions between shareholders tend to get a cross-country dimension [10].

The fundamental difference between Europe and the USA is that although European reform aimed at adopting U.S. similar laws, the move towards reducing managerial opportunism is not an appropriate way to prevent trading in someone's own interest. U.S. solutions, adopted to reduce management deficiencies do not affect earnings of major shareholders. Recent developments define European corporate governance process classified in Europe as an ongoing reform [5]. The market corporate control constitutes an important mechanism of corporate governance. Depending on corporate governance systems, this mechanism can be highly active (USA, UK) or almost nonexistent (Germany, Netherlands, China).

Table 3. Deficiencies of corporate governance in the USA and Europe

	Deficiencies
USA	<ul style="list-style-type: none"> • Monitoring failures by the Board of Directors; • Excessive payments underevaluation; • The incapacity of institutions to manage audit deficiencies; • The equity overevaluation problem.
Europe	<ul style="list-style-type: none"> • Independency and financial responsibilities of the council; • Minority shareholders protection; • Difficulties to support an active market for corporate control.

Source: [11]

A detailed analysis of the Directors Board indicates differences related to the main features: board size, independence from management, directors' experience, the endogeneity of the structure. In the USA, independent boards are associated with superior corporate performance, and the board size varies inversely with the performance. A common element in the U.S. and most European countries is the one-level

structure of the Directors Board, with the exception of Germany and Austria (a two level-architecture) and France and Finland where there is the possibility of a choice between the two structures. The two-tier system faces different problems in relation to its monitoring function: large size, inadequate flows of information, occasional meetings and in some cases the underdevelopment of the committee structure [15].

A common problem of corporate governance systems in the last few years reflects a high level of compensation, especially in the USA. Excessive compensation is determined by external costs as a result of various negotiation methods, strategic errors, an increasingly number of executive members and a misallocation of responsibilities from compensation committee to human resources department.

The nature of legal systems influenced national systems development and highlighted corporate governance deficiencies. In continental Europe, the corporate governance model is based on civil law, but in Anglo-Saxon countries and USA, the model follows common law path. In the first case, the negative aspects came from excessive executive payments and a reduced efficiency of internal and external monitoring. In the civil law system, minority shareholders rights are not a priority, but the shareholders have an active role in management monitoring.

4. Latin America: far behind?

The countries from Latin America do not witnessed failures of financial institutions generated by corporate governance systems. An explanation for the absence of corporate scandals in this region is the low level of investor protection and transparency. External influences and political governance considerations are determinants of capital flows in Latin America.

Weak developments of financial markets and a reduced presence of institutional investors place Latin America on an inferior position considering the complexity of corporate governance system. Capital markets are not real financing sources because of insignificant economic experiences and a reduced political stability.

The analysis of strengths and weaknesses in these seven countries of Latin America offers a large view on the potential development towards corporation-investments-regulation.

Chile and Brazil have the most competitive economies, well defined corporate governance mechanisms and consistent regulations, but they still place on an inferior position compared to United States of America and Europe.

Table 4. Strengths in Latin America's countries

Country	Strengths
Argentina	<ul style="list-style-type: none"> • Entrepreneurial activism; • The quality of accounting standards;
Brazil	<ul style="list-style-type: none"> • Permissive regulations for institutional investors; • The quality of accounting standards; • Fiscal policies; • Bankruptcies procedures; • Capital markets development; • Corporate governance.
Chile	<ul style="list-style-type: none"> • Well defined regulation for investors; • Developed capital markets; • Legal transparency.
Columbia	<ul style="list-style-type: none"> • Investments regulation; • The protection of minority investor rights; • Corporate governance.
Costa Rica	<ul style="list-style-type: none"> • The quality of accounting standards; • Fiscal treatment; • The legal system; • Openness to foreign investment portfolios.
Mexico	<ul style="list-style-type: none"> • Fiscal treatment; • Corporate governance; • The protection of minority shareholder rights.
Peru	<ul style="list-style-type: none"> • The use of international accounting standards; • Corporate governance; • Openness to internal investments.

Source: [16]

Low levels of transactions reveal the inactivity of capital market from this region.

Starting with 2005, the scandals from Asia, Europe and the United States of America determined a repositioning of investor protection as a top priority of the corporate governance system.

Compared to continental Europe countries, Latin America assures a low level of investor rights protection. Inadequacy of legal institutions generates a high level of property concentration, a reduced access to external financing, deficiencies of law enforcement and inefficiency. Corporate control is made by the principal shareholders [17].

Table 5. Weaknesses in Latin America's countries

Country	Weaknesses
Argentina	<ul style="list-style-type: none"> • Corruption, bureaucracy, the political influence and the lack of a stable framework discourage investments.
Brazil	<ul style="list-style-type: none"> • Constrains and procedures associated to intellectual property; • Corruption massively manifested in the public sector; • Structural deficiencies in the political and legal systems.
Chile	<ul style="list-style-type: none"> • Requirements of internal investment portfolios; • Transition to international accounting standards.
Columbia	<ul style="list-style-type: none"> • Corruption, deficiencies of the local legal system; • Restrictions on the capital market in terms of liquidity and size; • Transition to international accounting standards.
Costa Rica	<ul style="list-style-type: none"> • Low level of protection of minority shareholder rights; • Restrictions for the institutional investors; • Entrepreneurship; • Corporate governance.
Mexico	<ul style="list-style-type: none"> • Legal framework for the investment activity; • Corruption, the role of authorities in controlling.

Peru	<ul style="list-style-type: none"> • Investment regulations; • Fiscal regulations; • The protection of minority shareholder rights; • Corruption.
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Source: [16]

The Boards of Directors, their role and practices highlight the fact that compared to United States of America and Europe these structures are weak mechanisms of the corporate governance.

In a region characterized by economic volatility and repeatability of financial crises, corporate social responsibility is mostly influenced by the actual social problems: poverty and inequality. This concept was adopted around 1997 and the most active country was Brazil followed by Mexico. One of the channels used in public and private sectors with the aim to reduce poverty is the entrepreneurial channel.

The vision of corporate social responsibility is different in USA, Europe and Latin America. In Latin America the motivation is to reduce social pressures, poverty as well as the improvement of corporate sustainability; in the United States of America the corporate social responsibility is similar to corporate philanthropy; in Europe the concept is often associated to day-to-day management responsibility [3].

5. Conclusion

The international financial crisis reveals the importance of corporate governance systems. Strong deficiencies, large gaps between regions, low control mechanisms outline an instable corporate environment, prone to unjustified actions.

The governance exposure and risks should find solution in a proper evaluation of information. A clear distinction between roles and responsibilities is a basic requirement in every corporate governance model and the power of supervision leads to efficient operational activity. The reform priorities in the selected areas refer to the quality of regulation, auditing, transparency and integrity, interests' independence, regional cooperation and adequate remuneration schemes.

Corporate social responsibility has the role to strengthen the relation between corporation and society, with long-term positive effects. Deficiencies of corporate governance are reflections of national problems, so that reform is a necessity, an important step to corporate consolidation. Rethinking strategies and repositioning the role of the participants offer new perspectives for reconstruction!

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Analysis of Territorial Disparities Using Two-Way Dispersional Analysis

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Abstract

Economic phenomena and processes are often influenced by more than one factor with simultaneous actions. To highlight the extent to which one or more factors, or combinations thereof, affects essentially on a dependent variable, we use analyze of variance. This statistical method does not explain the relationship between variables, but only verify the deviation between the empirical from the theoretical values of the variable, and the extent to which these changes are not dependent by the factor/factors clustering. Therefore, analysis of variance method can be used both before and after application of correlation and regression statistical methods. This paper illustrated a pattern of use of the method to determine the significance of two factors, level of training and gender disparities in regional unemployment in terms.

Key words: regional disparities, unemployment, two-way analysis of variance, assumptions, F-test

J.E.L. classification: E2, J1, R12

1. Introduction

Dispersional analysis is known as analysis of variance, ANOVA. Despite the name, it is a statistical test used to determine significance of statistical differences between three or more samples (dependent or independent), measured on a proportional scale. Similar with t-test for more than two samples, this method, introduced by statistician RA Fisher, check the deviation between the real values of a variable from

theoretical values, calculated the average size or form of regression equations and how these changes are dependent or not the grouping factor.

Analysis of variance is used for verifying the dependent variable (z) to the factor (s) of grouping, in which case it is regarded as ancillary, applied before and after specific correlation and regression statistical methods. Also, the method can verify the independence of an outcome variable to a data systematization variable, in which case dispersional analysis method is considered independent. Dispersional analysis is based on grouping method. This separates the influence on the result of variable factors as determinants of influence accidentally registered.

So, dispersional analysis method is based on observed data by grouping one or more criteria and highlighting the influence of effects depending on the individual criteria were then grouped observations. Usually it use: a grouping variable X (which determines the subgroups), also called independent variable and a variable analyzed (dependent), measured on proportional scale;

The dependent variable is divided into k subgroups of size n_1, n_2, \dots, n_k . The discrepancies found between the mean subgroups 1 ... k, ANOVA decomposition uses the notion of total variation of internal variation (within these groups) and external variation (difference between groups).

Once detected effects, testing takes place by comparing the variances caused by varying factors, the dispersion caused by accidental factors acting on the process studied. Number of criteria which are grouped by the number of parameters depends included in the analysis.

2. Database

The considered data refer to the official data available on the website of National Institute of Statistics online database TEMPO-Online - time series, and refers to the unemployed population of the eight regions distributed by level of education and gender at the end of 2009.

Table 1 - Registered unemployed categories of unemployed by regional development, level of education and gender

Year 2009					
Gender	Development regions	Primary, secondary and vocational education	Secondary and post-secondary education	University	Persons number
Males	Total	312488	73373	21398	407259
	North West	36218	8908	2872	47998
	Centre	46519	10719	3133	60371
	North East	56080	9997	3326	69403
	South East	43232	6783	2244	52259
	Bucharest-Ilfov	8590	4269	1929	14788
	South Muntenia	56478	11808	2468	70754
	South West Oltenia	40937	13408	2726	57071
	West	12600	7481	2700	34615
Females	Total	190507	82979	28638	302124
	North West	21285	10767	4059	36111
	Centre	27840	13215	4013	45068
	North East	29275	11346	4062	44683
	South East	28605	9116	3038	40759
	Bucharest-Ilfov	7208	5382	2677	15267
	South Muntenia	32961	13134	3454	49549
	South West Oltenia	25689	10768	3986	40452
	West	17635	9251	3359	30255

Source: processing after INSSE - TEMPO-Online

3. The analysis of territorial disparities using two-way dispersional analysis

The model identifies the two-way analysis dispersional two factors of influence, and characteristic variability result can be explained by the influence of the first factor (with i levels) to the second factor (with j levels), the interaction of two factors influence considered and the residual factor (chance).

Dispersional F-test analysis requires additional conditions are met: the variable studied is normally distributed in the r groups and dispersions are equal.

These conditions can be easily verified constructing histograms for each of the r samples. F test is done, then, by comparing calculated values with critical values.

If you want to know whether the level of training and gender disparities in the unemployment determine their structure relative to the eight development regions of Romania, on the premise that the development of geographical region and level of their specialization reflected in application for a labor market in terms of

both the characteristics of the active population.

In the training level was taken into account and distribution by sex nominal variable can be seen as an indirect variation caused by this variable.

We have the model:

$$x_{ijk} = \mu + \alpha_i + \beta_j + \gamma_{ij} + \varepsilon_{ijk}$$

where each observed variable, x_{ijk} , is equal to a suffering population mean, μ , which has a row deviation α_i , column deviation β_j , row and column interaction between γ_{ij} and an experimental error, ε_{ijk} .

Interpretation of test results shall be calculated F value of F is compared with the theoretical value for each factor separately (X, Z, and XZ) as unifactorial ANOVA.

F test will help this time, to calculate not only the main effect of each factor but one indicator will be calculated both for assessing the interaction effect and to test the statistical significance of the entire model, so the overall factors (individual + interaction between them).

There are three sets of assumptions, corresponding to those two factors and their interactions.

➤ For X - factor

Null hypothesis - H0: X is not a significant factor (group as factor X is not significant or group environments where X - lines do not differ significantly);

Alternative hypothesis - H1: X factor is significant (X factor is a significant group by group or environments where X - lines differ significantly)

➤ For Z - factor

Null hypothesis - H0: Z factor is not significant (group by the factor Z is not significant or group environments where Z - the columns do not differ significantly);

Alternative hypothesis - H1: Z is a significant factor (Z factor is a significant group by group or by Z-column averages differ significantly).

➤ For XZ - interaction

Null hypothesis - H0: the interaction of factors X and Z is not significant (effect of X does not change the level of Z)

Alternative hypothesis - H1: the interaction of factors X and Z is significant (Z's effect depends on the factor Z).

Since accepting the null hypothesis of each test shows that the ANOVA F statistic is calculated on the register as a distribution F

with degrees of freedom numerator and denominator of the numbers attached, then:

- for XZ: rejecting the null hypothesis if:

$$F_{XZ} \geq F_{1-\alpha; v_{xz}; v_{rez}};$$

- for X: rejecting the null hypothesis if:

$$F_X \geq F_{1-\alpha; v_x; v_{rez}};$$

- for Z: rejecting the null hypothesis if:

$$F_Z \geq F_{1-\alpha; v_z; v_{rez}};$$

Obviously, it can happen that both factors are determinants, only one or even none.

If considered to constitute sets of statistical assumptions:

➤ **X Factor:** The level of training of unemployed

H0: structural differences in the developing regions relative to the number of unemployed are not influenced by their level of preparedness;

H1: Structural differences in the developing regions relative to the number of unemployed are influenced by their level of readiness.

➤ **Z Factor:** Gender unemployed

H0: structural differences in the developing regions relative to the number of unemployed are not influenced by gender;

H1: Structural differences in the developing regions relative to the number of unemployed are influenced by gender.

➤ **Interaction XZ:** Level of training - unemployed Sex

H0: structural differences in the developing regions relative to the number of unemployed are not influenced by gender;

H1: Structural differences in the developing regions relative to the number of unemployed are influenced by gender.

We calculate the number of degrees of freedom for each factor influence df_1 and the number of degrees of freedom df_2 for experimental error.

$$df_1 = (r-1) \times (c-1) = (3-1)(8-1) = 2 \times 7 = 14$$

$$df_2 = (k-1) \times r \times c = (2-1) \times 3 \times 8 = 24$$

$$\alpha = 0,05$$

$$F_{tr(2,24)} = 3.40$$

$$F_{tc(7,24)} = 2.42$$

$$F_{ii(14,24)} = 2.13$$

Correction factor C is determined by the formula:

$$C = \frac{T_{ij}^2}{rxcck} = \frac{709383^2}{48} = 10483838347.68$$

It will determine the sum of squares for each factor of influence:

$$SPR = \sum_{i=1}^3 \frac{T_{i.}^2}{c \times k} - C = \frac{502995^2 + 156352^2 + 50036^2}{16} -$$

$$- 10483838347.68 = 166.89$$

$$SPC = \sum_{j=1}^8 \frac{T_{.j}^2}{r \times k} - C = \frac{84109^2 + 105439^2 + \dots + 64850^2}{6} -$$

$$10483838347.68 = 1008168849.81$$

$$SPRep = \sum_{i=1}^3 \sum_{j=1}^8 \frac{T_{rep}^2}{k} - C =$$

$$= \frac{(36218 + 21285)^2 + (8908 + 10767)^2}{2} - 10483838347.68$$

$$= 16677610196 - 10483838347.68 = 6193771848.3$$

$$SPI = SPRep - SPR - SPC = 6193771848.31 - 166,896 -$$

$$- 1008168849,81 = 5185602831.60$$

Table 2 - Distribution of unemployed in developing regions by level of education and gender,

Year 2009

Education level	Gender	Development region								Tj
		North West	Center	North East	South East	Bucharest-Iloft	South Muntenia	South West Oltenia	West	
Primary, secondary and vocational education	Males	36218	46519	56080	45232	8590	56478	40937	12600	502995
	Females	21285	27840	29275	28605	7208	32961	25698	17635	
Secondary and post-secondary education	Males	8908	10729	9997	6783	4269	11808	13408	7481	156352
	Females	10767	13215	11346	9116	5382	13134	10768	9251	
University	Males	2872	3133	3326	2244	1929	2468	2726	2700	50036
	Females	4059	4013	4082	3038	2677	3454	3986	3349	
Tj		84109	105439	114086	93018	30055	120303	97523	64850	709383

Determine the sum of the squares on the entire table:

$$SPT = \sum_{i=1}^3 \sum_{j=1}^8 \sum_{k=1}^2 x_{ijk}^2 - C = 36218^2 + 21285^2 + \dots + 3349^2$$

$$- 10483838347.6875 = 9919389373.31$$

Sum of squares for experiment error is then determined:

$$SPE = SPT - SPRep = 9919389373.31 - 6193771848.31 =$$

$$= 3725617525$$

The next step: determined the mean of squares for each factor of influence:

$$MPR = \frac{SPR}{df_1} = \frac{166,896}{14} = 11,92$$

$$MPC = \frac{SPC}{df_2} = \frac{1008168849.81}{24} = 42007035.41$$

$$MPI = \frac{SPI}{df_1} = \frac{5185602831.604}{14} = 370400202.26$$

We determined the mean of squares for experiment error:

$$MPE = \frac{SPE}{df_2} = \frac{9919389373.31}{24} = 413307890.56$$

Next, we calculate the F-ratio for each influence factor:

$$F_{cr} = \frac{MPR}{MPE} = \frac{11,92}{413307890,56} = 2.884048499533846E - 8$$

$$F_{cc} = \frac{MPC}{MPE} = \frac{42007035,41}{413307890,56} = 0.102$$

$$F_{ci} = \frac{MPI}{MPE} = \frac{370400202,26}{413307890,56} = 0.896$$

$$\text{How, } F_{tr(2,24)} = 3.40, F_{tc(7,24)} = 2.42,$$

and $F_{ii(14,24)} = 2.13$ comparing these values with the calculated values:

➤ as $F_{cc} < F_{tc(7,24)}$, the null hypothesis is accepted, so the structural differences in the developing regions relative to the number of unemployed are not significantly influenced by geographic regions;

➤ as $F_{cr} < F_{tr(2,24)}$, the null hypothesis is accepted, so the structural differences in the developing regions relative to the number of unemployed are not significantly influenced significantly by their level of preparedness;

➤ as $F_{ci} < F_{ii(14,24)}$, the null hypothesis is accepted, so the structural differences in the developing regions relative to the number of unemployed are not significantly influenced by gender and level of education the unemployed.

4. Conclusion

It appears that none of the factors considered are structural differences in the determinants of queen development regarding the registered unemployment in the year 2009, i.e. the differences are not significant disparities are caused by other factors of influence.

In other words, neither the profession nor gender differences are not significant for the unemployment rate in Romania in the

geographical regions as administrative nuts; the disparities were caused by adaptation to different situations of economic and financial crisis.

It is difficult to estimate the impact of the crisis in the regional labor markets due to lack of statistical data.

Data are not sufficient to estimate the regional tendency; however, knowing the impact of the crisis indicators at national and regional developments in the last two years, general estimates can be made based on certain assumptions.

The main hypothesis could be that if there was a crisis and therefore lack of jobs in all areas of activity at regional level would be significant differences concerning unemployment level of education and sex, determined by specific economic disparities of them.

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Management an Inexhaustible Resource of Development in the Context of Globalization of Firms' Activities

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Abstract

Lately at world level there have been recorded transformations of society in general and of the production activity in particular, as a consequence of some qualitative changes from different fields such as the technological one (information becomes a new major source of the company), commercial, sociologic and politic ones as well (the events from the ex communist countries). At national level there have emerged new exigencies regarding the productive companies in view of getting them adapted to the system of market economy.

All these external and internal constraints require more and more the intensification of information exchange in all fields, including the management field.

Highly performing management from the end of the 20 th century and the beginning of the 21 st is characterized by the manager's total involvement in the firm company he is managing by drawing and motivating all those involved in carrying out processes in the firm.

Key words: management, transformations, manager, globalization, firm

J.E.L. classification: M1, M14, M16

1. Introduction

Over the last two decades, a series of radical transformations emerged in the world economy have caused large comments, especially on the explosive increase of unemployment, of uncontrolled rhythms of inflation, contradictory evolution of the economic integration process, budgetary deficiencies, technological changes, severe competition, environment damage, all

together being major problems, the solving of which has never been considered satisfactory. Economists have tried to answer by different solutions, but they have not succeeded in bringing to the end and drawing relevant conclusions.

Gradually the economic theory felt the need to use new concepts capable of explaining with higher accuracy the huge transformations that have occurred lately in the world economy. One of these concepts which decisively contributed to the understanding of nature and all consequences of these changes is that of *economic globalization*.

Other authors define the globalization process starting from a seemingly easy question: "What has this new process of economy brought about?" Trying to answer this question the above mentioned authors place the increase of interdependence on the first position, showing that the events taking place in some countries are significantly related to what is going on in other states of the world. Therefore, the globalization process is being regarded as a long-term modality or system of perception and approach of big contemporary problems, determined by the interaction of multiple processes and phenomena from the economic, technical, political social, cultural and ecological point of view. [3] A system of interdependent markets has been created, which makes the firms to adopt necessarily a valid *global strategy* for the whole planet which leads to competition globalization. Thus, as the markets are becoming interdependent, the companies are coordinating their strategic activities abroad, competition acquiring a much greater role. Due to this fact, the consequences of competitive success or failure from a national market will have an important impact upon

the overall firm competitiveness, being felt all over the world.

Globalization does not refer only to firms' activity and commercial fluxes caused by the former ones, but it includes equally financial globalization too which plays a significant role in the world economy. Some studies devoted to this issue consider that globalization should be regarded as a specific stage of capital internationalization and rendering obvious its profitable possibilities at the whole scale of world areas, namely everywhere there are resources and markets. Thus globalization is being dealt with in a larger context, being the conjugated result of two distinct moments but tightly related between them [4]. The first moment is related to a longer accumulating period of capital which has begun after the First World War ceasing but interrupted by crises and devastating wars such as the Second World War. The second moment is marked by the adoption of some liberalizing, privatization and legislative measures of economic international life put into practice at the beginning of the eighties. All this has led to partial loss of the capacity to promote a self-centered and independent economic development, together with the disappearance of some specific traits of national markets. Exchange liberalization and emergence of new performing technologies determined the big industrial groups to get organized in "network firms". Consequently the capital accumulating process is being stimulated, by taking advantage of the new opportunities offered by automation. Due to these major changes occurred in the contemporary economy, the speciality literature ascertained a new emerging phenomenon that is of the world oligopoly – phenomenon regarded as a "market form" framed within an industrial "rivalry space". This space has been formed on the basis of world expansion of big companies and interaction between the investments promoted by these ones in the USA, European Union and Japan, being a natural result of the economy globalization process.

2. Management, an inexhaustible resource of development

There are great differences between the developed European countries from the point of view of their economic development and there are still other ones regarding the development level.

In England, for example, in the eighties numerous changes in the field of industry dimensions and complexity took place as well as in that of ownership access, leading to a more stressed separation of the manager quality from that of owner, such as follows [1]:

- the changes in the economic policy from the seventies determined by the "oil shock" have led to inflation, increase of unemployment and generally economic recession;

- transformations in the management field in the context when new alternatives for the traditional capitalist firm were looked for;

- transformations in the legislative field stimulating the profit obtaining from shares even by managers;

- new technologies having implications on the whole labor force.

The English management is based on firms' organization as holding, flexible structure decentralized from the decisional point of view, having coordinating means at different levels. Holding as legal entity and management instrument is generally characterized as follows: it functions as managerial apparatus at the managing level being composed of a reduced number of persons dealing especially with carrying out the overall policies and exerting financial audit.

Unlike the English management, the German one should be differently characterized depending on the hierarchical level. In the German firms, superior level management includes besides the members of the leading team (Directorship) also the executive staff, mention should be made that from the structural organization point of view, the organization structures on functions and division structures are very significant, displaying the following basic characteristics:

- at the superior level there is a numerous group of specialists who control the activity of firm's components, provide services to the organization subdivisions;

- the dominant organization structure is of horizontal type;

- the major decisions are usually taken in a participative way by the managerial team under the form of the managerial council;

Germany with France has registered after 1990 a revival of economies sustained mainly by the dynamics of investments and keeping the inflation under control. The German management plays in this sense an important part in: adjusting the relationships between management and trade unions in firms, under the conditions when the firms' management has to satisfy the needs imposed by trade unions in view of increasing competitiveness, training diversely managers under the condition when at different hierarchical levels of firms management there are more possibilities of getting a manager post, applying the partnership ideas included in the concept of social market economy.

The most remarkable characteristic of French context which strongly influences the firms' management is the state intervention in business by establishing the main directions of economic development and even by getting involved in some economic sectors which led to the obtaining of great results in different fields (for example in the production of high speed trains TGV, Mintel or in the aeronautic field Concorde Airbus). In principle, French management is different from the German one as the firms are structured on divisions or functions (management structures consists of numerous hierarchical levels); decisional centralization degree is higher than in Germany due to the tendency of the firm president or senior manager to monopolize the major decision-taking; the communication system functions heavily, especially at the inferior levels, fact which may affect the staff's moral condition.

As regards the Italian management one should have in view first that after the Second World War, Italy has become one of the most industrialized countries in the world. The management of Italian firms has been significantly influenced by the USA management model; the admiration for the results obtained by American companies is visible both in the expansion of business schools in Italy and the fact that a numerous Italian managers have got a MBA diploma. But we can not speak of the Italian

management without mentioning a few of its characteristics: [1]

- the management styles differ from each other because of the differences occurring between the three big categories of companies (the group of big private companies; holding companies, belonging to the state and small enterprises) functioning in the Italian context;

- regarding the managers' characterization the distinction should be made between those working in the state owned companies and those managing private owned companies;

- in formal relationships are predominant, ensuring maximum flexibility of managers in companies.

We can not end our incursion in the management systems used by the European countries, the most developed ones from the economic point of view, without bringing into discussion the Spanish management as well. Spain has known a spectacular development in the last 30 years, registering the highest rates of economic growth among the developed countries. The management diversity resides in the management style and different management techniques used in companies. The American and Japanese companies' performances present in Spain determined a new orientation also in the management field, by searching for new approaches which contribute to the increase of its efficiency.

As regards Romania there is an emerging need of carrying out a managerial know-how transfer fully adapted to the conditions of the economic development stage ran by our country at present, which basically requires a series of some demands: [2]

- to reduce as soon as possible the existing disparities as compared to the developed countries and to some ex communist ones which have registered lately sustained rhythms of economic growth , fact that allowed them to get integrated in the Euro-Atlantic structures;

- to create a politic, juridical and managerial well-settled framework which allow the development of a functional market economy;

- to increase economic performances and the population' s labor and life standard implicitly to the level registered in the European Union countries;

- to set up an electronic infrastructure capable of getting connected to the latest world networks.

Therefore, as a conclusion of the facts studied, we can appreciate that the management in European countries has specific characteristics from one country to another, regarding the managerial practices used; management structures in the companies, differentiated by the type of existing firms; cultural, social, economic diversity characterizing the European context. In Romania, at micro-economic level, it is necessary that a management of professional type should be provided which is specific to many Western countries by creating a national system of managers' training and perfecting, giving the leading functions to the persons skilled in the management field, extension of management counseling firms. In this way, an important role is devolved to the international transfer of managerial knowledge, having in view all the components of the management system referring to the introduction of some modern management methods and techniques used in other countries too, that should be accessible for the Romanian managers as well; the use of some efficient motivational systems, performing in other cultures but compatible with the traditions of our people.

3. Globalization of firms' activities

In view of getting the firm activity extended on the external market, a company may opt for one of the following five strategic alternatives of product adaptation and promotion under the existing conditions in other geographical regions: [5]

- direct extension of the product and communication means;
- direct adaptation of the product and communication means;
- adopting of the product on the external market and extension of communication means;
- adopting of communication means;
- discovery of the new product.

Direct extension supposes the product introduction on a foreign market in view of getting it profitable, without making direct changes of this one (in this case it is considered that all markets have the same characteristics). Another strategy has had

remarkable results in the case of photo cameras, we mention here the company Gillette which promoted its products by using the same advertising slogan at world level.

The second strategic alternative is by extending the product and adopting the communication means to the conditions of the external market. In this case, the same product may satisfy a new desire, being oriented towards a different market segment; the only change required refers to the choice of some advertising promotional means.

The third strategic alternative supposes the product to be adopted to the conditions of external market and expansion of communication means. This strategy is usually adopted by the companies promoting washing powders, by modifying the manufacture recipes accordingly to the local conditions and equipment used in washing, without including the communication means.

The fourth strategic alternative aims at both the product to be adopted and communication means as well. It is obvious that we talk about the companies trading their products in many different countries under different brands and using different marketing strategies. This is possible due to the existence of some management decentralized structures in companies within which the local managers can take decisions regarding both the product and the marketing activity.

The fifth strategic alternative is represented by *innovation*. In some cases an invention can be a more efficient solution than the extension or adopting of an existing product. We have in view here, as an innovative case considered as famous: the use of fuzzy programmes by the Japanese companies. Competition between companies has led to the technological "revolution". The utmost development of technics and technology has laid the bases of a protection type both competitive and "real" regarding the environment protection, the consumers' health and safety. In this sense, big transnational corporations had to create global standards for environment protection in order to avoid obstacles caused by regulations in the field already existing in some countries.

A strong effect of globalization has been felt on the financial markets which is a global dimension, the capital movement from one

area to another one determining the occurrence of some both economic and political crisis phenomena. To fight against these phenomena the governments are obliged to regulate the development conditions of global financial market.

The analysis of the position taken by the internationalization process is also interesting from the point of view of a company's general strategy. Globalization supposes extension of companies' businesses on other markets where the demand level is higher than the offer one. In this sense, companies have to adopt the manufacturing conditions to the existing ones at local level, enlarge the range of products and services, and to adapt its managerial culture to local companies. Carrying on activities abroad allows the new companies to render their own resources profitable.

As regards the companies' amplexness and functioning abroad we mention that the researcher Dunning analyzed and promoted a series of representative factors by the help of the paradigm O.L.I": [5]

- Factor O (Ownership Advantage) also called "competition capacity specific to the company" refers to the new products emerged on the market, the company's research and development capacity, the firms' specific know-how;

- Factor L (Location Advantage) states the regional advantages specific to the firm and quantifies globally the level of salaries in a certain area of interest for the firm, the corresponding infrastructure, political obstacles against the new investors, technological dynamics, and taxation system specific to that area.

- Factor I (International Advantage) is mainly focused on the transactional costs corresponding to the firm's own activities or those resulted from cooperation with third partner firms.

We specify that there is not a clear cut distinction between these factors, but there is a relationship of reciprocal dependence as follows: the factors specific to the firm (represented by the factor O) influence the local factor (represented by the factor L) as the investor promotes his own competition advantages abroad as well. The possible local disadvantages occurred (corresponding to the factor L) may be compensated by the reduction of transactional costs

(corresponding to the factor I). The main reasons which make the companies to extend their activity at global level refer to: [5]

- creation of a favorable framework for companies' development by increasing the sale volume, profit and market quota (the extension of companies' activities is made also by their penetration into certain external markets);

- rendering profitable the competition advantage the companies dispose of (for example the carrying on export activities increases the life cycle period of the companies' products , these ones beginning a new life cycle abroad);

- putting away competition by getting on the competitors' market.

In conclusion we can state that globalization allows the obtaining of advantages after having benefited from the synergy effects and economy especially by: getting the companies' managers concentrated on the most important activities; placing those less important activities out the company from the point of view of the company 's competitive advantage, thus having an optimized medium of the company's activities under conditions of high economic efficiency.

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Global Managers' Role in Determining and Implementing the Firm Strategies

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Abstract

At present the most constant and decisive dimension of our society is represented by change, its effects the more significant are the shorter time they require. How do these changes influence precisely the managers in state companies and their managerial decisions? How have they succeeded in getting adapted to the emerging market economy?

A dominant characteristic of these changes is the transformation of the economies in the East European countries (ex communist) from controlled economies into free market ones being characterized by high offers of goods and services. The study on economic and political transformations in the East European countries highlights major differences between the strategies and instruments used in the transformation process and indicate the different social implications as well.

Key words: firm, managers, change, leadership

J.E.L. classification: M1, M10, M12

1. Introduction

Managers represent an extremely important competence of human resources in a firm, their contribution to establishing and reaching the firm's aims is – obviously- decisive. In the specialty literature the definitions of managers or leading framework given by notorious specialists differ, two of them being considered as principal. The first one includes in the category of managers not only the so-called managing staff but also specialized people; this is Peter Drucker's approach. The author states that “the

management is rendered obvious by the participation of human beings. Its task is to make people capable of performance, strong points efficient and their weaknesses irrelevant. This is all regarding management and this is the reason for which it is considered the critical determining factor.” [4] The second approach analyzes the functions fulfilled by managers within an organization and concludes that the sphere of competences, tasks and responsibilities borne by managers is larger than that of the executive staff.

Other specialists consider that the human resources manager should have, besides managerial knowledge and skills, the following qualities as well: [7]

- to be tenacious in pursuing the application of correct solutions;
- to be patient and comprehensive regarding the others' points of view and opinions;
- to do his best to improve and develop management methods used in his work and make the others sensitive to the human resources problem;
- to be able to find fast solutions for problems that might occur unexpectedly;
- to use the information and data resulting from previous studies in order to reduce useless work;
- to take care of people, get on with them, be an observer of human nature;
- to have teamwork spirit;
- to possess a strong loyalty sense towards the people he is working with and the firm as well;
- to be a good negotiator;
- to be good humour sensed and enthusiastic of his work.

2. The evolution of human resources management in Romania

In Romania, the communist period promoted a series of major changes in the management culture, of which knowledge is important to analyze the evolution of human resources management in firms. [1]

Managers' weak development of management capabilities is reflected by the lack of any vision on their own organization and their incapacity of making strategies and leading the firm to fulfill them;

The avoidance of bearing responsibilities towards the firm performances, bureaucratic obstructions and normative deficiencies become excuses of the own failure;

The importance of powerful relationships is even greater in our managerial environment than in other ones. Over time, it has led to a degradation of managers' authority as well as a distortion of the acknowledgement and appreciation pattern of personal value. Individual success has been completely eliminated for a long period of time from the common code of social appraisal, and the activity specific to managers has been regarded less like a profession and more like a social status, as a privileged position within the firm;

Instable management style. One of the observations made when discussing with foreign consultants is that the Romanian managers go very easily from a rigid attitude towards their subalterns to an excessively tolerant one. The polls made in this sense showed that the general style of management seems to be a democratic one, either consultative or participative.

The managers' reactions towards change are still confused. Although most managers admit that managerial innovation is important, they do not exclude the fact that there are a lot of obstacles against it, such as: lack of some managerial mentality, indolence, conservatism and the fear of inter-personal conflicts.

The correct understanding of relationships with market delays in taking place, the concern for products quality, as a condition of success, is still low, the direction to production predominating. Seriousness and responsibility in the relationships with partners are still underestimated, most managers not being

yet familiar with concepts such as "business ethics" or "social responsibility of the organization".

General self-didacticism of Romanian managers, the characteristic that shows that the Romanian manager trusts only in his own experience, capacity of overcoming critical situations, relying more on empirical knowledge and intuition than on the systematic acquisition and use of knowledge.

To develop the managerial capacities of present-day managers, a realistic program should sense the segmenting of target-collectivity and application of some adequate measures for each segment in part.

For top managers, great attention should be paid to the development of their managerial capacities, by means of some training programs, completed by consulting and assistance actions. The programs will focus on the integrating problems of the organization: strategic management, leadership, international business management, and business ethics. At the same time, the programs should train also the managers' abilities of working with people (communication, negotiation, motivation) as well as their personal abilities. A great part of these ones may be done by programs organized in the company framework.

For medium-level managers who operate in the functional departments of the firm, there is the possibility to organize medium-duration programs (approximately one or two weeks) focused mainly on: marketing (industrial marketing especially), development of human resources and quality assurance.

For inferior-level managers, it is necessary to organize programs that stimulate the development of personal abilities, train them in work team and offer them the organizing techniques required by this level.

In the managerial performance training, an important role is played by the idea exchange and experience provided by managers from the West as well as those from Eastern and Central Europe, facing the same types of problems, being made within some workshops and seminars, and which are real opportunities for the

Romanian managers to get directly into contact with what this profession involves at international level and at the same to improve their own abilities and knowledge.

Together with the global development of economy, the roles and tasks played by managers in corporations have also changed. Lately, in West economies, competition has focused on corporation strategies, but also on operational excellence, which are based on the promotion of department managers who know perfectly the firm and are capable of putting successfully their knowledge into practice. Therefore, at present, the success of a company depends decisively on *the managers' quality*. [3]

Although the specialty literature displays a lot of opinions regarding the factors that influence management efficiency, two of them catch significantly the attention, the strategic-economic vision expressed by Michael Porter, in the study *Competitive Advantage of Nations*, and that of managerial style, invoked by Peters and Waterman, in the study *Search of Excellence*, respectively.

Thus, Michael Porter in the study *Competitive Advantage of Nations* [8] considers that industrial profitability is determined essentially by five forces (suppliers, new competitors on the market, the existing competitors, buyers and replacements), which power differs from each other at the industrial level. The above mentioned author analyzes also the positions held by the firms which carry on their activities in the same industrial branches, specifying the generic strategies used by managers to obtain the competitive advantage. But the experience of these firms has shown that the generic strategies influenced the West managerial practice, as the managers were encouraged to develop one-dimensional strategies and neglected the role of operational excellence, as an important means of creating the competitive advantage.

Peters and Waterman in the study *In Search of Excellence*, [9] analyze the importance of the employees' motivation, managers' role and the functioning of a real feed-back at the organization level. Consequently, it is absolutely necessary for department managers to understand the

employees' role in carrying out the operational excellence.

The development of theory and practice in the field of human resources requires firstly greater comprehension of the role and particularities of human resources within organizations. Human resources are one of the most important investments of an organization, which results become more and more obvious over time. At present, the investment in people has proved to be the safest way to guarantee the survival of an organization or to ensure its competitiveness and future. [6]

3. Aspects regarding human resources management in welfare states

According to P. R. Lawrence and J. W. Lorsch's opinions, organizations need two types of managers: a *functional specialized* one and an *integrating* one, who ensure the synthesizing of different interests of the functional departments. In the view of this theory, three specific recruitment and promotion models of managers in the European context have been identified (The United Kingdom of Great Britain, Germany and France). [2]

The first model, specific to the United Kingdom of Great Britain, opts for decentralization of the management system and is characterized by the recruitment of managers from specialists in different functions of the organization (accountancy, production), paying less attention to their qualification as generalists having qualities as integrators at the company level.

The second model is specific to Germany and consists in the recruitment of managers from the range of functional specialists who are being trained throughout their career to acquire some skills that allow them to carry out integrator roles, required by the superior levels of organization management.

The third model, representative of France, is characterized by the fact that the functional manager's role and the integrating manager's one are never combined, the functional roles being played by medium-level and inferior-level managers, whereas the integrating

roles are performed by the top managers trained at Les Grandes Ecoles. In terms of the managerial training, French firms pay more and more importance to the candidates of manager positions who have got a MBA degree. Apart from their initial training in high schools and universities, in the French context great accent is laid on the managers' training within the companies where they may organize their own internal courses or appeal to specialized institutions such as trade chambers, consulting cabinets, private schools.

American managers' training in the field of management is made firstly in universities, then within the companies, before or after they have been hired, by special training programs. The most often encountered business diplomas are "major" and MBA, the latter one being considered the most wanted professional qualification, a performance of the four – year bachelor studies, followed by a specialization fifth year.

As for the Japanese management, according to some studies carried out, its main characteristics have been shaped as follows: [2]

- in large companies, having a labor market, the managers' promotion is made in the interior, most Japanese managers having a university diploma which allows them to ascend towards the hierarchy top;

- to occupy a manager position in the Japanese firms does not depend on the number of diplomas a person might have got but on the appurtenance to the respective company. Still, lately more and more Japanese people aim at obtaining a MBA abroad, maybe due to the development of some international activities carried on by the Japanese firms;

- the managers' promotion in the Japanese companies is made on the basis of seniority and long evaluation of their activities.

The management of Japanese firms pays great attention to the organizing of some training programs on the work spot, accompanied by the rotation systems of jobs, but also training programs outside the working place or even outside the company.

In the latter case, companies send their managers to specialized institutes in the country or abroad, to get knowledge in different fields important for the firm. By-mail courses are widely spread in Japan, some specialized bodies such as the Japanese School Management JSM, dedicating its whole activity to the organizing this type of courses.

The achievements in the field of managers' training are impressive, due to the Japanese firms' competitiveness, the most methods used being occidental, but adapted to the needs and requirements specific to the Cultural Japanese context.

Peter Drucker considers that tomorrow's manager is going to be not only an active person but also a thinker. According to this author's opinion, the future's manager should have at least the following characteristics: strategic thinking (to be able to combine analysis with intuition), intercultural competence (deep cultural knowledge of the country where the firm is), extensive and continuous training (should keep always the pace with the business and cultural novelties), personal standards and behavior standards (to fulfill professionally some personal standards, precise knowledge in business, responsibility, professionalism, continuous personal training and of the employees' as well). At the organization level, on the whole, the manager is the one who conceives and carries out complex strategies. Strategic thinking should include cooperation agreements with suppliers, buyers, customers and possible collaborators who should be regarded as a whole unit [5].

Concluding, we may state that when implementing their strategies, managers should take into consideration the internal economic environment and international one, where the firm carries on its activity, as well as the changes occurring in the consumers' preferences, in order to be able to apply a highly performing management, which ensures the reaching of the objectives aimed at under maximum profitability conditions.

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Attracting Customer Banking and Quality Assurance Services and Banking Products

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Abstract

In the intense competitive conditions in order to ensure the required quality of services and financial products should be done to establish a standard of services and products and ensuring its maintenance. As such, an important part of the marketing process is to determine the minimum acceptable standards, such as for example, the maximum waiting time of a client.

Differentiation bank marketing was done essentially by modifying or supplementing concepts crystallized after long process that took place in terms of goods and services. Central axis of this differentiation is the content services and banking products, content to be the basis of specific marketing concepts but also of the market and consumer behavior. In most services, the obligations are unilateral while in the case of banking, both the client and the bank take their mutual obligations related to the use of a client of the bank's services.

Key words: Quality banking services and products, banks, bank marketing, consumers, customer segmentation

J.E.L. classifications: M31; G21

1. Introduction

Consumers choose what suits their needs. It is important that the banking financial institution to understand these needs and focus its services to clients who want to attract or provide services and/or banking products molded on their specific needs. Purchase intentions were outlined as important tool for forecasting demand for durable goods. The nature and content for the most part, banking services and financial products can be treated as durable goods.

The relationship between the client and banking financial institution is very important and needs to be maintained to ensure customer loyalty and develop long term relationships with them.

Quality products and services is now considered as a key factor of competitiveness of an organization in a specific market, including banks.

Banking competition is the determining factor that led to the need to implement modern management systems of customers because banks wanted to keep customers, they are a source of profit for banks and ultimately for shareholders, has contributed to a drastic change of philosophy from the bank product orientation to customer orientation with consequences both in business management and regulation at the systemic level in the banking sector.

2. Paper content

Analysis of customer behavior is a key component of marketing research. Customer is the most obvious barometer of the evolution of a bank. The presence of a number of increasingly more companies or individuals to bank tellers, confirms the quality of bank services, while others migrate to the same customers is testament to the weakness of the unit.

The challenge: customer orientation rather than product orientation caused significant mutations in the principles of customer segmentation. But, most banks are based on customer segmentation of the benefits they bring to the bank and not the complexity of their banking needs.

Most banks in Romania share the bank's customers in accordance with the strategy that establishes priority customer segments where the bank operates. Thus, these main categories can be identified by customers and

segments relating to each category: corporate banking; retail banking.

Each dividing the bank's main customer categories based on strategy, organizational form, the degree of evolution of customer management. Thus, we encounter segmentation using mainly the following criteria:

1. Criterion "turnover" - the criterion used in the segmentation of businesses due to high volumes of activity undertaken by these customers (generating significant income from interest and fees).

2. Criterion "Profit per customer" - often used criterion for segmenting international banks in both corporate clients and individuals.

3. Criterion "Volume of deposits" - especially segmentation criterion used in individuals. Customers with very high amount of resources are treated as VIP clients (private banking) and benefit from different treatment both in terms of banking products and services offered and their applied tariffs (significantly reduced compared to those of ordinary customers).

This segmentation does not yet lead to a separate serving customers in the segments, distribution channels and individual personnel, something which will be applied by the bank, through efficient management of customer relationships to achieve strategic and priority: *customer-oriented bank*.

When a bank customer to identify where money is not a problem, do all it can to attract and retain him. Fate in the privileged world have some special treatment, tailored to your bank account: *private banking*.

Technology facilitates the operations and transactions carried wrapped bank financial sector institutions. Today, all sectors of financial services shows increased pressure to cut profit margins. Opportunities arise constantly. To capitalize on these opportunities, institutions must adapt to new trends. It is hard to implement new techniques in an efficient, but once introduced to the organizations, the new method solves the problems encountered and the Internet specifically for each segment.

Private banking service is a luxury service to luxury customers. Customers who have in their accounts at least 100,000 euro may benefit from any such bank service offerings:

more favorable interest rates and fees on loans, product packages, cards that includes all kinds of facilities (including an insurance or some discounts) and the existence of a personal banker. The idea of a personal banker relies on the existence of a dedicated employee of that bank. The employee must also advise clients both in terms of ways to accumulate capital and in terms of ways to preserve its value. Customer will be advised not only in terms of the direction that should take the amounts invested, the bank will even say what share of capital it holds to be invested and the money placement tools are best.

Although a relatively new business in Romania, private banking already has many followers, especially those addressing the money. In principle, business people and allow a personal banker in order to multiply money. The number of Romanians who have a personal banker has increased by 25% over the past two years.

ING Bank Romania is estimated that approximately 50,000 potential clients for private banking services. Banks in Romania which have included in their financial activities such services are: ING Bank, HVB Bank, BCR, BRD, UniCredit, Raiffeisen Bank and Citibank.

The first operator on the market of private banking was ING Bank. The Bank has chosen to introduce such services to private asset management discovered an untapped market that at that time about 50,000 clients. ING currently has 500 such private banking clients who receive personalized counseling first, but also other advantages: negotiable interest on deposits, lending priority. For investment, these clients have individual deposits in lei and foreign currency, government securities, shares listed on the financial market in the country and abroad Eurobonds and municipal bonds.

Although private banking in Romania is a new concept, it exists in the group Societe Generale 100 years. Advisers to clients build customer assets depending on its objectives and global investment strategy. The group has branches in most remote areas of the globe: Tokyo, Hong Kong, Bahamas.

The supply of private banking that has earned its HVB Bank over 250 clients. Here Private Banking offers financial solutions for each client in addition to comprehensive and

personalized, a wide variety of investment options and information on financial instruments at his fingertips. Through this customer service HVB Bank may invest in: securities, BSE, RASDAQ, municipal bonds, Eurobonds, both at home and abroad. The private banking, and HVB Bank provides one stop support shop. This means that regardless of the financial needs of the customer claim, his application will always be satisfied or private banker.

In the case of banking services and financial products perceived risk is much bigger and more intense as the size of its formative elements take into account high-impact activities: intangibility more pronounced and total or partial loss of investment due to lack of liquidity or insolvency.

Give consumers greater confidence and important information from personal sources. Once found, information is retained more strongly and for longer, so that experience plays a more important role in learning.

The decision not to buy services highlight the discrepancy between perceived and desired level of consumer in the process of evaluation. Postponing the purchase decision may be due to reasons both endogenous and exogenous ones, which the company's marketing activity can alter and transform the actual purchase.

The decision to replace the service, in the context of brand loyalty may be due to a notable difference between the actual service delivered and perceived by the consumer.

And purchase intentions have emerged as an important tool of forecasting demand for durable goods. The nature and content for the most part, financial services, banking products can be treated as durable goods. Image as a representation of the meaning of customer service has in mind the most important place among the other dimensions being an element of consumer behavior customization of services.

Modeling consumer behavior bank financial services

Service on consumer behavior factors that act to customize the greater or lesser intensity of some of them. In the financial sector bank, an important place in the description of behavior of which shows influences separates

directly observable factors and the situational-specific marketing.

Marketing-specific factors are composed of mix components contained stimuli's. Mix's greater importance in services is determined by the character, specifically found in all its components.

Situational factors specific elements are made of when and where consumer behavior is manifested. Underlying the emergence of the need and the decision to purchase. Influences the nature of endogenous determine customer behavior to a greater extent, are specific psychological content and form of behavior. Helpful are considered: perception, information/learning/ personality, motivation and attitude. Usually, services are suggested by other more accurate presentation of the product components: environment, contact personnel, equipment.

Exogenous influences appear as non-personal sources of information, which is why they hold an important place in the formative factors of buying behavior. From this point of view separates variables: family, membership groups and reference groups. Peculiarities service consumer behavior may be seen by considering various factors which determine the size of the service, namely: the expected service and perceived service level.

The relationship between the client and banking financial institution is very important and needs to be maintained to ensure customer loyalty and develop long term relationships with them. Attracting new customers can be more expensive than maintaining existing ones. It is universally recognized that in a market economy, the price to attract new customers is 4 or 5 times in the financial cost and effort than developing and maintaining relationships with existing clients. Therefore, any financial institution, banking, fund maintenance of existing customers is a crucial part of marketing strategy. The strategy should contain a component which is directed at maintaining and developing this fund clients through meet their needs.

Customers, both current and prospective ones, are all important for economic activity, quality and customer care services, inevitably remain key elements of the total supply of services, but conditioned by the constraints imposed by controlling costs and maintaining competitiveness in terms of price. The key to

maintaining customer loyalty is to keep satisfied. If a customer is satisfied he will want to stay in relationship with the company, will use increasingly more services to meet their needs and recommend favorable bank and others.

Long-term loyal customers who will provide income to the bank. Customer loyalty improves the image of banks and financial institutions can be an excellent source of advertising. Customers attached, consisted not want to work with competitors of a company for similar services, even if sometimes they will offer cheaper services, or provide attractive interest rates.

Quality products and services is now considered as a determinant of competitiveness of an organization in a specific market, including banks. Together with other factors, quality products and services that determine quality environment and quality of life of every citizen.

In a bank customer relationship management resources are focused predominantly bank customers with a high degree of complexity requirements. Delivery of services and products, their structure, pricing, promotions be made according to customers' real needs. Also, the time you allocate the customer's bank is directly proportional to the degree of complexity (sophistication) of its activity.

Implementing a customer management system in a commercial bank behavior and completion of certain phases of the fulfillment of certain requirements such as:

- development and implementation of appropriate strategies - changing banking strategy and policies by which this applies is the first measure to be applied by each bank to be created within the overall implementation of the system of customer relationship management.
- customer segmentation process and understanding the needs of each customer segment in order to allocate appropriate resources, reduce costs, increase revenue;
- high degree of involvement of the bank's leadership in coordinating and organizing the project. It will organize a project team which will exclusively allocated resources to achieve project.
- defining technologies needed to implement - deciding which technology to be integrated into the new organizational

concept and is also a useful tool used in both business management and the basis for the decision is extremely important.

- choosing an IT partner and a reliable consultant - technology solutions provider credibility, experience in the marketplace, the ability to build a long term partnership will be the main issues considered at its selection;
- technological solutions will have to take into account the system's ability to provide applications for all business requirements and be sufficiently flexible for further development.

Thus, one can say that they bring together all the pieces of gear that will have a significant impact on profits and thus value of the bank shareholders. *Need for this management system is only due to the desire to obtain a higher profit per customer?* No. There are other equally important aspects that determine the necessity of implementing customer relationship management, business management as follows:

- implement a system must lead to obtain long-term performance and not short term. Such a system can only be done in an organization focused on creating partnerships with our clients on the proper understanding of their needs and their evolution in time;
- changing philosophy of approaching banks from product orientation to customer orientation has led to policy changes that require a bank customer relationship management efficiency for understanding customer needs;
- new banking regulations amplify the need for closely monitoring customer performance, the risk associated with selling bank products and services leading to additional data requirements and complex and detailed information about customers;
- banking process automation and distribution channel diversification generates additional needs of management and integration of information and data about customers;
- IT solutions are becoming increasingly complex and causes continual change in business rules that impact directly on business bank customer relations management;

- retain customers in the system is an important factor for the profitability of banks;
- retain customers is even greater as the number of products and services sold to one customer is higher;
- achieve a high degree of retention involves complex and integrated management of all distribution channels and achieve a single database that integrates data and customer information from all these channels of distribution.

Banking competition is the determining factor that led to the need to implement modern management systems of customers because banks wanted to keep customers, they are a source of profit for banks and ultimately for shareholders, has contributed to a drastic change of philosophy from the bank product orientation to customer orientation with consequences both in business management and regulation at the systemic level in the banking sector.

Providing quality banking products and services

Quality banking services and products is difficult to define because it has few natural size. Studies indicate that only a measure of quality banking products and services is the opposite of the perception of customers that product. Customer attitudes towards banking service that is formed according to the discrepancy that exists between their expectations and actual service performance. Therefore, in promoting their services to banks should be guided by the motto "***Promise only what you give and give more than you promised***".

Consumer banking products and services should not be misled by advertising. Realistic expectations must be built, because customers may be dissatisfied and can give excellent services or products because of advertising which has generated the expected levels without real support.

Referring to our banking system, quality banking services and products is shown by indicators calculated on the basis of the reports of the prudential and reporting of financial accounting. These indicators have worsened lately noted, the main explanations are: the economic recession and rising unemployment, currency depreciation in early 2009 (given that the relevant issue

foreign currency loans accumulate about 60% of government credit) financial disintermediation, high level of interest on loans, risks related to the growing trend.

Negative trend that we recorded quality loan portfolio, the effect of global economic recession and financial crisis, common to many developed and emerging countries in the European Union. A positive aspect is that if our country in the balance sheets of credit institutions do not exist "*toxic assets*" (toxic assets = popular term for certain financial assets whose value has dropped significantly and there is not a market functional, so that such assets can not be sold at a price satisfactory to the holder. The term became common during the 2007-2010 financial crisis, in which he played a major role, but also that no bank was not in bankruptcy. Thus, there was no need for government intervention, namely the use of public money to rescue banks.

The main purpose and, moreover, customer loyalty is the key to maintaining a high degree of customer satisfaction. S has shown that once a customer has chosen a bank, it is unlikely that will change if it is satisfied with the services offered. On the other hand, a satisfied and happy customer will recommend the service to others. Maintaining customers is much less expensive than attracting new customers. To keep a bank customer must always come to meet their needs, must reach the "***threshold of customer reaction***". Each bank aware of the importance of quality services aspire to exceed a minimum level of satisfaction and provide customers more than they require.

It is important for those in charge of marketing in the bank to know if consumers hold favorable or unfavorable attitudes towards products/services them and understand why clients have these attitudes.

The priority objectives for efficient management of total quality banking products and services, according to our concept, have in mind:

- anticipating needs, expectations and needs of individual clients and providing customized solutions able to satisfy all these requirements, expectations and needs;
- primary orientation towards the client, but also taking into account the

needs, requirements and expectations of other stakeholders;

- total commitment to quality by all managers and employees;
- providing services and products of the highest quality;
- establish relationships with the best customer loyalty;
- providing the necessary skills, motivation and involvement of all employees;
- providing integrated services for clients.

The implementation of quality, an important element of success is the clear vision of management and its ability to transfer his enthusiasm to all bank employees.

For any bank, it is vital that services and products they offer to be successfully listed on the market to achieve the objectives of growth and development of bank and financial sector default bank. Relationship between client and bank is very important and needs to be maintained to ensure loyalty and to develop longer term relationships with them.

Service quality is the result of confirmation of consumer expectations that they have experienced during rendering. Banking service quality depends on the knowledge of the person providing the service, her skills, motivation, good will and personality, but also the perception that receives customer service.

Banking institutions can provide quality control by offering various ways: selecting the best personnel and providing effective training and his being caught; monitoring (inventory) customer satisfaction by monitoring their behavior and setting any suggestions or complaints procedures and ensure that distribution methods to present a consistent and acceptable level of service.

3. Conclusions

Improved activity in the future - if the service quality standards are set correctly and monitored properly, they will constitute an effective mechanism for planning future improvements and developments of financial products and services.

Monitoring standards of performance are vital strategies for successful customer loyalty through quality service and products. Thus, checks can be:

- *Internal* - held in the branch and the Central in order to confirm the application and system performance standards;
- *external* - are aimed at ensuring the manner in which customers are satisfied with the quality of service.

Measuring instruments used are different, one of the techniques commonly used in the financial system is that of „*mystery customer*”.

Quality management perspective banking is extremely interesting, considering the character, but demand and supply dynamics of banking services and products, and continuous emphasis on competition. Increasing the number of banks has led to the development of competition and awareness of issues related to quality banking services and products offered on the market (so to consider the quality perceived by the customer, not just the desired quality/made by banking institution).

Increasing the number of banks has led to the development of competition and awareness of issues related to quality banking services and products offered on the market (so to consider the quality perceived by the customer, not just the desired quality/made by banking institution).

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Banking and Financial Markets in the New Economy. Impact of the Financial Institutions Banking

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Abstract

Use of new technologies and how the circulation of information, in banking, globalization emphasizes more than any other field. Today, globalization of financial markets is a priority both for multinational companies and governments and international institutions. The degree of priority is determined by financial markets ensure that the entire global economy connection.

Financial crisis calls into question the situation of areas (components) of the capital markets less regulated and controlled (the mortgage market, derivatives market etc.). One clear effect that it has the financial crisis is the rethinking and reforming financial systems by introducing new measurement systems and financial risk assessment but also by exerting greater control by regulatory institutions in the investment funds, pension funds funds, life insurance and mortgage.

Key words: financial markets, financial systems, new economy, knowledge economy, globalization

J.E.L. classifications: G2; G3

In the new economy - knowledge-based economy, individuals are more important than local in which they were grouped according to traditional theories of segmentation (segments defined by nationality, income, age). Evolution of the main financial markets lead in future to build a global integrated financial market dominated by global financial conglomerates activity that will develop around the existing banks. Global financial market will be characterized by a market-based system, because this system does not require legislation in detail all aspects of transactions

in financial products and services and is one that facilitates the process of innovation.

Currently there are a lot of *obstacles* that must be overcome in order to speak truly a global financial market. These include:

- of lack of harmonized accounting regulations that determine a company's financial reporting standards in different countries. This standardization should allow an easy analysis of the financial situation of companies in which it invests. To overcome this obstacle, so the European Commission and International Monetary Fund have established international standards and a code of conduct applicable at international level.
- the principles of corporate governance failure and treatment of minority investors, particularly in developing countries.
- insufficient development of infrastructure to enable the achievement of an important obstacle for International Settlements, whose desire to overcome not only depend on regulatory and control authorities of financial markets, but also the financial resources allocated.

The existence of obstacles mentioned represents a normal situation, but will not be unavoidable, so long as globalization is a necessity of the evolution of human society, society has reached a level of development that makes it extremely difficult if not impossible to exist in the space closed, without relations with the outside.

When a company is not working well, economically, one of the first measures is to reduce the marketing budget. But in a crisis that affects or may affect financial increasingly more banks, communication strategies should be improved and piled upon the current and far from reducing marketing

budgets. The funds for what is marketing is extremely important as how they are promoted and distributed bank products and services, contribute to profits.

After that included the U.S. financial crisis spread to Europe, affecting the banking system. Information about the bankruptcy of Lehman Brothers, the fourth-largest investment bank in the U.S. in size, the front page of the international media. **The crisis over the ocean, prompting authorities in Europe to generate reactions and management welcome the effects.**

However, before being a general financial crisis, the current situation should be individualized in terms of communication, the main problem of each banking institution. At least for current and correct information to clients to keep control of an outbreak of general panic, each banking institution would need to communicate effectively and to inform their customers about the situation they face. We are not referring here to new strategies for positioning or integrated communication campaigns for various services but the information on strict financial crisis.

Financial crisis situation raises the issue of those areas (components) of the stock market less regulated and controlled (the mortgage market, derivatives market etc.). The effect that you submit financial crisis lies in rethinking and reform of financial systems by introducing new measurement systems and financial risk assessment but also by exerting greater control by regulatory institutions in the investment funds, pension funds, life insurance funds and mortgage.

Bank financial institutions that have experienced unwanted effects of financial crisis or have been declared bankrupt, or were withdrawn from trading on the stock is then partially or wholly taken over by other banks or groups of banks.

Fingerprints on the financial crisis has left them on the financial institutions can be summarized as follows:

1. Financial institutions supported, monitored or taken by the government:

- **Northern Rock** (nationalized)
- **IndyMac Federal Bank** (under the supervision of the Federal Deposit Insurance Corporation);
- **Fannie Mae** (taken by the government);
- **Freddie Mac** (taken by the government);

- **American International Group** (in September 2008 received a credit facility from the government worth 85 billion dollars guaranteed 80% of its shares);
- **Bradford & Bingley** (nationalized in part on September 29, 2008 and partially sold to Spanish bank group bank Abbey Grupo Santander);
- **Fortis** (Belgian government took over in October 5th, 2008 and will be finalized its sale to BNP Paribas);
- **Glitnir** (Icelandic government bought by Icelandic Financial Supervisory Authority on September 29, 2008 for \$ 600 million Euro);
- **Hypo Real Estate** (received approval on 29 September 2008 for a credit line worth 35 billion euros from the German government and a group of banks, then on October 4 it was agreed that this credit line will be worth 30 billion euros from banks and groups of 20 billion euros from the Bundesbank);
- **Dexia** (on September 30, 2008 the Belgian, French and Luxembourg announced a 20.4 billion-funded banks that Euro);
- **Landsbanki** (located since October 7, 2008 under government surveillance Icelandic Financial Supervisory Authority in Iceland);
- **Kaupthing** (suspended from trading on October 8, 2008 and placed under government surveillance Icelandic Financial Supervisory Authority in Iceland);
- **ING Group** (received on October 19, 2008 10 billion Euro funding from Dutch government);
- **Citigroup** (on November 24, 2008 received funds amounting to 25 billion dollars plus the 20 billion dollars received in October 2008, the market value of its shares dropping significantly to 244 billion dollars to 21 billion USD, a decrease almost 10 times).

2. Financial institutions bought/taken the market by other financial institutions:

- **Countrywide Financial** (acquired by Bank of America with 4.1 billion dollars on January 11, 2008);
- **Bear Stearns** (taken over by JP Morgan Chase in March 2008 after previously received a loan from the U.S. government);

- **Alliance & Leicester** (taken in October 2008 after Spanish bank Banco Santander has been delisted from the London Stock Exchange in June 2008);
- **Merrill Lynch** (acquired by Bank of America);
- **Washington Mutual** (partially sold to JP Morgan Chase for 1.9 billion dollars in June 2008, the rest going into bankruptcy);
- **HBOS** (in January 2009 became part of the bank group Lloyds Banking Group);
- **Lehman Brothers** (partially sold to Barclays and Nomura Holdings plc, partially declared bankrupt);
- **Wachovia Corporation** (will be acquired by Wells Fargo for \$ 15.1 billion dollars already approved the merger with the Federal Reserve);
- **Sovereign Bank** (Banco Santander bought for \$ 1.9 billion USD on October 13, 2008);
- **National City Corp** (acquired by PNC Financial Services on October 24 for \$ 5.2 billion USD with support from U.S. government).

3. Institutions declared bankrupt:

- **New Century Financial Corporation**
 - **American Freedom Mortgage**
 - **American Home Mortgage**
 - **Lehman Brothers** (partially sold to Barclays and Nomura Holdings)
 - **NetBank** (american bank)
 - **Terra Securities** (Norwegian company specializing in selling various financial instruments);
 - **Sentinel Management Group** (american financial services company specializing in cash management);
 - **Washington Mutual** (investment fund partially sold to JP Morgan Chase);
 - **Icesave** (savings bank Landsbanki Group)
 - **Kaupthing Singer & Friedlander** (British bank partly transferred to ING Group, went bankrupt partly)
 - **Yamato Life** (Japanese insurance company went bankrupt on October 10, 2008)

4. Institutions in reorganization procedure:

- **ACC Capital Holdings** (American savings bank specializing in mortgage loans).

All these mutations on the capital market, have caused significant international changes both in the evolution of capital market (volume, volatility) and the perception and behavior of individual and institutional investors.

Financial crisis caused a shift in the objectives of the banks, mainly from the quantitative targets (to increase market share or maximizing profits in the short term) by line approach to reduce the financial intermediation process globally, which accommodates most significant measure in a qualitative analysis and risk associated with lending. Reducing the supply of financing from Romanian banks has resulted in tighter lending standards and terms of population and companies. Tightening was more severe than in the euro area (both in intensity and the speed of implementation). Romanian banks have argued these measures through: negative expectations regarding general economic situation; high risk associated with high duration and price adjustments necessary for the execution of collateral/security required; growing risk associated with some companies operating in sectors; expectations on the deteriorating financial situation of the population.

Which banks and lending terms have tightened the most in 2009 were: the average interest rate margin over ROBOR (for loans to businesses and households), collateral requirements (for credit companies) and the maximum weight of debt service in monthly income (for crediting the population). Yet even amid the pressures on financial intermediation, there are market segments that have seen positive developments in terms of financing:

(A) loans to corporations, especially

(B) real estate loans for the population (increase of 22 percent, in December 2008 - June 2010).

The fact that the Romanian banking system has escaped unharmed from the present crisis does not mean he has to face some major challenges. Of these, we mention those of which we have found most important:

1. rigorous and responsible assessment of the risks of banking activity by: avoid exuberance that could trigger a fact that has not spread in our banking crisis; clear understanding of the fact that Romania has not yet come a full economic cycle. The fact that the economy is in expansion phase of a great help maintain healthy banking system. In assessing risk, but banks need to take into consideration the time when economic growth will not be as robust; avoid the illusion that any risk assumed by the bank may be transferred to the customer. Excessive risks can easily be turned against the creditor; maintain vigilance to minimize operational risk. Strong growth in customers and transactions, increasing the number of units and employees are, by themselves, operational risk factors that must be evaluated and countered by appropriate measures.

2. Rigorous preparation for labor. It is closely related to minimizing operational risk. Often, unfortunately, but just sacrificing austerity programs of staff training budgets - which affects a company's potential long-term. Especially so in a dynamic industry such as banking industry, where the workforce has increased by ten percent every year, and global market conditions are in so deep a transformation, continuous training of staff is a prerequisite.

Why is it less vulnerable banking system in Romania? Explanation:

- strong capital base: until a few years ago, he could even speak of an over cap, most banks recorded solvency ratio well above the limits recommended by the Basel standards.
- the investments are domestic, which is booming.
- the statement that the banking system from us was not affected by the crisis because it is unjust primitive. Investments in domestic loans provide a high efficiency, which is superfluous seeking other investments on foreign markets. The problems in our banks are to identify new resources, internal and external, and maintain portfolio health officer.
- the new regulations of the National Bank for credit slowdown can contribute to maintaining a healthy loan portfolio.

- if they could see a temporary additional liquidity needs, the first resource should be even reserve requirements of banks at the NBR, which is a very valuable safety net for times of tension.

Starting from the above analysis we tried to sketch: **STRENGTHS-WEAKNESSES** Romanian banking system, which could be considered a starting point for the separation of assumptions about future developments in Romania's banking activity.

What we want to emphasize is that the banking industry is a special, in which trust is the key to proper functioning of the banking system. Once lost that trust, even in terms of performance of banking institutions, everything collapses.

STRENGTHS, without rank them in importance:

- Romanian minimum reserves banks hold significant central bank, until recently 20% of deposits in RON (currently 18%), and for those currency reserve rate is 40% at present. This demonstrates that the central bank has enough cash available to the system could gradually pump in case of liquidity crisis (which he did by cutting rates by 2% to the RON).
- Prudence and profitability indicators for 2008, though deteriorated slightly from last year show that the Romanian banking system is strong.
- Starting October 15, 2008, the coverage level per depositor per institution to guarantee individual and increased credit to the RON equivalent of EUR 50,000, while guaranteeing coverage per depositor per institution legal person and guaranteed credit remained same level, equivalent in lei at 20,000 euros. Even with a ceiling of 20,000 euros of deposits were covered 99.2%, meaning 60% of the total value of the total deposits in the system.
- The new lending rules have reduced appetite for lending of the Romans, by the fact that banks were forced to become more restrictive in lending, starting with their first clients.
- BNR's foreign currency reserve is a consistent (from 1 October 2008 as 26 billion euros), is always ready, when

- need requires, to be thrown into the market to calm everyone down.
- Central bank communication policy is an increasingly more active government working with the governor and the presidency in the transmission of messages to the public.
 - There is a fruitful working relationship between BNR and lately the Romanian Association of Banks.
 - Credit Bureau activity has intensified, there is evidence of an increasingly comprehensive borrowers.
 - Romanian banks have so far invested in "toxic", especially on the European market.
 - The possibilities of growth and development of our country can continue to attract foreign investors eager to invest better.
- A possible resetting of real estate prices (depending on its magnitude), which could affect the real estate collateral. However, the share of mortgage loans is only 3.8% of GDP, very low levels compared with Western countries;
 - The possibility of bankruptcy of some foreign banks which have branches or acquisitions in Romania;
 - Due to the liquidity crisis from abroad, some parent banks will pump more money in subsidiaries in Romania.

Existing banking crisis several years ago showed that the risk of rumor is most important in Romania than its market rate risk. Customer bank had to learn to choose their banks, not only by interest rate subsidies, charges and variety of savings instruments offered, but also by the degree of transparency of the banking institution, savings safety is paramount.

In 2011 the bank expects profit discounts that may mean, in fact, a reasonable approximation. Banks in Romania you definitely have a serious signal that it takes more than common sense in dealing with clients. If in 2011 the banks will start to fight for every dollar, and may not be so bad for customers, at least in certain respects.

Looking ahead, the development of the Romanian banking system has **SEVERAL DIRECTIONS** in which forecasts and other **DEVELOPMENTS MAY BE LESS CERTAIN.**

Between the forecasts score significantly reduce bank intermediation costs. Another area where other reducing intermediation costs will be highlighted in the next period is that of population deposits. The contribution of commercial banks for establishment and operation of the guarantee fund then deposits in the banking system was substantial. This fund and created a significant resource, which will allow the lifting of ceilings on the level of coverage to Europe.

In category developments enroll less certain number of banks which will operate in Romania between 2010-2014. In regard to the number of banks in Romania during 2014 (when it was hoped that it will adopt the euro), it will be the result of complex processes that do not last, will play an important role both on the banking market competition, and policy major market players

WEAKNESSES:

- Approximately 57% of foreign currency loans are granted, making it sensitive to exchange rate variations banks portfolio;
- A series of macroeconomic indicators have a tendency to deterioration, which may cause instability in the external capital flows;
- The largest bank in the system, BCR has been relegated by Standard & Poor's from BBB to BB+, the trend can be maintained for other banks;
- Concentration of banking activity in Romania, though declining, is quite high in June 2008, the first five banks in the system focused more than 50% of total bank assets, of which the first two, BCR and BRD-GSG, owned 37,2% of total assets;
- International situation, especially developments in currency markets in the region are vulnerable to Romania, especially in terms of speculative attacks;
- The public loses confidence in the banking system, due to the unethical behavior of some banks, especially during the current, tense (irregular raises interest and fees etc.);
- The existence of banking products and promotional variable interest then that could affect the ability of future redeemability customers.

on their local network development and credit profile.

Romania's banking system development in future will depend on successful completion of stages as a priority, as follows: permanent adaptation of banking legislation and aligning it with EU legislation and to remove legal ambiguities which obstruct the central bank supervisory capacity; strengthening regulation and supervision of capital markets, improve the quality of information about companies listed on BVB and RASDAQ, foreign investors including portfolio investors; National Bank continues to focus on well-designed prudential regulations that provide safety and stimulation, including a revised set of capital rules, the review of the pricing scheme of deposit insurance, focusing on different functional regulation of financial institutions; focus on capital market development by inviting renowned international rating agencies and brokerage houses to participate more actively in the market and by providing more stringent transparency requirements; setting up a government agency to facilitate the development of a secondary mortgage market; continue the process of developing more stringent insurance regulations.

Priorities: invite international rating agencies and brokerage firms with experience in evaluating companies will act to further the activities of rating agencies in Romania; acceleration of industrial restructuring and investment in infrastructure to create new opportunities for insurance companies; correcting regional economic imbalances; strengthening relations with international banks and financial institutions access to external financing on favorable terms.

One of the main challenges for banks in the current situation in Romania regarding the deepening international crisis of liquidity, is the limit, but also more expensive external financing sources, affecting the degree of expansion of their restraint. Although acute lack of liquidity, lending will continue to grow corporate business and retail, even if the pace of increase will be lower, due to the change in market conditions. On retail lending will maintain a high growth rate, compared to the corporate clients because of high demand, especially on consumer credit and mortgage. Also, new lending restrictions

imposed by the BNR are absolutely necessary to maintain financial stability in Romania, considering the lack of liquidity but the existence of international and national.

Even if they find that banks are turning increasingly toward the retail market segments where the offer is meant to be more appealing to the novel that he wants a house, a car, a holiday abroad or any other personal need fulfillment strategies bank still go fine on the corporate segment, where business networking, negotiation and customer culture is situated at higher levels.

Essential for a bank's credit policy is to maintain a balance of retail and corporate clients in the area according to their contribution to obtaining a commercial bank profits and a balanced and efficient management of assets and liabilities.

The measures in finance, both regulatory and non regulatory nature they are based on four main objectives: to strengthen market transparency, especially regarding the operations of banks' exposure to financial disintermediation and their commitments outside the balance sheet; improve assessment procedures to respond, in particular, problems arising from the evaluation of illiquid assets, strengthening the EU prudential framework for banking, for example how to deal with major risks, banks' exposure to titrizare operations and liquidity risk management, examining various issues concerning the role of rating agencies.

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Unemployment, a Phenomenon of Global Imbalance. The Evolution in Romania in the Last 20 Years

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Abstract

Unemployment is one of the negative phenomenon which occur with great intensity during the transition. It is encountered in any economy; in our country, the unemployment have reached high proportions.

As a global macro-flow, unemployment is generated by cases dealing with the economic situation of users, on the one hand, and social status of job bidders, on the other side.

The purpose of this article is to highlight the features of unemployment, the phenomenon existing in any global economy; also the paper aims to reveal the indicators that characterize this phenomenon, for example in Romania. Unemployment had became now, after 90 years', an important phenomenon of Romanian society and economy. Following the privatizations of the years after the revolution and restructuring of the industry, had been created a large imbalance between supply and demand of jobs.

Key words: unemployment, policies, measurement indicators, imbalance, unemployment rate.

J.E.L. classification: E24, J6, J21.

1. Introduction

Through the alarming extent and its complex structures, but especially through the dynamics that change the rhythms and meanings, unemployment has become a macroeconomic problem, being the subject of fierce theoretical, methodological and political-ideological disputes

Unemployment is considered the natural phenomenon that always accompanies the economic and social development process of each country.

In the normal range of about 3-4% and relatively short-duration, the unemployment, according to opinion of experts, can play a positive role, both globally and individually, to stimulate the employment factor's flexibility, to enhance the productivity to stimulate the education and to improve labor discipline.

2. Conceptualizing the unemployment, through causes and effects

Unemployment is analyzed in the literature from several perspectives, with more kind of views expressed, often controversial; along the way have been offered numerous definitions of this concept, which, although characterized by diversity, yet they contain common elements. The word "unemployment" has its origins in the french "chômage", which derives from the latin "caumare. The Latin word comes from the greek "cauma" which refer to "high heat" which stoped any activity.

Samuleson defines the unemployment as "a plague of modern economies which prevent people to work." Milton Friedman argues that unemployment is useful and justified as a "natural consequence of market mechanism". Băbeanu Marin and others from Romanian literature [2] consider unemployment "a concept that means the opposite situation of employment of labor resources, it represents the degree of vacancy of potentially active population who would like to work, but can not find a job".

The french professor Alain Cotta described unemployment as "the situation of the no working individual ", considering that only the involuntary unemployment must be taken into account in analyzing the country's economic situation". A belgian professor, Fernard Baudhuin sees unemployment as "full or partial inactivity of a group or of an individual" [4].

Unemployment is linked with various types of economic, demographic and socio-cultural behaviors, with the skills of the workforce, productivity, technological progress, economic development or recession etc. [5]. There are many reasons that cause unemployment, both at micro and macro level [1]. A major cause is the insufficient demand for labor, the state of inactivity being the subjective desire of those concerned or determined by factors beyond their control.

Among the possible causes of this phenomenon are reminded:

- the natural growth of labor resources, namely the working age population;
- the slow development of private sector;
- the disposal of a employed population part, as a result of jobs' reclassification;
- the specialization and segmentation of social - professional non-competing groups and categories, as a result of the unprecedented multiplication of jobs, specializations and qualifications and of the many differences between employees, in terms of their experience and ability;
- the enhancing of interventionism elements from public power or institutions involved in training staff, hiring or using the work factor, with impact on the labor market.

The negative effects of unemployment can be viewed both socially and economically, in other words, are the effects felt by the unemployed and his family and effects at the macroeconomic level. Unemployment is a personal issue that affects the dignity, and sometimes the balance of the persons concerned, causing tensions in family life. On the other hand, unemployment can lead to an increase in violence, crime, delinquency, due to the low standard of living of the unemployed.

At the macroeconomic level, the unemployment causes a significant decrease for part of labor resources, which leads to lower intensity of economic development, but also to increased costs required to support the economy as unemployment benefits.

Specifically, when discusses about the consequences of such an imbalance, are taken into account those:

- the phenomenon induces itself the notion of poverty because is causing the sharp decline in living standards and the quality of living;
- are affected the individuals who are part of the active population underemployed, people who have the desire and ability to work, but have no place to work;
- being a macroeconomic imbalance, it not affects only the materials departments of the national economy, but also its human elements;
- is developed the work on the black market, usually with lower pay, under the national minimum wage prices and without employment contract;
- the redundancies represent a powerful obstacle to a country's economic recovery activities.

Some prospects remark positive consequences of unemployment, such as:

- if is assumed that usually are dismissed the least prepared people or those with low skills, appears the raising interest for work, but especially is enhancing the competitiveness of existing workers (psychological impact);
- because it is the following of the individuals dismissal, this phenomenon creates a backup (not necessarily safe) of people potentially willing to work, in the idea to cover a possible additional demand for labor;
- for employed people, is influenced their discipline and punctuality, because of the risk of dismissal.

3. The evolution of unemployment in Romania after 1991

The long-term unemployment in Romania has increased both, in absolute and relative terms, in the recent years, leading to increased the expenditure, concerning the unemployment benefits - to support allowance and social assistance programs for the unemployed labor force [3].

The existence of unemployment in Romania has manifested itself in the first part of the twentieth century, but its size was reduced in numbers, because the industry used a low share of urban working population (the urban population was 3,051,253 in 1930 and until 1948 reached

3,713,139 persons). The statistics show that the number of unemployed in Romania grew in the first half of the century, arriving in 1928 to 32,727 people (in a population of about 17 million), in 1932 to 38,890 people (in a population of 18,426,159 people) and in 1937 the number of unemployed fell to 10,851 people (from 19,535,398 inhabitants)

During the Second World War, in Romania was introduced the Law on labor during the war; therefore, the economic crisis took acute forms, which led in political and legal plan to the forced abolition of unemployment. The lack of unemployment during the Law in wartime has non-economic causes.

After the war period until 1989, the withholding of unemployment in Romania has special explanations, closely related to the increase (accelerated) in industrial economic, to the massive urbanization (agglomeration of population in cities) and to construction of national economic objectives, integrated in a centralized strategy of using the resources.

This does not exclude the existence in Romania of possible forms of disguised unemployment.

Effectively, the manifestation of this phenomenon takes place since 1989 in a very fast pace, its share increasing by 2-3% per year. Now take place a division in economy, unfurled amid privatization and economic activities' decentralization, which targeted mainly trade, transport, communications and computerization activities in general rather than service sector of industrial production.

During the 19 years of transition, the size, dynamics, shape and characteristics of unemployment in our country have evolved and have qualified.

After 1990, the labor market in Romania has caused tension, determined, first, by the ownership, the development of market economy and the changing relationship between supply and demand, and on the other hand, by the dynamics of the socio-demographics structures (age, demographic relationship dependency unfavorable etc.).

At that time, training and labor market performance has become a priority of its economic reform program. Since February 1991, was introduced the unemployment aid, as a form of social protection and represent all the measures taken to prevent, remove or

decrease the consequences of certain "social risks" on the living standards of the population. In fact, social protection is a form of insurance to individuals against the risk of loss of revenue [7].

After 1991, when Romania was enacted Law no. 1 concerning the social protection of unemployed and their reintegration in work, unemployment has become the main form of labor market imbalance.

4. Anti-unemployment policies and measurement indicators – past and actuality in Romania

The policies for combating unemployment aimed to encourage employees to turn to growing areas branches, to fields for which exist demand on the labor market. Gheorghe Oprea (2001) proposes a series of measures that may result in policies to combat the unemployment:

- policies to support the economic growth process: they are necessary, since it is accepted that one of the main causes of unemployment (especially the cycle form) is the insufficient concern for visible growth. The decisive role, from this perspective - is detained by state, which, through financial, monetary and fiscal mechanisms, must spur the real overall progress, ensuring proper conditions for a moderne market economy development ;
- policies to reduce the labor supply: concerns the older employees, whose rate of activity in countries in transition, although decreasing, is higher than in developed countries;
- services for unemployed: the improving and the expanding of services offered by the labor offices can not be neglected. In Western Europe, for example, are 7 to 14 workers in such institutions to 10 000 people, while in Eastern Europe are 1-2 workers for the same number of working age people;
- creation of new jobs: it is justified especially in terms of efficiency and is not recommended a forced or arbitrary increasing for labor demand;
- general measures on labor market factors, suppose: the external flexibility- in order to adapt the number of workers to the

demand changes for labor (through moderate layoffs); the internal flexibility, through resizing working time; the restructuring of technological processes manufacturing;

- training / retraining: when carrying out restructuring, not only redundant workers lose jobs, but there is no demand for what they provide. Retraining is very important, especially if there is a situation that the number of vacancies is equal to the number of unemployed, and lack of qualification would prevent the latter to become employees [6].

A good employment policy should cover not only reduce unemployment but also precarious employment restrictions for the creation of stable and well paid jobs [8].

The unemployed population: is formed by unemployed persons looking for another job or people seeking their first job, people aged 15-74 years, which, according to the International Labour Office, must meet the following conditions:

- in terms of health, to be able to work;
- to be available for immediate employment;
- to be over the age of 15 years;
- to have no job;
- to look for a job.

Therefore, the number of registered unemployed comprises persons who meet the cumulative conditions set out in Law No. 76/2002 concerning the unemployment insurance system and stimulation of employment, persons registered at the Employment Agency in whose jurisdiction have their residence.

According to Statistical Yearbook of Romania [9], the quality of the unemployed is attributed, specifically:

- to the graduates of education institutions and of special schools for disabled persons older than 16 years, who in a period of 60 days of graduation, have failed to get employed on the basis of their professional training;
- to the people that prior to military service were not employed and for 30 days after their fireplace could not have employment.

The unemployment rate is an indicator by which is measured the unemployment intensity and is determined by the ratio

between the number of unemployed and the reference population (usually, the active population).

The economic practice, according to the objectives pursued, the information available and applicable law, offers the designation of several types of unemployment rates, such as:

a. The overall rate of unemployment (ORU), calculated as the percentage ratio between the number of unemployed persons (U) and active civil population (AP_c), as follows:

$$ORU = \frac{U}{AP_c} * 100,$$

where $AP_c = EP_c + U$, and EP_c – employed civil population.

b. Partial Unempl

oyment Rate (UR_i) by gender, age, socio-professional categories, counties, defined as the percentage ratio between the number of unemployed persons (U_i) and active civil population (AP_{ci}), according to the following relationship:

$$UR_i = \frac{U_i}{AP_{ci}} * 100$$

c. Full rate of unemployment (RU) - includes the partial unemployment and is calculated as percentage ratio between available working time (WT_n) of the unoccupied population and in a state of partial unemployment (visible underemployment) and total available working time (WT_t).

$$RU = \frac{WT_n}{WT_t} * 100$$

In world practice, to collect information on unemployment, they are used three data sources (like data collection methods on the active population): population census, employment survey carried out in households and collect information from administrative sources.

The current statistics in Romania, since 1992, there were monthly realized series of indicators:

- number of unemployed (the number of people entered in the labor offices);
- unemployment rate;
- structure of those seeking employment by gender, age groups, by duration of unemployment, socio-professional categories and counties.

Regarding the evolution of the indicator "unemployment" in Romania over the past 20 years, the situation is as follows:

Table 1
The unemployment rate evolution in Romania during 1991-2010

		Annual Average
Unemployment Rate (total) %	1991	1.8
	1992	5.4
	1993	9.2
	1994	11.0
	1995	10.0
	1996	7.8
	1997	7.5
	1998	9.3
	1999	11.4
	2000	11.2
	2001	9.0
	2002	10.2
	2003	7.6
	2004	6.8
2005	5.8	
2006	5.4	
2007	4.3	
2008	4.0	
2009	6.3	
2010	7.91	

Source: National Employment Agency,
<http://www.anofm.ro/>

The table 1 indicates that the decline and imbalances caused by the transition to a market economy led to an explosion of unemployment in the early years of transition, culminating in 1994 when the annual average of unemployment rate was 11%. This indicator has the highest value in 1999 and 2000, in 2010 recording 7.91%, highest since 2002 when the unemployment rate reached 10.2%.

The registered unemployment rate in Romania in late January 2011, for example, at the national level was 6, 74%, with 0.13 percentage points lower than in December of 2010 and with 1.38 percentage points lower than in January of 2010.

The total number of unemployed registered in the records of county agencies for employment was 614,976 persons, 11,984 persons less than in the end of the previous month.

Regarding the unemployment rate by gender, in January 2011, compared to the previous month, the male unemployment rate fell from the value of 7.47% in December, to the value of 7.41% and the female unemployment rate decreased from 6.20% to 5.99%.

Decreases in the unemployment rate recorded in 28 counties and in Bucharest, the most important being the reduction of unemployment in Valcea (by 0.80 pp), Caras Severin (by 0.67 pp), Arges (by 0.61 pp), Calarasi (0.55 pp) and Brasov (by 0.53 pp). In Bucharest, the unemployment rate decreased by 0.1 pp.

The highest levels of unemployment have been achieved in the counties of Vaslui (12.37%), Teleorman (10.82%), Mehedinti (10.76%), Ialomita (9.92%), Alba (9.89%), Covasna (9.87%), Dolj (9.83%), Buzau (9.74%), Galati (9.66%), followed by Gorj (9.57%) and Olt (8.68%). From the total number of unemployed registered at the national level, 315,498 are compensated and 299,478 are unpaid. The number of compensated unemployed persons decreased by 14,142 and the number of unpaid unemployed increased with 2158, compared to previous month.

5. Conclusions

The unemployment is an imbalance in the labor market, an excess of supply over working demand, with different ways and levels in countries and periods of evolution, which currently does not exclude the existence of state full employment of labor.

Employment and the efficient use of labor resources are directly related to the labor market.

There are elements that can not be analyzed separately from other components, especially unemployment, since a single component in this manner can not cover all aspects, features and effects that the overall have on work factor.

Unemployment is inevitable in a market economy, being the manifestation of the endogenous processes and actions on the

economy and society. In the literature it was offered many definitions, often controversial and characterized by diversity, but one thing is certain: is a "disease" more and more frequent in the society in which we live.

It is necessary to create a complete "image" of this phenomenon, to analyze the causes that generate its huge proportions.

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Intangible Assets – Important Resources or Barriers in the Development of the Organisations ?

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Abstract

In the evolution of the economy since the 2000s the term globalization has become a topic widely debated in the economic field with its advantages and disadvantages derived from numerous studies on the changes shown by active participants in the economic life. The concepts regarding interconnected business and transactions in real time with a high degree of certainty, the quantity and quality of information transferred and received describe very well today's economic life. It can be seen, therefore a global influence of information that, under current conditions is considered increasingly significant, more often a key factor underlying the development of international competition.

This article seeks to highlight the role of intangible assets in the new knowledge economy and future trends in development organizations.

Key words: socio-economic globalization, knowledge, intangible assets, intangible investment, evaluation.

J.E.L classification: M41

1. Socio-economic assumptions

Nowdays significant changes can be observed in the structure of national economies and the result in the form of the global economy is due to the intensification and diversification of trade relation. The concepts of collaboration and cooperation are considered as very important factors underlying the phenomenon of globalization [1].

Socio-economic globalization is a well known phenomenon when discussing, but most important is to try to understand the

influences and the ways in which it intervenes in the economic life of the society.

If we were to talk about visions, the Americans point of view on the concept of globalization [2] has long passed a simple manifestation of distance business.

Specialists are speaking today about global organizations, institutions whom main goal is that of following the business practices associated with global development and new ways of extending this concept on other countries more reluctant to this change.

In this context dominated by change on all levels the capacity of organizations of becoming more competitive, is paradoxically based on one category of resource that is able to create value-added, namely knowledge [3]. This concept is considered as one which best defines the present development of organizations. Whether we speak of technical, social, economic or managerial knowledge all manifestations of information are significant in this context of globalization.

Important aspects to be mentioned here that should be taken into account in the use of knowledge are the reliability, comparability and quality of information, the role and the significance for the organization, users and management factors in the decisions they make.

Reliability of information underpinning knowledge [4] implies a pre-existing set of rules and defined as generally accepted rules or instructions. We thus have the possibility to compare, an essential element in decision making by external users.

Comparability refers to the same organizations from two different dates (in time) or at the same time, between different organizations (in space). In the same time this concept is relevant if the organization uses the same forms of presentation and the same valuation method.

The quality of information [5] is another characteristic of information, which must be answered before all the internal and external decisions of the organization are to be taken.

Another aspect is to quantify the quality of information required by the need to issue its transcription in a form that allows adding up and comparing.

Verifiability is the quality of information which allows professionals to enable content control over knowledge, techniques, procedures imposed against certain targets. It must first meet the rules and principles outlined in the registration, classification, evaluation and procedures for the development and preservation of information.

Perhaps one of the most important aspects of financial information is the objectivity required by the rules governing national character (of the organization) or external nature (national or international laws or ordinances). If we take into account all these aspects, the development process under the current crisis can meet new dimensions. The concept of innovation is worth taken into consideration (discovery or creation of new information), as part writing (by interpretation of the) economy and default accounts, a process that aims to increase the value of the organization, enhancing competition and, ultimately, the progress of society [6]. Given present conditions, the new point of view of managers in successful companies tends to grant a greater share in the lead in new ideas and innovations, thereby decreasing importance based on previous control of the markets or raw materials [7].

We are witnessing a process of "dematerialization" of tangible assets (identifiable material nature) and drawing attention to the intangible elements, innovative potential of the organization and creating value [8]. This process of "dematerialization" refers to: research and development expenditures, those related to staff development, computer products, organizing the flow of production and marketing. But the risk must be taken that these expenses can have on firm [9]. This risk can arise in future award of costs, on the impossibility of intangible assets that were invested, the irreversibility of expenditure on staff training and the need for continuous information, generating chain costs. Despite

these risks, human intelligence has now become the primary factor in the wealth of any organization, and recognizing the importance of intangible value is one of the particularly features in the new knowledge economy[10].

2. Current accounting systems

The role and position of the balance sheet and profit and loss account information is essential in all areas of business. Although one of the main features of knowledge is recognizing the importance of intangible value[11], there is now easily found insufficient presentation of the intangible assets in the balance sheet.

The balance [12], through its role to represent the financial structure of the company provides information to investors regarding taking risks in assessing the expected return on investment and offers guarantees to creditors for the amounts advanced temporarily. To sum up, the balance sheet through its asset determines the potential capacity to provide liquidity to the entity. How tendency of most investors is to find out as much information about the business of operating performance, the role of profit and loss account increased.

Given the recent crisis the interest from investors on short-term investments increased (provided by the profit and loss) to the detriment of long-term analysis of indicators as determined on the basis of the balance sheet. In this respect, to create short-term investments the role of the intangible assets is reduced, even considering them as an expense in the period. Surrender, knowingly to these long-term expenses, we believe that a threat to the future stability of the organization. In addition to matters related to world time, treating these items as intangible assets is not always easy to achieve, in terms of relativity and subjectivity on record these items. Moreover, the use of complex and exotic financial instruments[13] have increased the opacity of the financial system and financial reporting and eventually was made public accusations of distorting information transmitted interested.

3. Identification, recognition and valuation of intangible assets

One of the main features of knowledge is recognizing the importance of intangible value[14]. But one of the major shortcomings of traditional accounting is that it highlights all the intangible assets identified as belonging to an organization[15]. From our point of view the process of identification these intangible assets is essential in current circumstances when the data generating knowledge is extremely important. For current and prospective investors, the concept of fair presentation is one of great importance but, because the risk of failure or non-assessment is high we take into consideration relevant criteria for the recognition of the existence of intangible fixed assets.

International Accounting Standards [16] define intangible assets as a resource controlled by the entity as a result of past events and which are expected to generate future economic benefits. On the other hand, immobilized intangible asset is an identifiable non-monetary asset without physical substance which is different from the character of goodwill identified [17]. As to the origin of immobilization must arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. Therefore, recognition of intangible assets in complying with a series of criteria relating to: identify what a character is to be distinguished from goodwill, the organization can have control over their ability to generate future economic benefits and the possibility of a credible evaluation. Currently, the world of ideas becomes a priority in relation to the tangible world of objects and intellectual capital becomes a priority in relation to other forms of physical capital. Under this form of manifestation of knowledge, intellectual capital includes four categories of intangible assets, namely [18]:

- a. asset market: trade, market segments, reserve orders, distribution channels, contracts of assignment, licensing, creating competitive advantages of market organization;
- b. infrastructure assets: technology, work methodology, specific techniques that make the organization function

effectively. These values related to how employees communicate with each other and relationships within the organization.

c. active intellectual property: copyright, software patents, industrial designs;

d. human values: employees' professional skills, including experience, ability to enunciate and solve problems.

Those values are crucial for the organization because it is expensive to hire, train and maintain such a high value. Therefore it is important that the organization can have control over the use of these types of resources. It involves drawing benefits, especially future economic benefits arising from the involvement of such property and to restrict third party access to those benefits.

All these above mentioned features lead to a series of future economic advantages that may be associated with them. Therefore it is very important to have in mind the use of reliable assessment techniques as to reduce the risk of underestimation or over-appreciation of assets [19].

In these conditions if the item is purchased separately, the price reflects the probability that the resulting benefit to the company owned. So we can talk about an acquisition cost (accounting) in conjunction with the auxiliary (direct costs of preparing the asset) [20].

On the other hand, intangible assets can be internally generated and it s very interesting to see how their value can be determined on stages (research and development).

In the research phase costs are driven by the quest for new knowledge, formulation and selection of alternatives.

Development phase, on the other hand, involves expenses that can be capitalized if it is apparent intention to complete the task later ability to credibly sell the asset at a price fair and credible results from the assessment of the costs involved in earlier stages. Not many times all these factors with a role in facilitating the recognition of intangible assets may have values that are difficult to estimate as depreciation is difficult to calculate. Although the life of such assets is very long or even indefinite, we consider that the markers are not justified some accountants do these types of assets, reducing life to a very short period of time resulting in financial statements "embellish".

4. Conclusions

The company is clearly a complex process of transformation of the global operating variables (whether physical or intangible assets). They ought to be known in detail so that decisions taken should be the highest quality and ensure the organization continuity. If we can say about the physical assets that can be identified, cataloged and recorded, when it comes to intangible assets situation changes. Methods such of identification, evaluation and amortization are still considered difficult to apply by the accounting specialists even when there are laws and implementing rules. As the Romanian and international accounting rules do not require mandatory disclosure in the title of financial statements of these types of assets, reporting their presence is quite short.

In addition to this aspect of representation, another aspect to remember is the specialist task in determining the amortization period. Moreover the accounting and tax accounting so often creates problems.

The phenomenon of globalization, we believe that besides knowing the benefits has drawbacks especially for subsidiaries of multinational companies. Here, the prospect of intangible elements must be kept as required by the parent company and the nature of the country of residence tax. Not only that this is made difficult with a set of additional resources (financial, human, etc.) but can sometimes be incorrect or irrelevant.

Considering all these aspects mentioned above intangible assets becomes an issue of great interest both for specialists, managers and investors, and recognition, use or development may be key to resolving many problems that organizations face today.

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The architecture of the proposed information application as a case study requires the presence of three fundamental components:

a. **The database** – represents the fundamental element of the analysis. These elements represent a relational structure and client-server architecture, representing in many cases the result of the integration of an ERP system in the decisions of a wood exploitation and processing company. The systems from this category are oriented upon transactions, the analysis possibilities being limited as a consequence of the functional architecture of the system. The relational systems cannot accomplish efficiently the analysis process, the adequate transformation of those being necessary in order to respond to the requirements. Also, the operational systems the available data cannot be accessed from many internal and external informational sources of the public institution;

b. **The transformation of the data and the creation of the data storage** – Taking into account the limits of the operational systems, in order to make the optimum analysis the data transformation process must be made. For this we can use Data Transformation Services (DTS) from SQL Server 2010, with the help of which it can be possible to connect to any data source and extract the information, and in the end we can generate the analysis cube.

The data extracted and transformed are saved in a data storage that can contain multidimensional and relational data structures from the data storage. We can consider the data storage as a gathering of all information from initial data sources. On the basis of the information from the data storage we can generate cubes for the multidimensional analysis as well as specific data subsets dedicated to some specific subjects (Data Marts);

c. **The users** of the informatics solution will connect using the web browser and will extract the data subsets which will be analysed at the local level. They can also create and particularize interrogations which can correspond to the requirements of the beneficiaries of the wood exploitation and processing companies.

In order to make such a multidimensional analysis the following operations will be made:

➤ The application of the mathematical functions and consolidation functions for the elements situated at the basis of the elements hierarchy;

➤ The classification of the data using the group operator for each dimension of the database;

➤ The making of the cross tabs (cross-tab), which will include the representation of the data in bi-dimensional structure;

➤ The joining of the bi-dimensional representations and the obtaining of the results in a multidimensional form.

The Business Intelligence component developed within the informatics system for assisting the decisions requires the use of the following essential **elements**:

1. **The connection to the data storage** – in order to connect to the data source the ASP.NET technology and the possibilities offered by the .NET framework environment will be used.

The data will be transferred towards the customer using the XML language and the Web services, on the basis of the following source code:

```
<WebMethod()> Public Function
InitializePivotTableXML(ByVal
strDataMember As String) As String
Dim m_XML As String
Dim strOLAPConn As String = _
ConfigurationSettings.AppSettings("OLAP
ConnectionString")
Try Public Administration Information
System
Dim objPT As PivotTableClass = New
PivotTableClass
objPT.ConnectionString = strOLAPConn
objPT.DataMember = strDataMember
m_XML = objPT.XMLData
objPT = Nothing
Catch err As Exception
m_XML = "<err>" & err.Source & " - "
& err.Message & _
"</err>"
Finally
End Try Public Administration
Information System
Return (m_XML)
End Function
```

2. The interaction between the client and the server – in order to make this interaction between the client component and the server component a series of ASP.NET scripts were made using the Visual Basic.NET language.

3. The securing of the transfers – taking into account the importance of ensuring confidentiality to the OLAP reports it is necessary that the technologies used must allow a safe access to information. Taking into account these considerations the SSL technology was chosen (Secure Sockets Layer), and a security certificate is used for the Analysis Services component.

Within the companies, the informational systems in general and the ones based upon computer technology especially impose the acceptance of the idea that producing the information is an independent field. Due to the extension and the generalisation of the information production fields, the managers of the companies have new attributions connected to the increase of the role of information in the decisional act. In these conditions, new competences appear connected with:

- the control and the management of the web based information and communication technologies;
- the designing or the redesigning of the information systems connected to the increase and the diversification of the social-economical services;
- the acquiring of abilities in the use of the computers to produce information for the elaboration and the monitoring of the decisions within the companies for accomplishing better organisational performance.

The modernisation of the information systems becomes an attribute for the performance of the organisational management. According to the idea that an informational system is a set of organised procedures, we can say that the produced information is destined to sustain the objectives of the companies. Currently the perfecting and the implementing process of an informational system are strictly connected to the integration of the computer technology in the management process. According to the objectives and the size of its services and attributions, a company can find itself in a situation to process an

impressive amount of data, and an Internet technology information system definitely brings a bonus in the processing speed. As an institution has relations with other companies, a diversification in the destination of the produced information appears. Thus, some of these information are destined to be used by the employees of the company, according to the requirements of the management, and some of these must be putted at the disposal of the consumers (information referring to products, services, etc.) or to the state (information referring to the financial data). Without an informatics informational system, this thing is not possible.

Although the processing of the information is not the most important objective of most of the companies, it represents a vital component of their operational framework. Thus, the managers are the coordinators of the design and the beneficiaries of an informational system in the same time. The different types of decisions require different types of information, and their major source is found in all the operations made within the company. The presence of different information reception methods complicates the decision process and increases the urgency to perfect the informational system using informatics.

Due to the fact that the impact of information technology is different from the impact of other type of technology, any company must carefully manage information due to the primal effects, but especially due to the potential side effects that these can generate.

There are three information technology integration levels within a company:

The first level is made up from independent informational systems which help the public institution to implement the strategy by increasing the efficiency of its activities. These systems are not directly connected with the strategy formulation process or integration into a certain strategic plan.

The second level is characteristic for the systems that support the policy of the company and are designed to boost the strategic planning process of the company. In this case the systems help to formulate the strategic plan but are not an integral part of

this plan. It results the fact that the systems for the integration of the information technology are not part of a finished product or a service produced by the public institution.

The third integration level becomes part of the strategy of the company towards a performing organisational management. At this level, the information technology and its integration within the decisional level is in a close connection with the strategic thinking of the management by its contribution to define the options and possibilities area. In the same time it offers the means by which the strategy, once it is chosen, will be implemented. In the business environment, at a given moment, a company that benefits from the advantage of such an integration level of the information technology in the decisional process can find itself competing with institutions that develop similar information systems.

Within a company, one of the fundamental roles of management is the control and the monitoring of the manner in which the decisions are made. A manager permanently needs information upon the deviations from the proposed objectives. The information systems that assist the decisions have an important contribution. A decision assistance system is a computerised system that ensures to the user models for solving some problems that a manager must solve.

It must be highlighted the fact that these information systems are created in order to offer a support in taking decisions within the company and not to effectively take the decision. In each information system there are designed different alternatives destined to ensure the solving of different problems. For each alternative there is a certain risk rate in the implementation phase which is impossible to evaluate in terms of costs. Nevertheless the decision assistance systems represent efficient tools for the management of the organisational performance.

We can notice an outlining of some directions connected with the monitoring of the information systems based upon decision

assistance systems.

A first direction is connected to the consolidation of the control systems, which are mainly situated in the cost control area, and on the other hand in the area of perfecting and creating new informational systems for a performing management.

The computerised informational systems offer the possibility for the companies to make a large number of operations ensuring in the same time a control and a permanent reduction of the errors.

A second direction is given by the involvement of the informational systems even outside the companies. The lack of experts in this field will guide the institution to purchase applicative software packages. As a consequence, the companies will be forced to modify their procedures in order to the benefit from the existent technology. They will purchase "turnkey" information systems for a certain level of generality and will be forced to adapt their procedures according to these requirements.

The third direction refers to the contribution of the informational systems to the increase of the economic efficiency. It derives from the fact that the information has an increase extent in the modern organisational structure. The use of the information processing technology is currently a primary component of the strategy of a company.

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The General Architecture of the Integrated Information System of Assisting the Group Decisions for the Organizational Performance Management

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Abstract

The decision assistance systems are based upon the evolutionary and predictive models, which have the largest successful rate. In this way, mainly a hybrid model of the informational system is created, and as the user interacts with the system, the information area based upon competitive intelligence increases and the information system evolves in time using upgrade operations.

Key words: system,business,companies

J.E.L. Classification: H1

1. The characteristic elements of an information system of assisting the group decisions

Taking into account the participation of several persons at the process of decision making, the information solutions of assisting group decisions (ISAGD) present a series of features regarding the ways in which the decisional process is accomplished. In order to explain, we are going to present some distinctive elements of these categories of solutions:

► The decisions making implies debates or discussions and negotiations between the participants at this process. Each participant at the decisional process can propose his/ her own strategy in order to solve the problem, and as a result of the discussions there are going to be made compromises and taken a common (joint) decision.

► The interpretations regarding the data and information on the basis of which there are taken different decisions, this thing

determining important differences in the resolutions of each participant.

► Taking into account the different technical knowledge of the participants at the discussions, the ISAGD solution must have a simple user interface and to be easy to use.

► The existence of a Web interface of the ISAGD solution can be a requirement in the situations in which the group decisions imply the existence of some participants from different geographical locations.

Taking into account the time-space coordinates, within a group ISAGD for the public administration we can identify the following features:

► The distance that separates the decision makers – in relation to this element the decisional process can be achieved or accomplished in the following ways:

I. The decisions are taken in a meeting (sessions) room where the participants are gathered at the decisional process and debates take place.

II. The decisional process is achieved or accomplished through the internal network or using the Internet. In this case there are used various IT solutions in order to ensure the communication between participants (electronic mail, chat).

III. Using complex solutions in order to ensure the communication between participants, consisting in video conferencing systems and other solutions.

► The temporal coordinate in the decisional process in a group ISAGD constitutes the decisive element regarding the architecture of the systems of decisional support. In the situations in which the users do not participate simultaneously at the decisional process there are going to be used electronic means in order to ensure the asynchronous communication between them.

► The way of achieving control upon the decisional group – In most situations, the

decisions in the public administration are taken democratically, through negotiations between participants. In the situations in which there are controversies between the decision makers, a mediator can intervene in order to achieve compromises and common (joint) decision making.

➤ The type of communication between the participants – in terms of this feature, we can identify two ways of communication: the point to point communication between the participants and the broadcasting type communication.

The groupware concept is defined as the methods, procedures, programs and computer platforms assembly that allow the persons associated to a project to work together with a maximum of efficacy. A group is constituted through the creation of connections between the workstations, offering the assisting of the communication activities, collaboration and coordination between the members of the group.

In order for a information/ computer system to be considered groupware, it must integrate or include all the work requirements of the members of a group or organization, namely: communication, by using the electronic messaging, collaboration, by sharing the informational resources among the members of the group, coordination, by adding communication and collaboration in the structure of the specific activities.

From this point of view a groupware system can be defined as an integrated set of instruments that allow the decision makers to work together, through communication in certain time intervals and in different places.

The fundamental or main objectives of the group decision- making systems are described below:

➤ The sharing of information, reflected in the common sharing of data, texts, knowledge that are accessible both to the individual users who perform or accomplish their current tasks, and to the decision-making group members;

➤ The implementation of projects by using specialized software. It involves the use of certain specialized instruments for the development of the solutions of the ISAGD group type. The development methodology includes the proposed objectives, goals and projects for the accomplishment of the

objectives and actions to be taken in order to solve the projects;

➤ Achieving in collaboration the technical documentation, the reports and other documents, including multimedia documents;

➤ Electronic conferencing using communication technologies and computers as well as computing technology;

➤ The management of the systems messages that constitute as an extension of the facilities of email and represent communication ports (gates) both to the exterior and to the interior of an institution within the public administration;

➤ Assistance in the establishment of working groups, through some specialized programmes that coordinate the actions to be taken and establish the persons who can be grouped effectively in a team, with a leader.

The information solutions of assisting decisions (ISAGD) model proposed by us is based on a components assembly, technologies, solutions of server type, as well as design and development instruments of the information systems. An aspect which we consider relevant and we wish to highlight regarding the accomplished system is the orientation towards Web and Internet of all the applications that enter in its structure. In this way, all the programmes that form the ISAGD group solution are based on web technologies, this thing ensuring a simple and uniform access to the informational resources. The orientation towards Web of the information system was chosen in order to respond to the following two fundamental needs of an institution within the public administration:

➤ Decentralized access to information from the Intranet network of the public institution or through the Internet environment, facilitating in particular the following three types of transactions:

1. *Business-to-Business* (B-2-B) that covers all the transactions between companies

2. *Business -to-Employee* (B-2-E) refers to the transactions intended for the employed staff and that are carried out through its own Intranet system.

3. *Consumer-to- Business* (C-2-B) is a trade category intended for the field of social benefits payments or of the

compensations established after the calculations of global income.

➤ Mobility and uniform access to the limited resources, considering that it must meet the following functional requirements: to allow the cooperation of OS at the customer level, network and server, to allow the work in the mobile regime and remote conditions and to ensure the interactivity between different entities.

The information system of assisting the group decisions proposed model for the efficiency of the managerial activities

presents two fundamental levels that ensure the overall functioning of the information system:

a) The infrastructure level – includes the components of the server type that are going to constitute the basis/ foundation of the developed application level (file server, database server and Web server);

b) The applicative level – includes the proper applicative components, that exploit or operate the data sources and accomplish their analysis processes (figure no. 1).

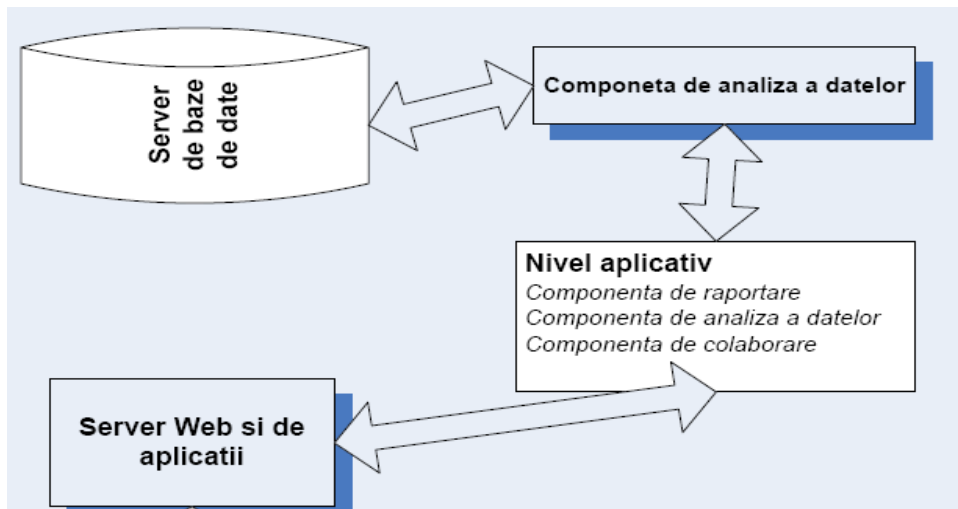


Figure no. 1 – The fundamental components of the integrated information system of assisting the group decisions for the organizational performance management

2. The infrastructure level

The infrastructure level ensures and provides the basic needs of the information system of assisting the group decisions for the organizational performance management and the interaction with the users. In the case of this level we can identify the following available functions, but integrated within this component:

a) The function of file server and of hosting the other components of the information/ computer system;

b) The data storage functions and of integration of analysis functions specific to a decision assistance system (OLAP or data mining);

c) The Web server system that ensures the interaction with the users of the information/ computer system;

d) The software framework and the components that ensure the functionality at the applicative level of the developed solutions;

e) The functions and components that ensure the overall security of the information system.

3. The applicative level of the information system model of assisting the group decisions specific to the companies of wood exploitation and processing industry

The applicative level is composed of the set of developed applications and of the implemented components, both components contributing to the ensuring of the functionalities of the information system of assisting the decisions. I considered it

appropriate to present the scheme of the proposed information system (figure no. 2).

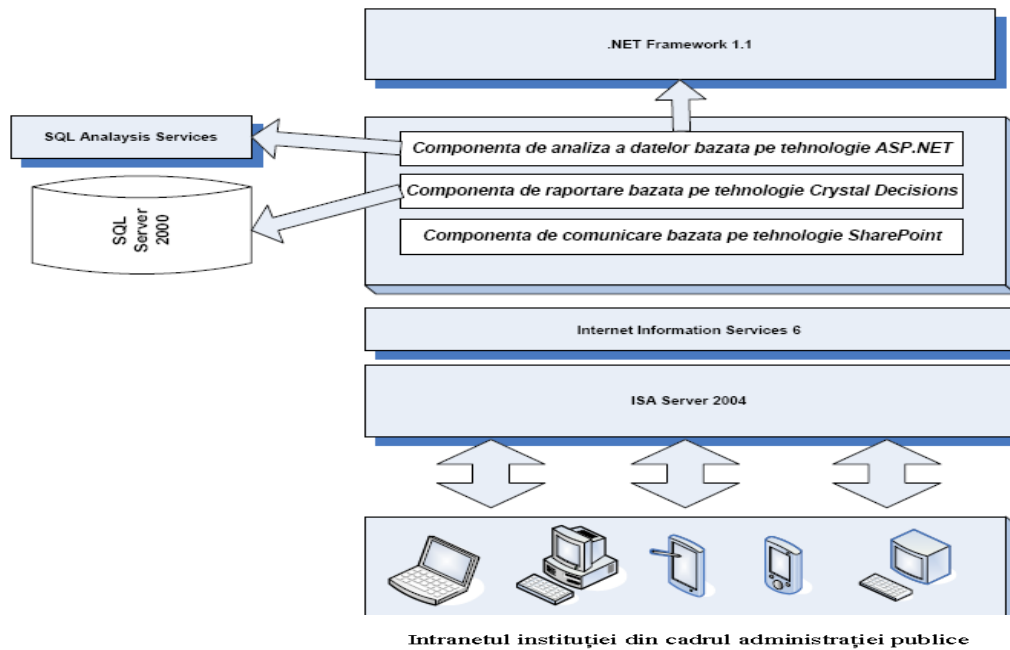


Figure no. 2 – The scheme of the information system of assisting the group decisions

The main functions of the reporting component can also be seen or observed from the diagram of the use cases (figure no. 3), in which it can be distinguished two generic actors/ stakeholders (administrator

and user), these ones integrating the various functions of the designed information system (the management and establishment of the access rights, the construction of the personalized reports).

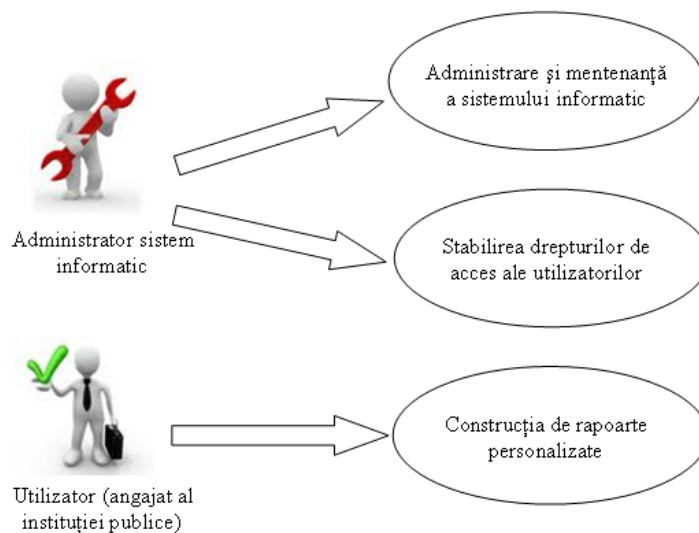


Figure no. 3 – The diagram of the use cases dedicated to the reporting component of the proposed information system

Crystal Reports is one of the most powerful generators of reports that are available at the moment, which I successfully integrated in the model of information system of assisting the decisions. Crystal Reports is a professional instrument that allows the visual construction of the reports, as well as the connection to a wide variety of data sources. Besides this, through the Crystal Enterprise instruments, we have the possibility of publication and management of the reports submitted through a Web server.

Also, I included in the proposed information system the Crystal Decisions component, which also includes a professional solution dedicated to the achievement of the economic analyses on the basis of the OLAP technology. Crystal Analysis is the instrument dedicated for this purpose, having as main advantage the simplification of the achievement process of the data analysis reports. The program allows the connection to various data stores, disposing of a well- organized interface.

The central element of the portal accomplished through the Crystal Enterprise solution is the ePortfolio instrument. Through

this instrument, the managers have the possibility to access and preview the accessible reports through the Web portal. Supplementary, the reports can be organized on more categories through the folders, also being implemented a search engine after the name of the report or its description. ePortfolio is a web interface that can be personalized, through which the users can visualize the programme and can publish reports.

Crystal Management Console (CMC) allows the management of the whole information system of assisting the decisions. Through the CMC there are established the authentication and security settings, there are added the users and the groups of users. This instrument allows the complete administration or management of the servers and groups of servers on which the Crystal Enterprise solution is available and is available in the form of a web application, thus facilitating the remote (at a distance) achievement of the efficient/ performance management operations.

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Decision-Making: Art or Science ?

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Abstract

In this paper we realized an extensive review of the decision-making process as it was developed in the specialty literature. Decision-making is one of the most important managerial issue to which a great attention was devoted by the specialists. However the efforts to synthesize all the vast research were scarce. For this purpose we present in our paper the classical theory and the new models. In our opinion a decision-maker does not use only one of the modalities of decision-making. Another hypothesis is that the decision-making should be regarded less as an exact science with quantifiable parameters. Probably is too much to consider the decision-making an art. It is obvious that decision-making has its shadow areas in which the imagination, the intuition, the creativity, the emotions of the decision-maker can bring some light.

Key words: decision-making theory, decision-making models.

J.E.L. classification: M10, M16

The managers' decisions have a profound impact on the success of the enterprises. The studies regarding the decision-making process are numerous, being elaborated by economists, sociologists and psychologists. Within the representative studies there are two major categories of models that explain the decision behavior: normative models and descriptive models. The normative theory explains the way in which a decision should be made, while the descriptive theories reflects the way the decision-making process takes place in reality [1].

1. Classical theories of decision-making

1.1. The normative theory

The main assumption of the normative models is that of the rationality of the decision-maker. Generally a human-being is rationale if he is noncontradictory [2]. A second assumption of the normative models is that the decision-maker knows all the alternatives and selects the optimal course of action.

Apart from these two assumptions, other authors add other hypotheses: the number of decision-makers and the unanimity of objectives. The number of decision-makers represents an important issue in the normative models. Some authors consider that the decision-maker represents the core of the normative models, also known as the models with unique actor. The fact that there is a unique actor means that the decision is taken by a single decision-maker or a group of decision-makers that act together, having a common objective. There are no conflicts on the objectives or the decision-making process [3].

The hypotheses of the normative models are, as mentioned above, hard to be identified in decision-making context in economic life. The rationality does not seem to be anymore characteristics of the economic life. G. S. Becker notes [4]: "While for a long time the traditional economic theory assumed that human behaviour is rational, at certain moment there was a major contradiction regarding the meaning of the concept rational. For many people the word suggested a older psychology, fast calculus abilities, hedonist motivation and a possible unrealistic behavior. While the economic theory becomes clear and more precisely formulated, the controversies diminished, and

now everybody agrees that a rational behavior implies only the permanent maximization of certain well defined functions such as the utility function or the profit function."

Still, in adjusted forms, the normative models prove to be useful in decision-making regarding the choice of investment. The most known normative models calculate the expected value or the expected utility.

1.2. The descriptive theory

The descriptive models of managerial decision-making, compared with the normative models, suggest that the difficulty to obtain the information and the limits of processing complicate the decision-making process. In the category of these models, the researchers identified many models such as: the satisfaction model, the incremental model, the garbage can model, the political model.

In the years 50', Herbert Simon began to study the real behavior of management decision-makers. Instead of the "economic man" Herbert Simon proposed the model of "administrative man" that acts based on "limited rationality". While the "economic man" maximizes by choosing the best alternative, the "administrative man" formulates an aspiration regarding the alternative that need to be identified and when this aspiration is met, then the search is over, the respective alternative is selected as decision [5]. This is the essence of the satisfaction model based on limited rationality.

George P. Huber considers that the managers usually become accustomed with a simplistic approach, even when the costs of investigating a better alternative are justified by a potential winning [6]. It is important to be noticed that the satisfaction model leads to a rush decision and the solution found is, in many cases, a trap hard to avoid.

There are further developments of the limited rationality, such as the interactive rationality. The organizations help the individual "to get closer to reasonable distance of limited rationality" (H. Simon), respectively the environment can help the individual to focus on elements that must be analyzed and checked with priority, and these elements can ensure coherence to its choices.

Another concept resulted from the limited rationality is the embedded rationality. The concept was introduced by K. Polanyi but popularized in the literature by M. Granovetter. The activity of organizations has a powerful determinant in the relationships that are established with other organizations. Their activity is socially embedded, respectively inserted in a network of relationships. The organizations exert their own influences on the other actors from the economic and social environment. Besides social embeddings other authors describe other forms of embeddings such as the political embeddings. The rationality can be regarded as a resultant of inseparable economic, political, sociological and psychological forces.

After H. Simon, James G. March is another remarkable author that focused on the decision-making process. He considers that decision-making is a process that can be perceived "in the same non-rational way as the painting of Picasso or the poetry of T.S. Elliot". The complexity and the ambiguity of contexts, present in the decision making are many times underestimated.

In these conditions, J. G. March, together with D. K. Cohen and J. P. Olsen have proposed the model of garbage can regarding the organizational choice. In this model the managers have a random behaviour, quite non-scientific, in non-programmed decision-making situations.

The strategy of the garbage can is used when the manager does not have a preferred objective. This kind of approach can be observed when it lacks a solid strategic management. The outcomes when using this decision-making model are mixed: sometimes favorable but also, in many cases, the consequences are not favorable.

A third model, developed in the literature is the incremental model according to which the managers make efforts to reduce the decision-making situation to a tolerable level. The decisions are made to reach a palliative objective, solving a short-term problem instead of tackling the long-term issue. The same with the satisfaction model, the incremental model does not motivate the managers to process a large quantity of information to elaborate the decision.

The incremental vision of the decision-making developed from the research of Charles Lindblom. He describes two approaches that can be used in the decision-making process: a comprehensive rationale method and a method of limited successive comparisons.

The comprehensive rationale method, also known as root approach, is similar with the normative models of decision-making. Following the root approach, the decision-maker can clearly spot the objectives that are relevant for decision. Also, the decision-maker identifies the compensations that can be made among objectives, respectively the level in which the gains compensate the losses [7]. These compensations are established before a particular problem is to be studied. According to the root approach the decision-maker is considered to have an extensive knowledge about a set of alternative solutions and detailed knowledge regarding the consequences of applying the solutions. Based on this knowledge, a large number of decisional alternatives are compared and the alternative chosen is the one that satisfy in the highest degree the objective.

The root approach is more like an ideal, because it cannot be transposed to the realities of decision-making process. The mental capacity of the decision-maker is not large enough to be confronted with an avalanche of information and alternatives involved in the root approach. In practice, the decision-maker is not confronted with intense mental efforts, because the usual information is incomplete and inadequate, at least from the point of view of high cost involved in information gathering and processing.

In the case of limited successive comparisons method or the branch approach, the decision-maker identifies many alternatives to solve problems. The identified alternatives are not very different from the policy and the actual experience of the enterprise. From these alternatives one is chosen, that is relatively easy to be implemented. Then, if there is the need for improvements, the process starts in the same manner.

The limited successive comparisons methods delivers a pragmatic feature to the process of decision-making and takes into consideration the limited ability of the decision-maker to identify and evaluate a

large number of alternatives, ones very different from the actual experience. The branch approach is focused on those solutions that solve the relevant aspects of the problem. While the conventional approach sustains that the means need to be adequate to the goals, the limited successive comparisons method implies the reverse that is the goals should fit the existed means. The existed information should be revised and reinterpreted, the proposals are rethought, the values are permanently modified.

The incremental method has a potential applicability in politics, because it is easy to develop an agreement, a contract, in case the solutions involves minor changes and not profound changes. This model is based on the fight for power among the stakeholders of an enterprise. Within the organizational environment, the stakeholders develop strategies to reach solutions in accordance with their personal objectives. The management of the organization, responsible for the decision-making process, has the tendency to choose solutions not based on existing general objectives, but its decisions should conflict as little as possible with the strategies of the stakeholders. The available solutions are limited. In order to avoid seeing his decisions banned by ad-hoc coalitions, the manager tries to figure his position on the map of interests, the so called "the corridors of indifference": issues where no clear opinion is expressed or susceptible to be expressed within the organization. In these indifference areas, the manager emits proposals that can be accepted by all the actors involved, because they do not rises any major inconvenience.

Another method of decision-making, widely known, was developed by A. Etzioni. This method was perceived as the third way, opposed to the rational method and to incrementalism. In 1989, A. Etzioni believed that in the years to come decision-making it will be more an art and less a science [8]. The model he proposed, the model of mixed scanning involves different levels of decision-making, respectively a superior level comprising the fundamental decisions (the mission and strategy of the organization and the policies to implement the strategies) and a inferior level comprising incremental decision-making that support the realization of decisions from the superior level. The

author considers that this model is an older approach better explained. His model has precedents in medicine. Each doctor has as objective to heal its patient. For this purpose he establish a diagnostic, effectuates the investigations, then he prescribes a treatment. In some cases the treatment is not good enough forcing the doctor to change the treatment. In a similar way acts the decision-maker in an organization when he uses the adaptive model. He identifies the problems, analyzes the difficulties, start an action and if he's not successful he passes to another course of action, not losing from its sight the mission and strategy of the firm.

In the recent years a new model for decision-making developed: the naturalist model. The model originated from the papers of G. Klein, J. Orășanu, R. Calderwood and C. Zsambok, published in 1989.

The model specifies that each decision is specific to a certain context and the analysis and understanding of a decision cannot be separated from its specific context. The conditions in which this model can be applied are: changing environment, missing or incomplete information, adjustable objectives, the inexistence of some procedures, of clear tasks, the constraint of time, the necessity of actions in real time as a response to environmental changes, experience and solid expertise of the decision-maker.

2. New models of decision-making

Apart from these classical approaches, in the literature there are new developments of decision-making models. In a well known paper H. Mintzberg and F. Westley describe three models of decision-making: the model based on reflection ("thinking first model"), the model based on vision ("seeing first model") and the model based on action ("doing first model") [9].

The model based on reflection is a rational model to which its authors find a series of limits, firstly because it is only a theoretical model, without a larger practical application. Considering this aspect, the two authors propose two new models.

The model based on vision suggests that the decision or the actions can be oriented more by imagination, anticipation rather than

reflection. The vision requires the courage to see what others do not see.

The third model proposed by H. Mintzberg and F. Westley is a model based on action. Many decision-makers consider that is much more important to act, after which to analyze this experience and to learn from mistakes. We can learn both from success or failures. When the preoccupation for reflection, in order to act according to a well established plan, becomes a obsession, learning by doing can be discouraged.

In the next section we will present two new models of decision-making at organizational level, the so called irrational. In our opinion a proper designation of these models it will be non-rational. We will make a few clarifications to sustain this idea.

The studies in the area of neurobiology showed that there is a difference between the contributions of the two brain hemisphere to the mental life of a person. The left hemisphere is responsible for language, logic calculus, rationality, capacity to analyze and to think abstract. The right hemisphere is the universe of thinking without the language, of non-verbal understanding, of spatial perception. Its task is to synthesize and to express the experience of a person in a image. The imagination and intuition are its dominant functions. The approach is intuitive (opposed to the rational one) – it works through ideas association, interactive approach, there is a synthesis of relations among objects in order to rebuild the information in a unitary approach [10].

Two new concepts need to be clarified to fully understand the last two models: respectively the imagination and the intuition. The imagination is the mental faculty allowing the elaboration of new associations by composing and decomposing the ideas, by combination and recombination, in the end creating objects, situations that never existed in the nature. The intuition refers to the tendency to reach a conclusion or to fulfill an action without detailed explications regarding each step of the process.

The intuitive model of decision-making is not approached in a global manner, thou exists many dispersed approaches. Many authors admit that intuition can play a powerful role in the decision-making process

without describing the exact nature of these influences.

M. Le Saget, in his known paper "The intuitive manager" considers that in an ever complex environment there is a tendency toward simplicity, toward what is easy accessible, toward fast understanding. There is the need to equilibrate the logic and analytic thinking by another form of reasoning that will allow to immediately seizing a situation: a intuitive reasoning".

F. Vaughan considers that the intuition is a psychological function that each individual poses at an acceptable level. C. Jung believed that intuition should not be regarded in antithesis with rationality, only being different. The intuition is defined by some authors as being a more sophisticate type of rationality based on "illumination", belonging to some specialists with experience in a certain area.

Karl Weick appreciate that the intuition is a "condensed experience" synthesizing quite powerful the way in which the accumulation of information seem to be the manifestation of the unconscious. There is a difference between the intuition of the leader dominated by emotions and the intuition of experts. The intuition of experts is the result of learning, of experience while the first is the result of basic emotions that also diminish the attention. It will be a grave confusion to overlap the non-rational decision that results from the intuition of expert with the irrational decision that can be generated by stress and negative flows of emotions [11].

In many cases the intuition is overestimated, being used to justify the idea that there is no longer the need for self-discipline and rigor, in the logic of "if this is what you feel then this is good for you". Pushed to the extreme this tendency destroys a persons and he can lose contact with reality [12]. The intuition should be seen as a complement of the rational thinking and not as a replacement of this.

The intuition can be used with good results for non-programmed decisions, especially in an unstable environment (in risky and uncertain conditions). This method can also be used when the decision-maker did not met with a similar decisional context and he doesn't know other similar experiences of other decision-makers; also this method works when there are many

decisional alternatives viable that are difficult to evaluate with other tools.

Also the imagination can affect the decision-making process. Related to the decision-making process, the imagination can be used to reach some objectives into a negotiation process, in solving interpersonal conflicts, in building consensus at various meetings, establishing objectives in various contexts, the evaluation of the general conditions of organization, solving abstract problems. In the decision-making process imagination can help to identify the problem (taking into account the symptoms that appear) and in selecting the alternative that must be implemented.

A. Tannenbaum considers that creativity is another useful process for the decision-making situations also ensuring a better communication in organization, allowing a better investigation of the problem and the development of new ideas, solutions and alternatives [13]. A development of this issue belongs to Edward de Bono in his work "Lateral thinking". In his opinion: "The purpose of reasoning is to get information and to use them in the most efficient possible way. The vertical reasoning deals with the creation of conceptual models. The lateral thinking deals with the restructuring of these models (intuition) and determination of new models (creativity). The lateral thinking and vertical thinking go together in a complementary fashion" [14].

At E. de Bono we have identified the synthesis in which the creativity can help the decision-making. He believes that there are three types of problems: the first type of problem requires more information and better techniques to handle the information in order to find solutions; the second type of problems does not require new information but only a redistribution of the existing information: an intuitive restructuring; the third type of problems, that is the existing arrangement is optimal, and this stop us to search a better one. The second and the third type of problems require the use of lateral thinking and to discover a solution.

A somehow similar reasoning can be found in the paper of H. B. Gelatt and C. Gelatt, "Creative Decision Making". The two authors introduce the notion of "positive uncertainty" [15]. They consider that the uncertainty present in quasi-all decision-

making contexts should no longer be a something the decision-maker must worry about, but one must embark on positive attitude. Based on this attitude there are several options for the decision-maker and he can manifest a proactive creativity. The reasoning of the two authors is quite simple. If someone is absolutely positive about what should follow, then he thinks only about this possibility, and if there are no perturbations this will actually happen. When the decision-maker is uncertain about what will follow then he is free, capable of studying many alternatives. In this case he needs the model of creative decision-making. The authors require flexibility saying "If you know exactly where you want to go you will never get somewhere else".

In this context we have to mention that the emotions of the decision-maker have a strong impact in the configuration of the decision-making process. These can affect the optimal decision-making by distracting attention or by distorting the perception over the options".

Certainly the creativity, the intuition, the imagination, the management of emotions are in the new conditions the necessary ingredients of a efficient decision-making process, but the dispute over the role of rationality seem to be pushed too far. Even if we have to use a cliché, we believe that the truth is somewhere in the middle.

3. Conclusions

In our opinion a decision-maker does not use only one of the modalities of decision-making. In his decision-making activity, many times in unconscious manner, there are different modalities to adopt a decision based on the specific of the decisional context. Another hypothesis is that the decision-making should be regarded less as an exact science with quantifiable parameters. Probably is too much to consider the decision-making an art. It is obvious that decision-making has its shadow areas in which the imagination, the intuition, the creativity, the emotions of the decision-maker can bring some light. Further research is needed to investigate the decision-making process by taking into account all the above mentioned elements.

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The Capacity of Absorbing the Structural Funds Romania vs. Bulgaria

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Abstract

The capacity of absorbing Structural Funds continues to be a „taboo” subject for everybody. The image of irredeemable financing generates a continuous feeling of satisfaction and the desire to become rich. I use the word „image” because the Structural Funds have managed to cover in a fairytale vale a reality of disappointment and distrust.

I have decided to speak in this essay about the capacity of two neighbour countries, similar from the social and economical point of view. Romania and Bulgaria, two countries with great perspective, with the possibility to reduce the economical and financial disparities compared to the other EU states. My dilemma is the following: if they started from approximately the same economical stage, with the same wellbeing aspirations, how did Bulgaria manage to beat Romania regarding the absorption of the Structural Funds? Is this simply an accident or is it that we, Romanians, demonstrate each day that we don't deserve anything?

Key words: Structural Funds, absorption rate, difficulties, solutions

J.E.L. classification: F35, O11, O52

1. Preamble

The European Union suggests the reduction of the economical and social disparities among the EU Members by the use of the Structural Funds. The Structural Funds are tools used for implementing the cohesion policy adopted by EU. It is important to analyse the manner in which the member states react facing such benefits. Significant differences are normal from one country to another, because the absorption

degree of the Structural Funds is influenced by a series of factors, among which we could indicate the economical and financial situation. Questions appear when we notice differences between two countries, with similar features, with the absorption debut in the same period and taking the same steps for implementing the Structural Funds. A comparison between the implementing means, the existing barriers and the possibilities to overcome them, offer a clearer image about the country with a lower absorption rate concerning the perspectives of increasing that rate. In the case of our study, Bulgaria managed to overrun Romania in this phase of absorbing the Structural Funds. By this paper we prove that Bulgaria's advantages could be considered as good practice models to be followed by Romania in the future.

2. Romania, bad luck from the start?

The impact of applying the Cohesion Policy on Romanian ground can be observed from the macro economic analysis during the period of 2007-2013, when the European Union offers irredeemable financing by the Social European Fund (SEF), The European Fund for Regional Development (EFRD) and the Cohesion Fund (CF).

During 2007-2009 we can the impact of the Structural Funds regarding the macroeconomic indicators:

Table 1

Indicator	2007	2008	2009
PIB (%)	6,2	7,1	-7,4
Goods exports (%)	14,3	14,1	-18,1
Goods imports (%)	26,0	11,5	-35,7
Occupational rate (%)	58,8	59,0	58,3
Public deficit (%)	-2,5	-5,5	-3,5
Public debt (%)	13,0	13,6	22,5

Source: data processed by the National Statistics Institute

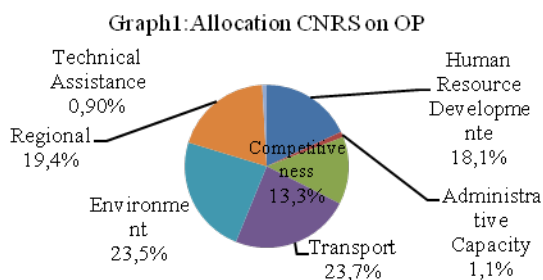
From Table 1 we can observe the evolution of the macroeconomic indicators in correlation to the absorption of the Structural Funds. We can consider the year of 2007 as the beginning, the accommodation period for Romania for the new perspective. The National Strategic Reference Frame is approved, the operational programs as well and the first applications for projects are made.

In 2008, most of the projects are applied, 90% of the planned operations being opened to the beneficiaries. Still we couldn't see a spectacular change regarding the macroeconomic indicators, due to two reasons: the negative impact of the crisis had been felt and the applicants didn't receive the money. The year 2008 can be considered the stage of writing and applying projects to the contracting authorities.

The year 2009 is maybe the most spectacular year from the considered period, because then several financing contracts had been signed and the payments towards the beneficiaries started to increase. This fact should have been felt proportionally at the level of the analysed indicators, but in reality things are different. This fact is determined by the more and more negative effects of the economical and financial crisis.

Though we should say that 3 years have passed already since Romania has become beneficiary of the irredeemable financing, we can only speak about 1 more encouraging and satisfactory year of this stage.

CSNR 2007-2013 beneficiates by 7 Operational Programs of an allocation of 19,213 billion Euro (EFRD - 8,976 billion Euro; SEF - 3,684 billion Euro, CF - 6,552 billion Euro) from the Structural Funds to which we add a co-financing of 5,6 billion Euro. In the graph we can observe the allocation CSNR per Operational Programs, as follows:



Source: data processed from the NATIONAL STRATEGIC REPORT 2009 regarding the implementation of the Structural and Cohesion Funds, January 2010

Theoretically, Romania must follow this distribution, according to the Graph 1.

In reality, things are a bit different. The 31st of December 2010, the total number of projects applied inside the 7PO had been of 24967, with a value of 29,86 billion Euro. At the same date, 6451 projects have been approved with a value of 14,39 billion Euro, the EU contribution being of 9,2 billion Euro. We continue the process and we arrive at 5012 financing contracts with the beneficiaries, having an eligible value of 12,77 billion Euro, with an EU contribution of 8,14 billion Euro, which constitutes 93,94% from the value allocated by EU for the period 2007-2010.

The topic becomes painful when it comes to the category of effective payments towards the beneficiaries, these representing pre-financings (1,17 billion Euro) and reimbursements (480 billion Euro EU funds and 69,7 billion Euro state budget co-financing), with a total at the 31st of December 2010, of 1,72 billion Euro. Comparing to the allocated period 2007 – 2010 we have managed to obtain a performance of 19,09%, and for 2007-2013 we talk about 8,62%.

These numbers are indeed alarming, the payments made to the beneficiaries being the cause of all the problems regarding the absorption of the irredeemable financing.

I cannot claim with certainty if Romania is aware of the gravity of these numbers but the National Strategic Report 2009, regarding the implementation of the Structural and Cohesion Funds, indicates the difficulties encountered and the solutions suggested.

The problems which block the raise of the absorption rate of the Structural Funds can be ranked at the authority, supervising and regulation levels but also at the level of the beneficiary.

The first category includes:

- the preparing of the portfolio for the projects - in 2007 CSNR had been approved, the promotional programs have been established and the financing lines were supposed to be opened; but here we face the lack of training of the authorities in offering information for elaborating a successful project;
- the launching of project requests – which should coincide to the guides of the applicants elaborated by the authorities;

this type of problem is justified especially by the lack of national strategies or even by the necessity of applying innovative strategies for selecting the projects;

- the evaluation, selection and contracting the projects – the biggest problem from my point of view; as argument I will offer a real example: you apply for a project at the moment t and you obtain the answer regarding the approval at the moment $t+2$; the contracting authority does not consider that at the moment t the beneficiary had a goal to achieve and with all the delay the goal could cease of being a priority or maybe the initial team does not exist anymore or maybe the beneficiary does not own the same financial resources for continuing to the initial direction;
- the institutional problems regarding the staff hired as supervising authorities; their lack of motivation, the stress and the great number of beneficiaries make the job more difficult, especially concerning the payment itself.

The second category of problems identified at the level of the beneficiary are really interesting:

- the problems regarding the public purchase proceedings – the lack of experience, the complaints, the assignation document, are just a few of the aspects which had made the implementing of the projects more difficult;
- the self financial contribution has been and still is the main barrier in financing the projects – especially during the economical crisis, when the lending conditions have been roughen for the small and medium companies;
- the inefficient communication between the beneficiary and the authorities lead to installing a real chaos – the beneficiaries send incorrect documents, with delays, and the authorities either give up or don't announce in time or oblige the beneficiary to make modifications duet o the mistakes made by the authorities.

These problems are considered as the main ones which put in danger the payment on time of the deserved sums towards the beneficiaries.

A first step made by Romania has been to acknowledge the dangers which, once identified, should be stopped.

There are various solutions offered for reducing them, but we are interested only in the theoretical part, a document sent to the European Commission in which we inform it about finding some ways to prevent the dangers. It is interesting to see in fact the way in which these solutions can increase the absorption rate of the Structural Funds.

The solutions can be divided according to each category of the identified problems.

For the first category of problems, identified at the institutional level, there have been found several pertinent solutions:

- the usage of the JASPERS instrument for technical assistance offered to the beneficiaries and to the authorities as well when confronted to major projects for compensating the lack of experience in this field;
- for launching the project requests in a more alert rhythm there have been offered technical assistance in elaborating the necessary documents and a more efficient communication with all the organisms involved;
- most of the solutions have focused on offering to the beneficiaries the results of the selection sooner: the externalization of the evaluation stage, the cancelling of the prioritising stage, the improvement of the applicants guides, the offer of clear and specific information, the simplification of the financing folders;

For reducing the difficulties encountered by the beneficiaries, the following solutions could be implemented:

- the modification of the law regarding the public purchase;
- financially, it has been decided to double the pre-financing rate from the eligible value of the financing contract so that the beneficiary should own enough resources for developing the activities;
- the Management Authorities have elaborated documents meant to facilitate the writing and the implementing of the projects: The Beneficiaries Manual, The Guide regarding the partnership relations.

3. Bulgaria, with ambition and perseverance

After the adherence to the European Union in January 2007, Bulgaria registered a significant economical growth. The PIB of the country has increased in real terms with 6,2% in 2007 and 6% in 2008, compared with an average annual growth of 5,6 during 2000-2006. The PIB per citizen has reached 41,3% from the medium level of EU from 2008, which has marked a raise of 4,8 percentage points compared to 2006. Thus, the country is about to achieve the ambitious goal of having a PIB per citizen of 51,2% from the medium level of EU in 2013.

Regarding the occupational rate, Bulgaria has reached the desirable standards. This rate registered an ascending trend, with a percentage in 2008 of 64% along with a low unemployment rate (smaller value than the EU average). This way, Bulgaria has managed to reach the target values suggested for the end of the program.

Regarding the good and services exports chapter, Bulgaria succeeds in impressing us with a growth of 5,2%-2007 and 2,9% in 2008. In 2009, the crisis appeared and produced a decrease of 12,8% from the exports.

From the presented values of the most important macroeconomic indicators we can declare that Bulgaria registers a real success in absorbing the Structural Funds. This aspect is confirmed by the achievement of the target values suggested by the strategic goals proposed at the beginning of the programming.

In table 2 we can observe the progress registered for fulfilling the CSNR goals, due mostly to the impulse gained in economy. The beginning of the CSNR application and of the Operational Programmes has been a privilege for increasing the investments in the basic infrastructure. This is one of the reasons why we can claim that in Bulgaria, the Cohesion Policy has been applied in a way able to generate positive aspects in the economical and social development of the country.

As in Romania's case, in 2007, 7 Operational Programmes have been approved and in 2008-2009 the solutions and the goals applied in CSNR started to be implemented. The Authorities who handle the

implementation of these Operational Programmes claim that Bulgaria's success is not due only to the absorption of these funds but also to the advance gained by the economy. They mention the difficulties they had because of the delay in approving the programs but also the challenge of the opening towards an unknown zone until that moment.

Table 2

Strategic Objectives	Benchmark	Baseline Value	Target Value	Value Achieved in 2008
1. Strengthening the competitiveness of the economy to achieve high and sustainable growth;	1. Percentage of GDP per capita from the EU average level	34.5 % 2005	51.2 % 2013	41.3 %
	2. GDP growth annual average	5% 2000-2006	5.73 % 2007-2013	6%
	3. Exports/GDP	60.8 % 2005	89.77 % 2013	60.5 %
2. Development of human capital to ensure higher employment, income and social integration;	1. Employment level;	55.8 % 2005	64% 2013	64%
	2. Unemployment level;	10.1 % 2005	7% 2013	5.6%
	3. Poverty risk	14.2 % 2005	13% 2013	14.4 %
	4. Population having access to water supply and sewerage	40.5 % 2004	66.46 % 2013	
3. Increasing the quality of human capital with a focus on employment;	1. Economic activity level -15-64 years of age.	62.1 % 2005	68.5 % 2013	67.8 %
	2. Share of the population aged between 25 and 64 years participating in training and retraining courses	1.3% 2005	5% 2013	1.3%
	3. Share of the population aged between 18 and 24 years with lower than secondary education not participating in any education and training forms	20% 2005	16% 2013	
3. Fostering entrepreneurship p.favourable business environment and good governance;	1. Labour productivity	3.5% 2005	5%	2.7%
	2. Foreign direct investment	EUR 3.2 bil. 2005	EUR 21.7 bil.	EUR 6.2 bil.
	3. Maximum number of days needed to incorporate a new company	32 2006	1 2013	2
	4. Maximum number of procedures needed to incorporate a new company	9 2006	1 2013	1

Source: Strategic Report of the Republic of Bulgaria for 2009

But with all these problems encountered at the beginning of the program, Bulgaria succeeded and had obtained satisfying results. Thus, in December 2010, projects had been contracted with a value of 2.946.576.235 Euro, in a percentage of 36,74%, the EU funds representing 2.463.312.622 Euro, respectively 36,91%.

For the payments category, at the end of December 2010 a value of 809.064.721 Euro, with a percentage of 10,09% has been reached. From the total of the payments made, the EU funds represent the sum of 680.779.320 Euro with a percentage of 10,20%.

This progress is due to the considerable efforts made by the Bulgarian government in organizing the habilitated authorities for implementing the funds, in view of handling them efficiently and transparently. For this there have been made actions for the optimisation of the institutional frame, the simplification of the proceedings, for the awareness of the public opinion and for improving the dialogue with the economical and social partners and with the European Commission.

An innovatory model and a good practice example is the Management Council of the EU Funds, created at ministerial level for consolidating the coordination in handling the funds. A unique centre for handling and controlling the EU funds has been created and transferred from the Financing Minister to the Administration Council of the Ministries.

From a legal point of view, in 2008 it has been adopted the Regional Development Law which rules the planning, the management, the monitoring and the control of the governmental policy for regional development.

All these measures have helped considerably the absorption of the Structural Funds, leading to a better monitoring and control.

Bulgaria has encountered itself lots of trouble in absorbing the Structural Funds being ranked at the level of the Management Authorities/Intermediary Organisms with an inadequate administrative capacity also at the level of the beneficiaries. The major problem is the lack of experience for facing such a challenge, especially when the Management

Authorities didn't have the experience for coordinating the pre-adherence projects.

The Bulgarian government admits they had serious problems such as:

- lack of financial resources for developing the projects by the beneficiaries, in advance;
- incomplete project folders;
- inefficient communication between the beneficiary and the evaluators;
- in some of the Operational Programs there have been applied too many projects which lead to delays in finalising the evaluations;
- delays in employing the evaluators for rushing the evaluation proceeding of the applied projects;
- delays in signing the financing contracts because of the complicated administrative proceedings.

The low rate of the payments made towards the beneficiaries is motivated, as a paradox, by the will of the Management Authority to be 100% sure of the legality and the eligibility of the expenses that have to be reimbursed. Aware of the problems and the suspended funds by EU during the pre adherence, they have included a series of control and audit activities for the financed projects. This leads to a slower recovery of the expenses made by the beneficiaries although the intentions of the authorities are different.

Besides, the beneficiaries are obliged to present a warranty of 100% for the payments received in advance. Because of the economical crisis they cannot warranty 100% not even for ensuring the mandatory co-financing by contract. The credits offered by the banks were ideal for helping the beneficiaries of irredeemable financing.

All these difficulties lead to a low rate in absorbing the Structural Funds, but the Bulgarian government offers remediation measures as well.

The measures taken for increasing the absorption of the funds aim at consolidating the administrative capacities of the institutions and at optimising the proceedings:

- the growth of the staff members inside the authorities which handle the implementing of the funds;

- the creation of an Audit Direction for EU Funds, a structure inside the minister;
- the coordinating structure of EU funds has been improved; 3 directions have been created: EU Fund Programming, EU Funds Monitoring and the System of Informing and Handling the EU Funds;
- training courses for the employees of the Management Authorities, of the Intermediary Organisms and of the beneficiaries of operational programs;
- projects financed inside OP "Technical Assistance", having as purpose the training of the employees of the regional administrations regarding the absorption of the Structural Funds;
- profitableness measures have been taken for each operational program in view of increasing the interest of the beneficiaries for obtaining irredeemable financing.

4. Comparison RO-BG

Table 3 OP Implementation as of 31.12.2010 Romania&Bulgaria

Operational Programme	Programme budget	Contracted		Payments	
		% implementation		% implementation	
		RO	BG	RO	BG
OP Transport	100%	18,28	29,92	1,03	5,62
OP Environment		52,88	27,35	7,27	6,96
OP Regional Development		65,82	51,34	15,78	11,58
OP Competitiveness		45,69	31,20	10,44	19,44
OP Technical Assistance		33,37	23,82	5,33	11,00
OP Human Resource Development		90,30	47,36	13,66	8,91
OP Administrative Capacity		38,67	45,10	5,19	25,13
TOTAL		52,66	36,74	8,97	10,09

Source: data processed by the *National Strategic Report 2009 on the implementation of Structural and Cohesion Funds Romania for 2009* and *Strategic Report of the Republic of Bulgaria for 2009*

From the table 3 we can notice that Romania has been overrun by Bulgaria with

an absorption percentage of 10,09%. We have to observe that it didn't manage to overrun it regarding the chapter „human resources development”, Romania having a percentage of 13,66%.

From my point of view we should give all the credit to Bulgaria. This country has focused on its real needs and by this it has generated an economical growth as well. Romania has qualified people but this is not enough if the basic infrastructure is a disaster, if the public administration remained far in the back on the road of evolution.

5. Conclusions

Romania and Bulgaria are two countries who dream of a better way of living, without territorial, economical and social discrepancies compared to the other EU states. They are aware of the opportunity offered by EU through the Structural Funds but what counts the most is the manner chosen by each country for reaching the established goals. Bulgaria can be considered a good practice model in this domain because, by perseverance and ambition, it has managed to apply the best methods for raising the absorption rate. It had proved that it is mandatory to consider the real needs of the country without neglecting any field. In exchange, Romania preferred the development of the human resources and neglected the other sectors facing difficulties.

6. Acknowledgements

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Budgetary Policy Rules and Their Efficiency in Limiting Public Debt's Proportions in EU Member States

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Abstract

Ensuring the soundness of public finance and, implicitly, the sustainability of public debt, represents a major concern of public authorities in every country, including at European level. The literature suggests and practice confirms the possibility of using budgetary policy rules as a tool for achieving these goals.

The first part of this work is devoted to the analysis of the rationale for budgetary policy rules in European Union, mainly focusing on their action as a tool for preventing excessive public indebtedness.

We then briefly present the contents of the budgetary policy rules applicable to EU Member States, both at the national and supranational level and we analyze their efficiency in limiting public debt's proportions on the background of the recent global economic crisis, indicating some proposals for improvement.

Key words: budgetary policy rules, European Union, excessive public debt

J.E.L. classification: E60, H63

1. Introduction

The significant deterioration of budget balances and the important increase of public debts in the context of the recent global economic crisis have brought to the fore the issues of budgetary policy rules applicable in EU Member States, both at national and supranational level, as well as their efficiency in preventing excessive public authorities indebtedness.

Budgetary policy rules, also known as fiscal rules, are numerical limits or targets on the size of some budgetary aggregates that guide budgetary decision making process in

the sense of ensuring a permanent concern for financial discipline.

In practice, these rules can be designed in different ways, targeting the size of public debt (limit of the gross or net public debt as a share of GDP, etc.), budget balance (balanced budget, limit of the overall or structural budget balance as a share of GDP, golden rule, etc.), budgetary revenues or expenditures. Also, budgetary policy rules can be established by law, constitution, international treaties or can be the result of budgetary procedures.

2. The rationale for budgetary policy rules in EU Member States

The main objective of every budgetary policy rule is to maintain budgetary discipline, in other words to prevent unsustainable budget deficits and the over indebtedness of governments to arise. However, other positive effects can also be registered, such as strengthening economic policies coordination between different levels of government and reducing the uncertainty regarding the future conduct of budgetary policies.

Avoiding high public debts is a great concern for every country, as a result of the numerous negative consequences that such a situation may pose to economic and social activities. Thus, excessive public debt accumulation adversely affects long term economic growth, reducing the consumption possibilities of future generations. Large scale public debts also increase economic vulnerability to various shocks (e.g. severe recessions), reducing the ability of governments to use budgetary policy instruments to mitigate their impact. Last but not least, high public debts may force governments to accept higher inflation to reduce their burden (repudiation through

inflation) or to declare themselves insolvent, in both cases the economic, social and political consequences being disastrous.

Although maintaining public debt within acceptable limits and, most generally, ensuring the soundness of public finance should represent a priority of the budgetary policy in every country, it plays a special role in EU Member States, as they are either preparing for euro adoption or have already become members of the euro area. Several arguments can be invoked in this regard.

First, maintaining an acceptable level of public debt is a prerequisite for ensuring the stability of prices and promoting sustainable economic growth in Europe.

Second, as countries which adopt the single currency give up their monetary policy competences in favor of the European Central Bank, national budgetary policy instruments remain the only instruments available in order to mitigate the impact of various economic shocks and excessive public debts exert constraints on their use.

Finally, excessive public indebtedness also proves to be particularly important in EU Member States because of the negative externalities that it generates, as there is high risk to be affected not only the macroeconomic stability of the indebted state but also that of other EU Member States, even putting into question the continuation of the European construction and of its central pillar, the single currency. The importance of these issues was revealed in the context of the problems recorded by Greece, Ireland and, more recently, Portugal, calling for the joint action of other member states in support of the one in difficulty. The implementation of functional budgetary policy rules should reduce the risk of bailout of over indebted countries by European institutions.

The literature also indicates other mechanisms that can be used in order to limit public debt's proportions and prevent the adverse effects that the over indebtedness of governments generates [10]. In this respect, we should consider the mechanism of market discipline, focused on market forces as factors able to prevent the abuse of public indebtedness. However, this mechanism has proved itself not to be perfectly viable in the European area, the recent economic crisis highlighting the lack of credibility of European institutions' commitments not to

bail out troubled member states (a prerequisite for the proper functioning of this mechanism), especially when they play a major role on European markets.

Budgetary policy rules can work towards preventing the over indebtedness of public authorities either directly, by setting numerical limits on the size of public debt as a share of GDP, or indirectly, by limiting the possibility of incurrence of factors that can lead to debt accumulation, mainly budget deficits.

Thus, both public debt rules and balance budget or expenditure rules can help ensure a sustainable public debt. However, it is considered that the debt ceilings exercise constraints on governments especially when public debt is substantially approaching the limit, which is often too late. Controlling budget deficits can also prove to be ineffective in limiting the amount of public debt when the deficit measure used is not comprehensive or when other factors than budget deficits have an important contribution to the accumulation of public debt (i.e. the assumption of private liabilities as public liabilities). It is therefore advisable, in order to prevent excessive government indebtedness, to combine, in practice, the limits on the size of budget deficits with limits on the maximum level of public debt.

3. Short survey of budgetary policy rules in EU Member States

Budgetary policy rules have been established in EU Member States both at national and supranational level.

Relations of complementarity exist between the two categories of rules, as they complete each other and act together in order to reach the common objective of strengthening budgetary discipline and ensuring the sustainability of public debt in Europe. First, the rules established at national level, even by the Constitution, can be amended if a new political majority meets. Establishing rules at a higher, European level (rules which cannot be changed unilaterally by the initiative of a single Member State) helps strengthening the credibility of similar rules adopted at national level. Second, the existence of national rules, adapted to the specific realities of each state concerned,

increases the chances of success of the rules established at European level.

3.1. European budgetary policy rules

Budgetary policy rules exist at European level starting with the Treaty of Maastricht, signed in February 1992 and setting the foundations of the European Monetary Union. It establishes maximum limits for budget deficit (3% of GDP) and public debt (60% of GDP), designed as convergence criteria for adopting the euro.

The need to maintain budgetary discipline and avoid the over indebtedness of public authorities after adopting the single currency called for the extension of these criteria to EMU Member States, by the Stability and Growth Pact, adopted in 1997 and reformed in 2005. In summary, it establishes two categories of rules, as follows:

A) Budget balance rules

- The structural budget balance must record, over the medium term, a surplus or deficit of no more than 1% of GDP. Its actual size is determined by reference to the specific conditions of each country (growth potential, cyclical position, ongoing structural reforms, share of public debt to GDP, etc.).
- The overall budget deficit should not be excessive, not exceed 3% of GDP, unless exceptional circumstances are recorded (negative economic growth or a prolonged period of slow economic growth, pension systems reforms, significant public investment spending and other relevant circumstances).

B) Public debt rules

- The gross government debt should not exceed 60% of GDP or, if this level is exceeded, it should decrease at a satisfactory pace.

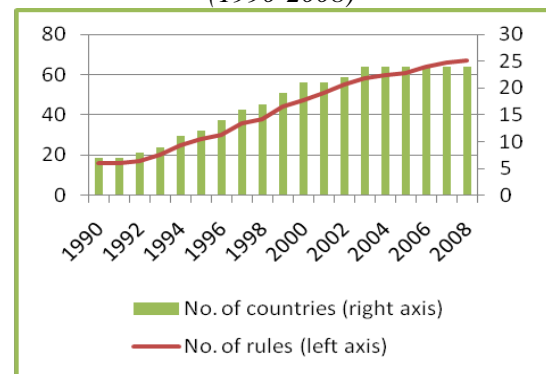
The Stability and Growth Pact also provides corrective measures that can be applied when excessive deficits incur, ranging from recommendations made by the Council of Ministers to Member States to correct the situation to reviewing the loans policy of the European Investment Bank towards the undisciplined country or even financial sanctions in the form of deposits without interest or fine imposed to the concerned Member State.

3.2. National budgetary policy rules

The introduction of national numerical rules, complementary to the supranational ones, is supported even by the European institutions. For example, in the report on reforming the Stability and Growth Pact in March 2005, the European Council asserted that *"national budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact"* [13].

Using budgetary policy rules as a part of the national budgetary frameworks in order to prevent the unsustainable growth of public debt is a relatively recent idea. However, the number of such rules and the number of countries from European Union having implemented them have increased steadily over the past two decades, as can be seen in figure 1.

Figure 1. Number of countries having a budgetary policy rule and total number of rules in force in EU Member States (1990-2008)



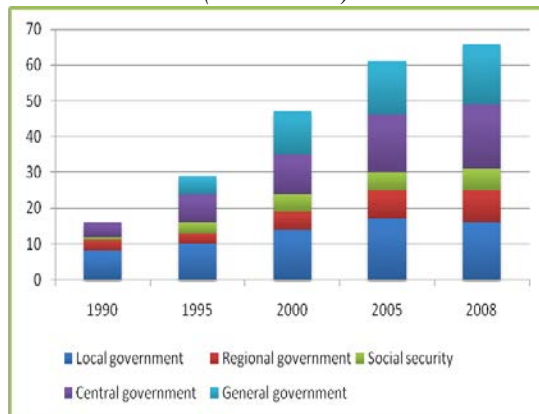
Source: [4]

The total number of budgetary policy rules implemented at national level in EU Member States has increased from 16 in 1990 to 61 in 2005 and 67 in 2008. Similar developments can be noticed when considering the total number of countries implementing these rules, only 3 of the 27 EU Member States (namely Cyprus, Greece and Malta) having no such rules at the end of 2008.

As for their coverage, budgetary policy rules have been implemented at all levels of government (see figure 2). However, in 1990 most numerical rules concerned local and regional governments (11 out of 16) and there was no rule for the general government,

the situation changed later on. It can be observed, especially since 2000, a sharp increase in the number of rules that apply to central and general governments, in 2008 35 out of 67 rules concerning these sub-sectors.

Figure 2. Number of budgetary policy rules by sub-sector in EU Member States (1990-2008)



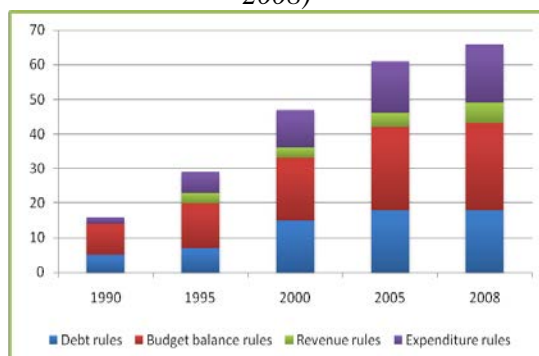
Source: [4]

Out of 27 EU Member States at the end of 2008, 11 had rules for the general government and just as many only for the central government. Only Belgium and Romania had such rules neither for the general nor the central government sub-sectors.

Or, a larger coverage of the budgetary policy rules can be considered as a prerequisite to ensure their high efficiency in preventing unsustainable public debt growth, especially when access to borrowing is permitted to all levels of government.

In relation to their content, most of the rules are budget balance rules, as can be seen in figure 3.

Figure 3. Number of budgetary policy rules by type of rule in EU Member States (1990-2008)



Source: [4]

In 2008, out of the 67 existing rules, 25 were budget balance rules (more than one third), only 18 debt rules and even less revenue and expenditure rules.

The data presented indicate that rules aiming at controlling the size of the budget deficit, as the main factor contributing to public debt accumulation, are most often preferred by public authorities at the expense of rules directly limiting the stock of public debt. However, as we have already seen, the best results can be achieved, in practice, when these two categories of rules are combined. In EU, of 24 countries with national budgetary policy rules, only nine combine balance budget rules with debt rules and 3 expenditure rules with debt rules.

Also, most of the budget balance and public debt rules are applied at lower levels of government, such as regional and local governments. Central governments and social-security authorities mainly resort to expenditure rules.

Getting positive effects as a result of the implementation of budgetary policy rules depends not only on how they are built and on their coverage, but also on the existence of appropriate monitoring institutions as well as enforcement mechanisms. In this respect, according to European Commission's appreciations [7], at the end of 2008, many of the budgetary policy rules in place in EU Member States lacked an independent monitoring institution and had poor enforcement mechanisms in case of non-compliance.

4. The efficiency of budgetary policy rules in limiting public debt's proportions in EU Member States and solution for its improvement

An efficient budgetary policy rule should prevent governments from running high budget deficits and accumulating unsustainable levels of public debt. However, this is not the case of many EU member states.

On the background of the recent economic and financial crisis, public debts grew rapidly in many countries, surpassing their sustainable level. This was the mixed result of GDP contraction, high budget deficits and financial sector support schemes.

It can be noticed, from the data presented in table 1, that many EU Member States currently have excessive public debts, well above the limit of 60% of GDP. In 2009, 12 out of 27 states exceeded this threshold and their number is expected to grow to 14 in 2011. The situation looks even worse if we also take into consideration the implicit debts, escaping the European institutions' official assessments on public debts.

Table 1. Gross public debt as % of GDP in selected EU Member States (2001-2011)

Country	2001	2003	2005	2007	2009	2011*
EU	61.0	61.8	62.7	58.8	74.0	81.8
Euro area	68.1	69.0	70.0	66.0	79.1	86.5
Belgium	106.6	98.5	92.1	84.2	96.2	100.5
France	56.9	62.9	66.4	63.8	78.1	86.8
Germany	58.8	63.9	68.0	64.9	73.4	75.9
Greece	103.7	97.4	100.3	105.0	126.8	150.2
Ireland	35.5	30.9	27.4	25.0	65.5	107.0
Italy	108.8	104.4	105.8	103.6	116.0	120.2
Latvia	14.0	14.6	12.4	9.0	36.7	51.9
Lithuania	23.1	21.1	18.4	16.9	29.5	42.8
Poland	37.6	47.1	47.1	45.0	50.9	57.2
Portugal	51.0	55.1	61.7	62.7	76.1	88.8
Slovenia	26.8	27.5	27.0	23.4	35.4	44.8
Slovakia	48.9	42.4	34.2	29.6	35.4	45.1
Spain	55.5	48.7	43.0	36.1	53.2	69.7

*estimations

Source: [3]

This situation is certainly not specific only to bad times, large public debts have been recorded in many developed countries before the crisis began, which indicates that governments have not taken advantage of the favorable economic circumstances to make enough budgetary savings. Thus, the average euro area public debt has exceeded the threshold of 60% of GDP every single year since 2001.

The development of public debts, both before the onset of the global economic crisis and when its effects became visible and called for action, demonstrates that the current budgetary rules system in EU Member States, both at the national and, especially, European level, is far from being an optimal one. It should, therefore, be reformed, to correct its design and implementation deficiencies. Some basic directions should be considered:

a. *Public debt rules should be more widely used*, possibly in addition to budget balance, revenue and expenditure rules. At the

supranational level, where the Stability and Growth Pact includes such rules concerning the size of public debt, it is important to increase their importance within the excessive deficit procedure.

b. *Public debt indicators in public debt rules should be reconsidered so that they include implicit debts* (such as long-term pension commitments or guarantees granted by public authorities to private entities). Numerous studies have shown that these liabilities are sizeable in EU Member States and may represent a real threat to long-term public finances sustainability on the background of an aging population.

c. *The scope of the national budgetary policy rules should be expanded so that they include all government sub-sectors* (central government, state governments, local governments and social security). As for public debt rules, they should be introduced for all public authorities that have the ability either to directly borrow to fund public expenditures or to guarantee private loans, but especially for central governments.

d. *Budgetary policy rules should be redesigned so as to ensure a high degree of sensitivity to economic circumstances*. Most rules existing at national level set fixed numerical targets for budget aggregates, which cannot be adjusted depending on the economic situation. Thus, they proved to be procyclical, allowing governments to spend and borrow more in favorable times and demanding for austerity measures when the economy became weaker. Though, budgetary policy rules must be adjusted depending on economic circumstances, allowing public authorities, during a recession, to take action in order to support economic recovery, to promote budget deficits, borrow to finance them and, thus, accumulate public debt. Conversely, in periods of sustained economic growth, budgetary policy rules should be adapted to force governments to save money and to substantially reduce the size of their public debts. This would create sufficient margin of maneuver to allow for the support of the economy in difficult times, without generating an unsustainable increase in budget deficits and public debt.

e. *Enforcement mechanisms should be introduced or strengthened, there where they already exist*, as they proved to be insufficiently strong, both at the national and

European level. For example, the Stability and Growth Pact proved not to be enforceable enough against some big countries like Germany or France, which managed to promote excessive deficits for several years without being punished.

5. Conclusions

The need to avoid excessive indebtedness of public authorities is undeniable in every single country, as a result of the adverse economic and social effects that such a situation would generate. Ensuring the sustainability of public debt is, however, of increased importance in EU Member States, as they are either preparing or have already adopted the single currency, due to the additional constraints that the membership to a monetary area imposes.

Using budgetary policy rules is one of the mechanisms that the literature indicates in order to achieve this objective. Such rules exist in EU both at the national and supranational level. This work revealed, however, that the current system of rules in EU Member States is far from being optimal, as he failed to prevent the unsustainable growth of public debt in many countries, especially the developed ones.

This doesn't mean that budgetary policy rules should be removed, as no better alternative yet exists. However, they should be reconsidered, meaning that some deficiencies should be corrected, among which we can mention the low importance granted to public debt rules, the insufficiently expanded scope of the rules, the lack of sensitivity to economic circumstances and, mainly, the lack of or poor enforcement mechanisms.

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Managerial Accounting Principles and Cost Calculation Used by Economic Entities in the Coal Mining Industry

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Abstract

Considering the specialized work in managerial accounting, this paper aims to show which cost calculation principles are actually applied in the coal mining industry today. The methodology used in this scientific approach is of qualitative nature, using the following methods: direct observation and interview.

Key words: principles, management accounting, costing, coal mining industry

J.E.L. classification: M41

1. Coal mining industry in Romania – general view

The industry is a branch of the material production and of national economy, in which widely occur the exploitation of natural assets and their (as well as others) transformation, in means of production and consumer goods. (Definition given to the concept of industry in the Explanatory Dictionary of Romanian Language, Universal Encyclopedia Publishing, Third Edition revised and enlarged, year 2009)

Industry includes: mining industry, manufacturing industry, electricity, gas and water. The industry occupies an important place on the national economy, covering unlike other branches of the economy, the demands of all sectors of activity as the carrier of most advanced production relations.

Coal mining industry is a branch of industry whose main objective is to produce electricity. Coal, as mineral fuels, along with other natural resources constitutes the country's primary energy sources, with which

electricity is produced. Electricity is considered the main branch of the national economy.

In our country there are three categories of coal:

✓ *lignite*, also called brown coal because of its color is the least changed and has the lowest carbon content, i.e. about 30%. During combustion it emits much smoke and relatively little heat;

✓ *coal* is the most widespread coal and generates the most heat. This type of coal has usually alternating dark and glossy layers, the shiny bands being based on wood and the dark layers have been formed from the remains of plants that have rotted over time.

The coal contains a softer compound, like charcoal, which is to "dirty" during handling;

✓ *hard coal*, known as higher coal which is composed of 98% carbon, is very hard to extract and clean during handling, burning with high and hot flame. This coal emits less smoke and is very difficult to ignite.

Coal is the richest deposit of fossil fuel. Known world reserves are estimated to be sufficient for a further period of 200 years at a current rate of consumption. Many experts consider that there is worldwide, about 15 times more coal remained undiscovered. Once discovered the deposit has been exploited in depth. Today, exploring for coal is one of the basic activities of geologists. They know from experience, the type of land under which coal could be found; especially in areas with rocks from coal period. The thickness of a coal bed can vary from a few centimeters to several meters and whatever

thickness it has, there are two types of mining: surface and underground mining.

2. Principles of management accounting and cost calculation used by economic entities in the coal mining industry

Accurate and precise calculation of costs, implies the need to solve some basic theoretical issues, both for accurate budgeting of costs, as well as for strict observance of theoretical and methodological principles that should form the basis for determining costs as well: the principle of determining the calculation object, the principle of establishing the method of calculation, the principle of organizing the accounting calculation in conjunction with the other economic calculations (statistical, forecasting), the principle of separating the economical and financial indicators of costs calculation by type of activity, the principle of expenditure timing, the principle of space delimitation of costs, the principle of delimitation of productive expenditure from the unproductive, the principle of demarcation of expenditure between output and production in progress.

The organization of management accounting and cost calculation of an economic entity of coal mining is based on a set of principles, including:

✓ the principle of delimitation of the production costs in space

This principle is a space (territorial) separation of expenditure, i.e. a separation of them on production sites (mines, slaughter lines, phases of work, cutting, etc.) where they are formed. *The principle of delimitation in the area of the production costs*, in fact is nothing more than sectorization of production process in a manner most appropriate to the needs of accounting and cost calculation, avoiding the record several times on the same charges in several places (doubling records and calculations). In the economic entities of the coal mining industry this principle refers to the delimitation of production costs, incurred in a certain period of management by a coal-mining in the area, on cost places (supplying with raw materials and consumables necessary for mining; preparatory work in the mining field, mine

ventilation, maintenance of the main process with energy, water, steam and compressed air, repairs and maintenance of mining machinery, means of transport to the surface and interior, administration and sales) that take place within the boundaries of mining coal in some spaces called "places". In these places there are involved consumptions of materials, time, labor and machinery (depreciation), thus becoming "expenses places". The concept of production sites is not only referring to the main parts of the technological process (extraction itself), but also to all other ancillary and service processes of extracting coal. Establishing spatial production sites usually occurs on a plan of organizing the production process, prepared according to the principles of techno-economic rationality. Taking into account that in terms of technology, the production process can be divided into a number of elementary works and operations, not all places of production can become at the same time places of expenses. The notion of spending is closely linked to the production place, but not to be confused with one another. In practice it is quite difficult for most small places in the production process, corresponding to an operation in detail, also to become places of expenditure, in the accounting sense. Consumption of materials, labor, equipment etc. can not always be traced, in accounting terms, on the smallest production sites. Therefore, in practice it is often necessary to group several production sites in one main place of expenses. The larger size an economic entity in the field reaches, the more important the sum of consumptions becomes and the more it increases the spending places. Typically, these expenses places overlap costs of production sites, from a certain size, assessed by the managers of the economic entity to be useful in the accounts and the calculation of production costs. A fundamental distinction between production sites and places of expenditure is that, while the former always have a material existence, representing the spaces inside the production process through different processes, the places of expenditures, as required by accounting needs and cost calculation, may sometimes have a functional and abstract character. The place of production, as productive unit, can not always be a place of expense and

calculation. It is not a notion of accounting, statistics or calculation type it is usually understood as a unit defined in terms of space.

The number of production sites in a coal mining may be higher or lower, according to the detailing degree of work phases and other supporting processes of the mining activity. The larger the number of production seats corresponding to production operations in detail regarding the production process, the more the possibilities of accounting and statistics increase and the control of the mining operation becomes more effective, but this becomes more expensive. Therefore, the manager should always consider the necessary degree of organization of records, taking into account the size and specifics of the mining.

The premise of this approach on the issue of expenditure delimitation on places is the need to know the best places to carry out the production process. In practice, this is not an easy job, because you have to take account of technical factors and management's operational needs, i.e. to determine those places where costs have incurred and where, therefore, they can be recorded and pursued with clarity and precision.

To delimit places of expenditure there may be taken into account several criteria, namely: space, i.e. the material existence of the place of expenditures; the function it performs for the mining, the need of production cost calculation, etc. The space criterion remains the most important criterion for determining the costs of production, because it allows a precise determination of the places of expenditures, the way they are cycled during the production process. The functional criterion is based on determining the production costs on expenditure places, based on fundamental organic mining operation: supply, mining, administration and marketing. Regarding the space delimitation is deepening primarily in coal mining sectors, distinguishing between the productions sectors, ancillary and annexes sectors, the administrative and managerial sector. Within the productions sections, the demarcation of spending according to the space criterion may deepen according to the brigades, the methods of coal mining, production centers and responsibility. This location of costs is important for forming the production costs,

of the total cost, as well as for establishing the responsibilities regarding each place generating expenses. Thus, the costing calculation on places is important both from a formal point, namely the way of collecting expenditure on places generating consumption and their distribution on bearers of costs, as well as from the operational aspect, in terms of effective management of work done in these expenditure places on the liability of managers of such sites. Regarding the calculation needs the delineation of expenditure on costs areas, get a more complex character than in the two cases above, reaching a combination of the two criteria, spatially and functionally. The difference between the criterions regarding the calculation needs and the other two criteria, spatially and functionally, is that while the areas of expenditure, limited according to the needs of calculation, have a temporary character, the spending areas, limited according to the two criteria, spatial and functional, are of permanent nature. The space criterion and the functional criterion, follows closely and in real the technological process, while calculation is an abstract criterion, which in practice creates some inconsistencies between the technical and accounting side. Hence here is sometimes a problem in the organization, consisting in joining both the sharing of areas on technology criteria with sharing on accounts, also taking into account the needs of calculation.

✓ the principle of costs separation relating to coal extraction from costs that are not related to it

According to this principle a post-calculation can not be conceived in lack of the costs evidence in the accounting really corresponding to the actual consumptions of labor, of means of production and labor items. In order for the spending accounts to rightly reflect the whole economic activity of mining it is necessary a separation of costs of production from costs which do not affect production. Due to this principle, from the costs of coal mining are separating the costs for investment works and those involving non-industrial activity. Separately, there are also highlighted entertainment expenses, expenditure on social and cultural activities, etc.

In other words, this principle seeks delimitation of expenses recoverable by the cost of production (operating expenses) from the costs of other activities (financial, exceptional activities, etc.). Failure to observe this principle determines the distortion of production cost and leads in some cases even to hide some weaknesses in mining activity.

✓ principle of the delimitation of productive spending from the unproductive

Under this principle, including the production expenditures into the costs must take place within the fiscal period of production (coal mining) to which they relate irrespective of the time when such charges have been made. Taking into account the principle of delimitation in time, production costs are divided into three groups: prepaid expenses, current expenses and commission expenses. Some expenses such as subscriptions to professional periodicals, taxes on land and buildings, costs of mining, overburden works etc. shall be made in the current period and concern several periods of management. The current expenditures are those which take place during the management period, i.e. the production achieved during a calendar month, most part of production being costs of the current category.

Provisioning expenses are those that are included in the cost of production in the current period by creating commissions, but practically they are made in future periods being supported by these provisions. This includes: preliminary repairs, routine repairs, technical revisions and current repairs to tangible assets, etc. In the management accounting this principle is achieved through the accounts of Group 92 "Calculation accounts" and 901 "Internal settlement expenditure". By strictly applying the principle of timing of production costs, there are removed the causes that can monthly cause large swings in the cost of production, practically into management periods. Demarcation of time is important for comparative analysis of expenditure for specified periods in terms of performing the program of reducing the production costs.

✓ the principle of demarcation of productive expenditure, from the unproductive.

The compliance with this fundamental principle of cost calculation ensures the determination of a cost corresponding to reality, both in size and structure. This principle is based on the necessary economical differentiation of productive expenditures, which are also value creating, from unproductive expenditures, which do not add any value to the product. The unproductive expenditures encountered in a coal mining are determined, in general, by: consumptions exceed of specific mine timber, electricity, metal wire, explosives etc.; the use of materials of different quality or other dimensions to those provided in the rules, the miners' salaries exceeding the planned expenditure due to deviations from the established technological process; losses caused by interruption of the technological process (fires, floods, land subsidence, etc.). All these non-productive expenses are included in the production cost, if they occurred during the production process, in order to reflect the full amount of expenditure and the way of managing the resources within the mine. In fact, these expenditures are reflected in the actual cost of the product in the category "indirect production costs" (common costs of the department) and "general administrative expenses" of mining, which in turn include several cost components, including the unproductive ones, without being reflected in a distinct position in the structure of the production cost.

The influence of these costs is also reflected in the level of the other economical efficiency indicators, by lower profit and profitability in mining. Therefore, we believe that these expenses must be followed separately in a distinct calculation item, in order to identify and remove the causes that bring them about.

✓ the principle of management accounting and calculation of the costs in accordance with the indicators used in the budget activity

According to this principle it is necessary, both in budgetary work, and in the accounting to be considered the same form of technical and administrative organization, the same elements of the technological process, to be used the same principles of grouping and sharing production costs. Within this

overall framework of particular importance is the consistency between budget and accounting related to: budgeting and following expenditures on products and production sites, using in accounting of the same calculation items in the calculated budget etc.

If we consider, for example, the budget for general and administrative expenses of coal mining, it includes budgeted general and administration expenses on categories of expenses (interest expenses, general expenses for gratuities, household administrative expenses, etc.) and within these on types of expenses (salaries of management personnel, depreciation of fixed interest, automated data processing, land taxes, office supplies, etc.). All these expenses are accounted in account 924 "General expenses of operating activities" in the analytical on categories of expenditure (9241 "General interest expenses", 9242 "General expenditure on gratuities, social activities etc." 9243 "Administrative and household expenses" 9244 "Maintenance and management costs," 9245 "Guard and civil defense expenses," 9246 "Unproductive expenditure," 9247 "Other expenses heard on the results," 9248 "Other general expenses of the enterprise") and within these on kinds of expenses (92411 "Leading staff salaries", TESA, service, health insurance and unemployment fund," 92413 "Depreciation of fixed interest," 92417 "Land Tax", 92431 "Office Supplies", 92433 "Expenditure PTTR" 92441 "Expenses for heating," 92451 "Guard unit property (materialized security)", 92461 "Covered provisions" 92471 "Debts taken over by mayoralties" 92481 "Other expenses (approval for operating preliminary for 2010 expenditures for treatment and sports facilities, auctions, unwarranted subsidy etc.). By using the same methodology for expenditure accounting like for the budget, there are being created the conditions for it to become an effective means of control on the way of compliance and stay within budget of production costs and on the burden of reducing them and also to provide a wide field for analysis of the production activity of coal mining.

3. Conclusions:

Mining was considered until 1989 the most important branch of national economy and the coal mining industry was considered the most important sub-branch, as cataloged on the large number of employees, being ranked before the production of oil, natural gas, metal ores and other mining activities. Economic reform in the mining industry after 1990 saw the most dramatic industrial restructuring processes undertaken at national level, a process that took a great extent also in the European Union in the context of the growing global market price of metals, and about 70 % of European manufacturing industry depends on the extracted substances. Therefore there must be identified the best opportunities of management and the best costing calculation methods, so that economic entities in the coal mining industry to become viable and not be closed.

4. Acknowledgements

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Qualities and Requirements of the Financial – Accounting Information

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Abstract

Accounting information is used in most of the decision-making processes of a company; therefore measuring its quality has become a matter of present interest. The quality of information largely determines the performances of the financial – accounting department, as well as the successful reaching of the company's goals.

Any reflection on the concept of quality in accountancy requires prior clarification of the purpose corresponding to the relation between the accounting information, its users and the economic reality described. Defining the generic qualities of accounting information must cover all user needs for a particular situation in contexts of wide variety.

Key words: information, requirement, quality, accountancy

J.E.L. classification: M41

The quality of information largely determines the performance of the financial – accounting department, as well as the successful reaching of the company's goals.

The quality goals in accountancy express a specific set of characteristics, assumed by the accounting staff of any entity. In this sense, four approaches are to be discussed upon:

- the satisfaction of the needs and expectations of all accounting information users while complying with rules and the professional ethics;
- the continuous improvement of the provided accounting information, including all methods of communication;
- the efficiency of production and communication for the accounting information (provision of service according to ISO 9004.2);

- taking into consideration the requirements of both the society and the business environment.

Any reflection on the concept of quality in accountancy requires prior clarification of the purpose corresponding to the relation between the accounting information, its users and the economic reality described.

Accounting information does not provide a guaranteed benefit to all its recipients unless found in a working environment which expressly calls for proper application of the accounting norms. Accounting regulations describe all the conventions applied in order to express, determine, measure and present the economic reality in accounting situations.

Precisely from this perspective are now approached the intelligibility of the accounting information and the consequences of the strict compliance of regulations. Users are presumed to have sufficient knowledge of accounting conventions and interpretations that characterize the content and form of certain covered or of internal use documents for the company. This aspect remits logically to the regulations defining and to the responsibility of designing accounting documents easy to be understood by the users.

Regulations on the quality of accounting information include not only the external rules that apply to all bodies or companies providing accounting information, but also internal specifications that can be additionally provided in order to meet specific needs for management and accounting documents. External rules are made up of all conventions and rules of accounting in the broad sense of the doctrine, regulation or professional practice. These accounting conventions essentially refer to:

- fundamental postulates, basic accounting principles and accounting nomenclature (accounting and financial fields, which

are in effect normalizing the conceptual framework of accounting);

- accounting guidelines for identification, measurement and presentation (IAS, IFRS, EU directives, national accounting law), the definition of which belongs to national or international legislature that determines the field and conditions of use;
- specific regulations of an activity or a category of legal, administrative, technical, economic or financial operations, with direct and indirect accounting consequences.

Accounting conventions and rules of foreign origin are complemented by internal specifications. They clarify the application of the accounting conventions and rules inside the company, as well as their organization in order to meet the special needs of accounting information users and administration.

The proper application of accounting rules, either these of external or internal origin, should be ensured based on the company's "accounting quality" system. In fact, the proper application of the accounting rules ensures compliance with the rules applied in the drawing up of documents; also, it determines the continuous improvement to meet user needs.

The company's "accounting quality" system helps to organize the strategy in order to achieve two key goals, namely compliance and improvement.

Defining the generic qualities of accounting information must cover all user needs for a particular situation in contexts of wide variety. This is necessarily confined to a major methodological difficulty that comes from multiplying the different categories of external or internal users, as well as from the variety of accounting documents.

Users are distinguished one from each other by the nature of their decisions, the methods they use, the information they possess or may obtain from other sources, as well as their ability to manage this information. In order to be useful, information must be tightly related with the users and the taken decisions or the followed goals.

The user can be external (independent) as referred to the company which provides accounting information; nonetheless, this

user can maintain an affiliation status (staff, employees) or a private contractual relation (banker, contractor), respectively.

There are two lines of reflection to identify the characteristics of generic quality for the accounting information [1]:

- deduction from the inventory of various supports and forms of accounting information, of common and representative characteristics, as well as of expectations belonging to different user groups;
- induction based on the user's generic conception concerning the accounting information of the characteristic variations of confidence every user assigns in the so-called "accounting label" (denomination) corresponding to the information.

The second methodological approach consists of searching for generic attributes of accounting information quality; this approach is preferred because reflects better the vocation of universality that privileges the accounting quality measuring. Based on this perspective it is possible to develop other approaches, methods or tools which ensure the fact that the accounting information available to users is credible.

The rules and the works of some authors emphasize the importance of the accounting information's quality measurement system. In principle, these rules should allow:

- to determine the satisfaction level of users' requirements (specifications) for services available to them;
- to discover and record non-conformities and malfunctions in processes;
- to quantify the effect of corrective actions after the analysis of these deviations;
- to monitor results improvement and processes efficiency.

The Order of Chartered Accountants in France proposes an evaluation system consisting of nine attributes of accounting information quality; these nine attributes take into account all the legitimate confidence expectations of the users;

For this approach, the generic attributes are the following ones:

- relevance is a specific feature to decisions or use (prediction value and confirmation value).

- reliability refers to the alteration level by appearance of errors, omissions, or unauthorized manipulation (completeness, data integrity).
- duration/ Availability represents the implicit or explicit availability date to be useful in making decisions or behaviour modification.
- clarity means presentation or content that allows a direct and quick understanding, without risking inappropriate interpretation of the facts or economic reality described.
- flexibility is the ability to adapt in order to meet explicit or potential new needs.
- verifiability/ Sampling is the correlation between elements of financial statements or accounting documents and real operations or facts involved.
- compliance with regulations expresses compliancy of conventions and rules of general accountancy and internal complementary specifications.
- neutrality is absence of the appreciation elements introduced by the influence of a previous searched result in the expression of a financial situation, economic facts or activity of a company.
- comparability means measurement and identical presentation in consecutive years balances for status and activities of companies with similar economic characteristics.

This reference system reflects a convergence in terms of professional accountants leading expertise or reflections in the field of quality accounting work.

Accounting information is reported to external users by means of financial statements published by the company. The conceptual framework of quality accounting work defines and sets the parameters enabling the characterization of the accounting information usefulness. These generic qualities are distinctive and shall not be confused with the fundamental postulates, the basic principles and the accounting guidelines for identification, measurement and presentation, which are part of the accounting references arising from the conceptual framework of accounting.

The conceptual framework of accounting information quality must be sufficiently opened as to meet not only the expectations

of external users (investors, tax authorities) towards the regulated accounting information, but also to integrate the particular concerns and needs of all other categories of users.

Currently, the conceptual framework of accounting [2] is oriented to accounting information which should give an accurate image of the economic reality described by a proper application of all accounting conventions. This conceptual framework describes the basic objectives assumed in accounting. This will ensure consistency in procedures for the establishment, measurement and presentation including the design of specific expressions for some economic or legal categories or for new financial instruments.

In my view, all concerns regarding the quality and requirement of the financial - accounting information are imposed by its variety and its use in the foundation of most decisions aimed at improving the efficiency of each activity within the company. Hence, the need for information to be of high quality: to be truthful, objective and valid. These features can be provided through specific activities such as:

- consultation of the original data sources;
- correct interpretation of the control on the occurrence of the phenomenon recorded in documents;
- consultation of the most recent data sources;
- comparison of the same information held by different sources (accounting data, statistical data).

In order to ensure data information, the financial and accounting information subsystem must operate on the basis of some requirements, namely:

- to correlate the need for information with the goals of the managerial activity;
- to correlate the information subsystem with the managerial process;
- to establish the relation between the information subsystem and the company's organizational structure;
- to select the information in order to ensure an effective match between the real information needs and the information provided by the information system;
- to provide the records' quality and data processing operations;

- to correlate the flexibility and adaptability of the information system to the dynamism of all problems faced;
- to provide concrete and accurate data, enabling an early assessment on the decision effects;
- to continue the information while complying uniformity and opportunity;
- to use mathematical methods for identifying, structuring and quantifying past and present events in order to predict the future;
- to combine financial data with data regarding the core activity for an accurate assessment of achievements;
- to provide information to a certain level; the degree of detail has to correspond to the hierarchical level which is addressed;
- to present information in a way that avoids additional interpretations or subsequent analysis;
- to make an efficient use of staff and technological equipment in order to achieve high accuracy and speed at a minimal cost.

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From the Standardization to the Internationalization of the Accounting Information

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Abstract

Accounting standardization represents a uniform system of rules designed for a range of economic entities located in a particular geopolitical location or in a given geographical area.

Accounting standardization aims to achieve the following objectives resulting from the characteristics of the modern world economy, namely: the vital need for information and communication, the universality of classifications for real and cash flows; the widespread of the electronic treatment of information and data. Nowadays, accounting standardization exists in most countries.

Romania wants to match its legislation on accounting issues with the EU Directives and to take into account the emerging trends in international standardization. The decision to implement IFRS in Romania involves dealing with the need for new interfaces with the European Union, its regulatory accounting bodies, as well as the national accounting standards setting bodies in the Member States.

Key words: accounting standardization, information, accounting

J.E.L. classification: M41

The concept of standardization in accounting arose due to the need of harmonization and uniformity in accounting in most countries.

Accounting standardization stands for a uniform set of rules designed for a commercial or nonprofit entity located in a particular geopolitical location or for a group of entities located in a specific geographic area, regardless their ownership or field of activity.

Accounting standardization requires creating accounting rules or provisions; these are improved as to give a common denominator concerning the mode of action and application in order to achieve comparability and interpretation of the accounting information content. After fulfilling these conditions, these accounting rules or provisions should be globally applied by internationalizing them. Internationalization of accounting has its source in the international convergence and harmonization of the principles, bases, rules, conventions and specific accounting practices.

Accounting standardization aims to achieve the following objectives resulting from the characteristics of the modern world economy, namely: the vital need for information and communication, the universality of classifications for real and cash flows; the widespread of the electronic treatment of information and data.

Nowadays, the international body that focuses its activity in completing this complex process is the *International Accounting Standard Board - IASB*, an organization specialized mainly in developing rules for stock exchange and multinational companies. This body is considered a promoter of international accounting standardization, but like any neutral body, it has not been exempt from criticism and contradictory evidence related to the allocation of actions, mainly relating to:

- (a) actions of accounting standardization and harmonization made by the European Union;
- (b) the application of the Anglo-Saxon accounting rules in countries where accounting has a continental character or other influences.

Thus, harmonization of international accounting conducted by the accounting body is a necessity imposed by the requirements belonging to users of financial statements. The determining factors in this process are listed below:

- globalization, globalization of economies and capital markets, which provides the accounting rules an international character;
- creation of regional power centers, by extending the borders of the European Union (EU), which leads to the rise of international capital movement process;
- diversification of globally competitive methods;
- design of a standardized accounting system and generally able to determine the efficient operation of business activities;
- creation of an optimal convergence between internal and external system in terms of financial information.

These phenomena, taken individually as well as based on the interdependencies that are created between them, link to the creation of aspects belonging to the *accounting marketing*, namely the *market of accounting information*.

Achieving these objectives will result in the creation of accounting rules, capable of providing financial information useful in the process of the users' making decisions; these users will act based on their information background. The process of creating accounting rules has generated in time *two directions*:

- *the conceptual or deductive direction*, in which the accounting concepts and principles are determined by professional reasoning, these being based on the methods and procedures applied in practice;
- *the pragmatic or inductive direction*, in which the accounting concepts and principles are determined based on experiences and traditions.

These directions have led to the creation of two major world accounting systems, namely the *continental accounting system* (the *conceptual direction*) and the *Anglo - Saxon accounting system* (the *pragmatic direction*).

In Romania, the accounting standardization is performed by the State and the institution regulating the accounting standardization is identified with the Ministry of Public Finances, *Accounting Regulatory Directive monitored and supervised by the Financial Reporting Council of the Ministry of Public Finances*.

The issue of the accounting standardization arose due to the need of standardize accounting practices used by various professionals in order to allow publishing information for a proper understanding and appropriate grounds of comparison.

The whole expression of the standardized accounting is the result of a set in which different elements are linked by a common structure.

Even if there are many doctrinal changes, in most countries the accounting standardization is an obvious and up-to-date process. The accounting standardization has as object and purpose the application of "accounting rules identical in the same geopolitical space and aims to create uniform accounting practices." [3] Nonetheless, a global type of standardization is currently utopian, but not perpetual.

Regardless the private or public nature, the accounting standardization process will finally manage:

- to create an "accounting dictionary" appropriate for all users of accounting;
- to define coherent principles generally accepted;
- to identify information contained in financial statements that are made public;
- to give a method of presentation for financial statements;
- to develop a plan of accounting and operating rules with view to the registration of various categories of operations.

If for small geopolitical areas (region, country), this is relatively easy to put into practice, for "large areas", the accounting standardization faces clear problems:

- The existence of a multitude of issues that cannot be standardized as the accounting rules take into account the specificity of a concrete problem and its particularities;

- The "stiffness" of the professional accountant trapped in obsolete rules as his rational creativity based on the utility aspect of the product (information) he offers to the public will be eventually affected.[1]

Nowadays, accounting standardization exists in most countries. Each of them has its own terminology and rules that lead to an identical presentation of financial statements for all companies. The technical interest is obvious: the uniformity of the provided information facilitates comparisons over time and across companies and also allows the national accounting to achieve macroeconomic aggregates. On the other hand, standardization guarantees to third party users coherence and rigor, indispensable qualities for a responsibly held accounting. Terminology, classification rules, and in general, everything related to the order of accounts are subject to accounting standardization.

Business development and globalization have generated an increase in mergers and acquisitions, which led, inevitably, to the increase of the financing needs, hence the most recent developments in international capital markets. This growing international dimension revealed that the accounting information is one of the most essentials means of communication.

Romania wants to match its legislation on accounting issues with the EU Directives and to take into account the emerging trends in international standardization.

The decision to implement *IFRS* in Romania involves dealing with the need for new interfaces with the *European Union*, with its *regulatory accounting bodies* (*General Directorate – Internal Market; Accounting Regulatory Committee – ARC*), the *European Financial Reporting Group (EFRAG)*, as well as the national accounting standards setting bodies in the Member States. Also, there is the requirement to align national accounting activities with those of IASB's and its committee; in addition to this, any information or guidance on the application of IFRS should refer to IASB's General Framework and to the principles which are ground for each and one IFRS.

Based on the duties of such specialized bodies at the level of the EU and its member countries, the major problems that fall under the responsibility of this group (the Romanian Accounting Group - GRC), are mainly the following ones:

- to provide a permanent structure and a unique source of technical expertise in the application of IFRS in Romania;
- to study the new standards issued by IASB, IFRIC interpretations and to provide necessary guidance to users in Romania, where appropriate;
- to ensure that all IFRS and interpretations associated with the corresponding regulations are effectively in force under the law and that there is cohesion with the accounting regulations applicable to the other entities;
- to ensure the management and control of the IFRS translation process and other relevant materials, consequently to their adoption in Romania;
- to work with IASB and the specialized accounting bodies from the European Union, the Ministry of Finances in Romania and professional bodies on all matters of interest relating to IFRS.

Adopting IFRS represents a new system of procedures to be implemented at the level of an entire organization. The new accounting points of view aim at fully implementing accounting standards that have not been used in Romania, as well as the application of IFRS standards.

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The Objectives of Lisbon Strategy for Research, Development and Information Society. Examples in North West Region

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Abstract

C&D&I, part of the priority of economic growth based on knowledge and innovation is one of the key actions of the Lisbon Agenda. According to guidelines set by the Lisbon Strategy, according to European Union policies, science and technology are the real key instruments for the European future. The essential role of scientific research and technological development to increase economic competitiveness has been stated repeatedly by the European Commission, i.e. developing a knowledge-based economy.

Key words: competitive advantage, regional innovation, internal innovation, Innovation from external sources

J.E.L. classification: O

1. Introduction

Goals and Objectives of the Lisbon Strategy for Research, Development and Information Society are:

- Total expenditure for R & D to reach 3% of GDP by 2010 (1% spending supported by government expenditure and 2% held by companies);
- Business expenditure for R & D to reach 67% of total spending by 2010;
- Housing connected to the Internet to reach 30%;
- Governments to provide 100% online by 2010.

Comparative analysis of the most commonly used indicators show a trend of increasing development of information society in Romania.

Review of the Lisbon Agenda in March 2005, has changed the strategic thinking vision for the economy and society at EU level, moving the emphasis on economic growth based on technological progress and employment. One of the three major objectives of the new agenda is to promote economic growth based on knowledge and innovation.

To become a competitive advantage in the Region, innovation must overcome stage isolated actions, the personal initiatives - it must become a mass phenomenon, characterizing the approach that most SMEs in our priority sectors.

2. Activities and innovation needs of firms in the region

The innovation needs analysis, it appears a more unfavorable factors influencing regional innovation. Despite economic progress and rising trend, the access of SMEs, but also companies, research and development is limited. Almost half of respondent companies have assessed high financial costs as one of the main obstacles to the development of internal innovation - this in a context where more than one third (35.4%) did not have sufficient resources to finance their own entire portfolio development projects and only 42% submitted before the introduction of innovation projects for grants and auction programs (Phare, SAPARD, the Framework Programme, etc.).

High share of small and medium enterprises could mean a modern production base, ready for innovation. The more so as, in time there is an increasing trend towards micro-enterprises in the region, which can be attributed to their market success. In the

Northwest Region is required to start a broad process of consultation, discussion and information on innovation as a strategy not only regional but also at sectorial and company level. To become the region's competitive advantage, innovation must overcome stage isolated actions, the personal initiatives - it must become a mass phenomenon, characterizing the approach that most SMEs in priority sectors. For this, we need to implement a regional system support, providing all the tools they need in the region for companies to innovate or to adopt innovations.

The system must support both:

- Internal innovation - generating new ideas and internal experts to develop and implement their organization after the internal work (where process innovations, marketing and organizational) or sell them in the form of innovative products;
- Innovation from external sources - the organization adopt innovative ideas and practices from outside, they adapted to their needs and implement them in their current business or marketing in the form of innovative products.

Number of innovative companies is three to four times smaller firms as a share of total EU average. However, implementation of innovations began to be forever more an advantage for their companies in a competitive market and competitive, but the regional impact of different forms, the economic impact should be considered in conjunction with the objectives of innovation policy.

The data illustrates the priority orientation towards product innovation (especially in sectors such as furniture, tourism and machinery and equipment), followed by the innovation to the process (especially in agriculture, furniture and clothing). Organizational innovation is very important for tourism or clothing, while innovation is valued in tourism marketing, food and agriculture. Furniture production sector recorded the highest share of companies that consider innovation as their competitive advantage primarily present (27%), but followed closely by IT & C sector (24%).

Firms in the tourism sector expects an increase of machinery and equipment of the importance of innovation to market success

(76% and 69%), agriculture, food processing and textiles and clothing sectors remain the share of companies applying little or no innovation is highest - cumulative percentage, 55% in agriculture, 38% and 28% in food, clothing and textiles. In the exploitation of staff, employees, statistical investigation of surprised there are widespread problems in all priority sectors, namely the difficulty of finding technical personnel capable of generating innovative ideas (greater percentage of 50% for clothing and furniture). Almost a third of firms surveyed in the region believe that human resource is not well prepared by the education system and lacks the knowledge and skills needed to support the innovation process.

On the other hand, some sectors such as furniture production, agriculture or tourism, small businesses have a reduced financial strength, focused on serving local markets, without investing in particular technology. In other sectors such as garments and textiles, the existing small and medium businesses have operated mostly in the system, a system in which technologies, models and production process were taken as standard from the outside. In such cases, a high proportion of small and medium rather difficult technical progress and innovation.

In terms of regional specialization by industry sectors found to be agriculture, food and clothing and textiles are industries whose development would lead to positive developments throughout the region. On the other hand, the strategy should stimulate the development of natural clusters in certain industries and whose bleeding can bring significant benefits for the local economy of their area of location, but also increase the competitiveness of SMEs, to support joint research, to rationalize costs and to implement all types of management.

In some sectors of the region, policy improvement simply cannot ensure long-term competitive advantages.

Clothing sector, for example, cannot be based solely on his status as a traditional producer loan. Faced with increasing labor costs, energy costs, the increasing shortage of qualified personnel and fierce competition from multinational companies or manufacturers in Asia, companies need not only radical changes in products, but their

strategies business. One example is the need to create strong brands, brand new challenge for many companies in the industry, involving a number of major decisions:

- Investments in specific policy means of communication (e.g. advertising or PR);
- Orientation to new categories of products, quality, or the luxury segment for specialized products for niche markets - counteracting thus prices lower than average quality of goods imported from Asia;
- Extending the field of marketing through networking of stores in new malls and hypermarkets to be opened at a rate so high in the region.

Of course, such business strategies with a high risk and require openness to radical organizational innovation - which, just as focus groups have shown, is not the case for all companies in the sector.

Such decisions radical are needed in agricultural production - to cope with increased imports, the IT&C - to cope with the increasing shortage of workforce highly skilled or tourism - to find solutions to increase demand conditions an overstatement of supply.

Regarding the orientation of the regional economy in relation to global trends, the boom in the number of IT firms show a connection to the regional economy to new economy - one that uses information technology and communications infrastructure to increase flexibility, speed and interactivity between companies market and between companies and households. Connecting to the new economy but there is no uniform, clearly dominated the most developed counties, Cluj, Bihor, which is the largest concentration of firms in the ICT sector (70%), the largest geographic concentration of consulting firms and software in this sector is far from Cluj., while other branches of industry such as telecommunications, computer data processing, IT and other activities can be found in Maramures and Bihor.

Tabel 1. Indicators relating to the IT sector at regional level (NW Part) and national

-%-

Region	Share of enterprises with Internet connection in all enterprises in the region	Number of computers per employee	Number of PC share of total Internet connected PC in the region	Number of ITC specialists share to 100 employees
North West	8,2	8,8	48,4	1,7
Bucharest	12,2	13,6	60,1	2,5
Romania	8,5	9,7	48,9	1,7

Source: National Institute of Statistics, 2007

Defining an IT cluster possible, the best location would be the county of Cluj, where they existed for many years and also Transylvania cluster initiative (IT), which however could not be implemented and made because of lack of funds for creating and sustaining such structures, technical difficulties in creating partnerships between firms.

Another cluster can be identified from demand analysis in the furniture sector in view of the natural potential but the location of industry in the region's four counties (Bihor, Cluj, Bistriștrița-County), but because of the diversity of products makes it difficult to develop horizontal and vertical of these types of clusters. If we consider another priority sector machinery and equipment, we find that the greatest concentration is found in the county of Cluj in the newly established companies, along with those in the county of (60% of companies registered since 2001 in the same area of total) .

Another sector that would benefit from the networking and cooperation between companies and public entities is the tourism sector. Due to the diversity of actors who make up the value chain in tourism, cooperation and cluster activities is an effective approach to promote regional tourism as an economic activity.

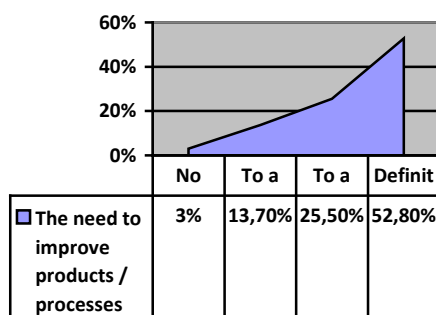
Integration initiatives for tourist attractions, products, agencies, hotels and other services and initiatives of public authorities, national and European networks should be supported especially in three of the

six counties where tourism is a high importance, Cluj, Bihor Maramures.

Following surveys in the NW Region in terms of innovation activities, according to the Lisbon Strategy was found that positive things are just over 20% of businesses in the region feel the need for innovation not only in small measure, and over 30% of companies surveyed in the region have only marginal semnficative concerns in this area.

The graphics are highlighted in the results of surveys in the NW Region of regional innovation activity.

Chart no. 1. Survey results regarding the analysis of innovation by improving products / processes in the NW Region



Source: www.adr.ro, innovation needs analysis in the North-West

Perhaps this need is the fact that RDI funding in recent years the region has benefited from one of the lowest funding of public funds 4.80% -57.33% compared with Bucharest, Ilfov - 13, 92%, Central Region - 6.66% and the West - 6.80%.

This has a negative influence on competitiveness and performance of all sectors in the region.

In other news, not all actors in the region believes that innovation is essential in the production of competitive advantages and thus increase performance at the regional level.

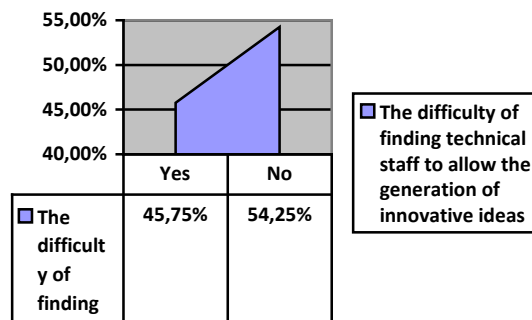
Lack of proper understanding of the dimensions of innovation, inability to correctly perceive the magnitude of the changes required or mandatory character of improper management creates a culture of innovation generation in many of the leading firms in priority sectors in the Region.

Even a manager who understands the importance of innovation and transforms it into an organization-wide policy depends on

its employees to generate innovative ideas and development.

From this point of view, region-wide surveys were surprised that there is a widespread problem in the surveyed companies in priority sectors, as shown in chart no.2.

Chart no. 2. Survey results on the difficulty of finding technical personnel to enable the generation of innovative ideas



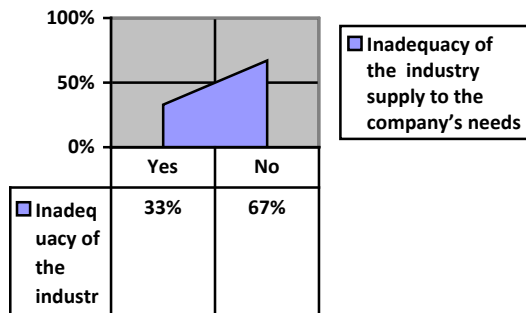
Source: www.adr.ro, innovation needs analysis in the North-West

Almost half the firms surveyed, the region complain of difficulty in finding technical personnel capable of generating innovative ideas (the percentage is greater than 50% for clothing and textiles or furniture production). Paradoxically, however, the same managers that "the absence of innovative ideas" is not a problem for firms in the region, and an even smaller percentage of respondents (5%) blames the lack of innovative ideas funds and European programs.

However at present, companies in the region have staff capable of generating innovative ideas, but finding such employee becomes a task increasingly difficult. Is a serious problem, especially because companies in the region also faces high turnover of staff. The fact that the Cluj-Napoca has become lately a magnet for large investments in many of the priority sectors (ICT, machinery and equipment, tourism, etc..) contribute to an increase in this trend - companies already on the market lose employees able, attracted by wages and greater opportunities for advancement offered by new entrants.

Companies offer training in the region, as a means of continuing education and training, is better appreciated, as shown in chart no.3.

Chart no.3. Survey results on inadequate training supply businesses in the region and how this influences innovative activity in the region



Source: www.adr.ro, innovation needs analysis in the North-West

3. Conclusions

Implementing a culture of innovation among staff across all sectors in the region can be achieved only in the context in which innovation concerns are adequately rewarded through a policy of reasons well set.

In the North-West Region found 10% of all actors with research development at the national level, public versus private institutions share being 33.83% 66.17% respectively public and private institutions. Of the total 133 CDI unit, the regional distribution of types of actors in the Northwest region indicates a majority of university stakeholders - 11% of all national universities, followed by research institutions, development, innovation and firms C&D&I.. At the regional level are found 10% of companies performing CDI activity, 9% of the research institutes of the Academy, 7% of research institutes organized in the case of autonomous national and 2% of total national research institutes.

Sales via the Internet (e-commerce) is still underdeveloped, both in the region and nationally (on average less than 2% of businesses selling over the Internet, and the percentage of those who buy through the Internet is similar).

In the region, the number of firms developing software products for foreign markets is growing with opportunities for diversification and development of its software products with high added value. (ERP, multi-media solutions in the field, quality management, e-learning, e-government, process innovation, etc.).

The potential of this sector for the Northwest Region is supported by the number of specialists who continuously creates by graduating university and technical faculties in the region.

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A Novel Pseudo-random Bit Generator Based on Some Transcendental Chaotic Systems

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Abstract

Chaotic maps have attracted great interest for its special use in secure communication systems. It is proved that for some chaotic maps defined by $x_{n+1} = f(x_n)$ we can find an analytical solution, so systems can lead to predictability. In this letter, we propose a new kind of chaotic map based on transcendental equations, which appear completely different deterministic random behavior with the known chaotic maps and have a kind of more complicated dynamical behavior. We study the effectiveness of the practical application of such systems for generating sequences of pseudorandom numbers and we investigate the properties of the obtained data to confirm them for cryptographic purpose.

Key words: chaotic systems, pseudo random, cryptography, stream cipher, transcendental equations

J.E.L. classification: C22

1. Introduction

Chaos-based cryptography (also known as chaotic cryptography) was born twenty years ago, but it was more developed in the last ten years, mainly due to the increasing needs for new methods for data encryption, required by fields like telecommunication, e-commerce and banking.

Chaotic cryptography it was and still it is a promising alternative for classic cryptography because many chaos fundamental characteristics such as a ergodicity and high sensitivity to initial conditions have a direct correspondent in two basic properties of good ciphers: confusion and diffusion.

Mainly, there are two ways to use chaotic dynamics in cryptography: the first one uses chaotic systems to generate pseudo-random number sequences, which are then used as keystreams to mask the plaintext, while the second method uses the plain text as initial state and the ciphertext follows the orbit of the chaotic system. The first method fits to stream ciphers, while the second fits to block ciphers.

A big disadvantage of chaotic cryptography comes from the fact that the authors of chaotic ciphers did not take care about security issues. Due to this fact, most of the proposed cryptosystems were shown later to be unsecure against one or other type of attack, while the safer ones were typically too slow to compete with classic ciphers. This shortcoming of chaotic cryptography it's mandatory to be removed so as chaotic cryptography to be considered a viable alternative to the classic cryptography. In the next chapter we will briefly introduce some chaotic maps used in cryptography, together with a brief analysis of their specific properties.

2. Solvable chaotic recurrences

The most used map within the studies on dynamic and chaos systems is the logistic map, described by the recurrence:

$$x(n+1) = f_L(x(n)), \quad (1)$$

where $f_L: [0,1] \rightarrow [0,1]$ is defined through:

$$f_L(x) = rx(1-x), \forall x \in [0,1] \quad (2)$$

The behavior in time, of the logistic map, depends on the value of the parameter r as well as the starting point represented by the initial condition. In figures 1, 2 and 3 we have summarized the complete dynamical behavior of the logistic map using the bifurcation diagram, exponent Lyapunov and distribution probability of the logistic map trajectories.

Figure 1. Bifurcation diagram of the logistic map

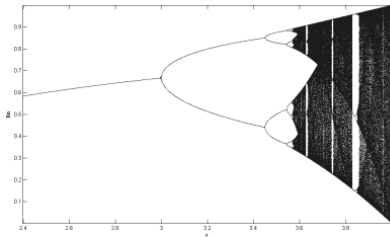
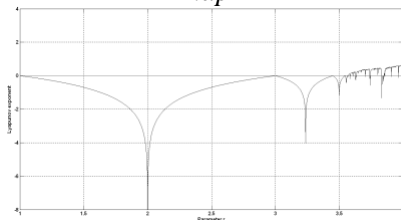
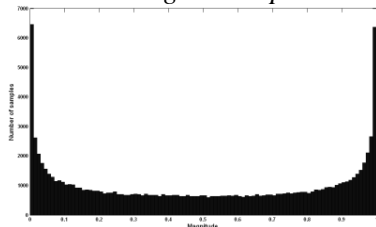


Figure 2. Lyapunov exponent of the logistic map



Analyzing the bifurcation diagram and exponent Lyapunov, it can be observed that for values of the parameter r between the interval $(3.57, 4]$, the logistic map has a chaotic behavior. The distribution probability of the logistic maps trajectories is showed in figure 3.

Figure 3. The distribution probability of the logistic map



It has been shown analytically that for the logistic map with system parameter $r = 4$, the probability distribution is given by [1]:

$$\varphi_f = \frac{1}{\pi \sqrt{x(1-x)}} \quad (3)$$

Another category of maps preferred for the simplicity and performances given in cryptographic applications, is represented by the tent map:

$f_T(x): [0,1] \rightarrow [0,1]$, defined through relation:

$$f_T = \begin{cases} \frac{x}{p}, & 0 \leq x \leq p \\ \frac{1-x}{1-p}, & p < x \leq 1 \end{cases} \quad (4)$$

where p is the parameter of the tent map. It is a non-invertible transformation of unit interval into itself and contains only one system parameter p , which determines the position of the tent in the interval $[0,1]$.

Recently, it has been demonstrated that different chaotic recurrences as $x_{n+1} = f(x_n)$ have exact solutions written explicitly under the form [3]:

$$x_n = P(\theta T z^n) \quad (5)$$

where $P(T)$ is a periodical map, z is a whole number, θ defines the initial condition $x_0 = P(\theta T)$, and T is the period of the function $P(t)$. A particular case of the relation (5) is

$$x_n = \sin^2(2^n \arcsin(\sqrt{x_0})) \quad (6)$$

which is general solution of the logistic map $x_n = 4x_n(1 - x_n)$. Similarly, the tent map defined by the relation (4) has the analytic solution:

$$x_n = \frac{1}{\pi} \arccos(\cos(2^n \pi x_0)) \quad (7)$$

The exact solutions of the chaotic dynamic systems allow the rise of the accuracy and computing speed. Instead of iterating a function, it can be calculated a value of a term using the analytical expression of the solution, avoiding in this way the numerical errors which can appear during iterations. Also, this procedure allows the direct calculation of the value x_k , avoiding $k-1$ iterations of the system.

The disadvantage of these number generators is given by the system's predictability. A remedy for this

disadvantage is to use chaotic dynamic systems with no solutions by Gonzales and Pino. As is well known that transcendent equations have no analytical solutions, it seems that they are good candidates for constructing unpredictable cryptographic systems.

Thus, for the construction of a pseudorandom number generator we'll propose two maps, one of them being one-dimensional map and another bi-dimensional map. The analysis of the proposed maps is presented in the next chapter.

3. The analysis of the proposed maps

For the construction of a pseudorandom number generator we'll propose two new maps, one being one-dimensional and one being bi-dimensional, both of them with a single parameter. In the beginning it is analyzed the one-dimensional map defined by the relation:

$$x(n+1) = f_1(x(n))$$

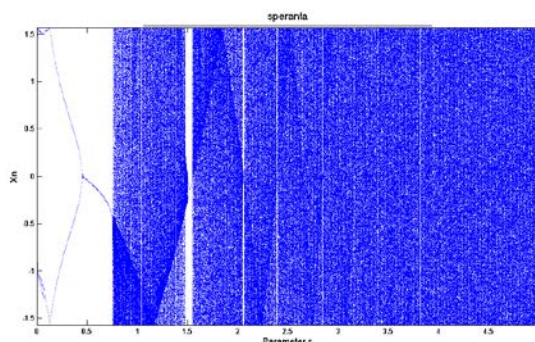
where $f_1: [-\frac{\pi}{2}, \frac{\pi}{2}] \rightarrow [-\frac{\pi}{2}, \frac{\pi}{2}]$ is given by:

$$f_1(x) = \arcsin(\cos(x + e^{r(1+x^2)})) \quad (8)$$

and r is the parameter of f_1 .

The behavior of the map f_N in time depends on the value of parameter r , as well as on the starting point represented by the initial condition. The bifurcation diagram is presented in figure 4.

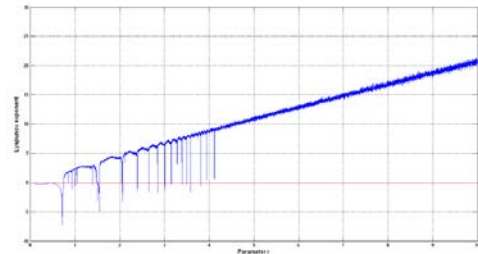
Figure 4. Bifurcation diagram of f_1



At the value $r = 0.5$ the only attractor starts to split in two. After the value $r = 0.75$, the attractors split in four, eight, etc. Thus, for a value of a parameter r greater than 5, the map has a full chaotic behavior.

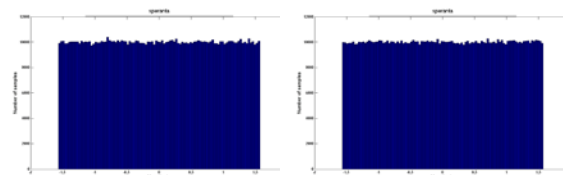
The conclusion is sustained also by the value of the Lyapunov exponent, represented in figure 5.

Figure 5. Lyapunov exponent of f_1



In figure 6, there are represented the distribution probabilities of the trajectories of the type (8) map which start from different initial conditions ($x_0 = -0.1$ and $x_0 = 0.9$), with the system's parameter $r = 10$. Here, the interval $[-\frac{\pi}{2}, \frac{\pi}{2}]$ has been split into 100 subintervals and for each trajectory a total of $N=10^6$ points has been used.

Figure 6. The distributions probabilities of f_1



It is obvious that the two distributions are identical. Therefore, the map keeps an invariant density for values of parameter $r \in [5, 10]$.

Now, we start to analyzed the bi-dimensional map defined by the relation:

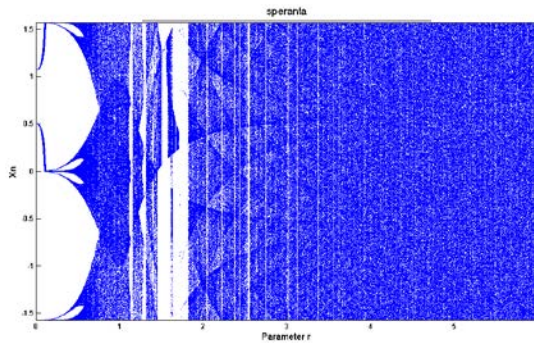
$$\begin{aligned} x(n+1) &= f_2(y(n)) \\ y(n+1) &= f_2(x(n)) \end{aligned}$$

where $f_2: [-\frac{\pi}{2}, \frac{\pi}{2}] \rightarrow [-\frac{\pi}{2}, \frac{\pi}{2}]$ is given by:

$$f_2(x) = \arctg(\text{ctg}(x + \sin(r^3 x))) \quad (9)$$

The behavior of the f_2 map in time depends by the value of the parameter r and by the starting point represented by the initial condition. The bifurcation diagram is presented in figure 7.

Figure 7. Bifurcation diagram of f_2



At a certain value of the parameter $r \in [0,0.75]$ the only attractor value depending by r starts to split. After the value $r = 0.75$, the two attractors split in four, eight etc. Thus, for a value of a parameter r greater than 4, the map has a chaotic behavior. The conclusion is sustained also by the value of Lyapunov exponent, represented in figure 8

Figure 8. Lyapunov exponent of f_2

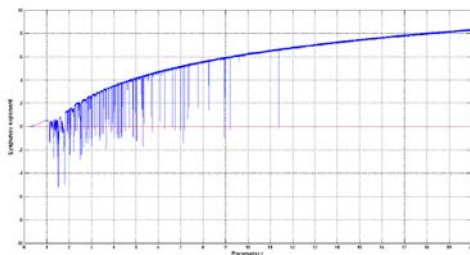
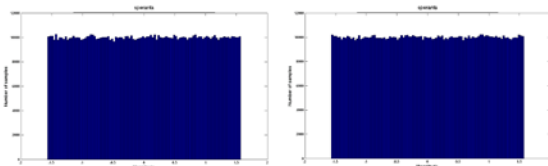


Figure 9 represents the distribution probabilities of the trajectories of the type (9) maps which start from different initial conditions ($x_0 = -0.2$ and $x_0 = 1.1$), with the system's parameter $r = 14$.

Figure 9. The distributions probabilities of f_2



It is obvious that the two distributions are identical, therefore the map keeps an invariant density for values of the parameter $r \in [10,20]$.

Based on the results described above, the maps f_N si f_B defined by the relations (8) and (9) have a chaotic behavior for a big range of

values of the system's parameter and keeps an invariant density making this one to be successfully used in realizing strong pseudorandom number generators from the cryptographic point of view.

In the next chapter is presented the analysis of the statistical results for the pseudorandom number generators based on the proposed chaotic maps.

4. The analysis of randomness for keystreams generated using the proposed functions

The experimental testing of the randomness for keystreams generated using both of the new proposed function was performed using the automated system designed by authors and presented in [2]. The automated system is based on DIEHARD, a very well known battery for statistical testing of randomness of a PRNG, developed by George Marsaglia. For a certain input stream, DIEHARD performs more statistical tests to measure the quality of randomness of it and provides as output a set of 215 p -values. If a p -value, corresponding to a test, lies in the interval $[0.001, 0.995]$, we can conclude that the input stream passed that test. For our experimental analysis of randomness, we used, for each of the two proposed function, the same method for keystream generation, as it will be described below. For each new proposed function, we have generated 1000 keystreams and we plotted the obtained results as a histogram of total number of passed tests versus number of keystreams which realized that number.

The method used for generation of a keystream consisted in the writing of the real number $x(n+1) = f_1(x(n))$ or $x(n+1) = f_2(x(n))$ as an unsigned integer in the keystream. The obtained histograms are shown in the figures 9 and 10.

Figure 10. Histogram for f_1

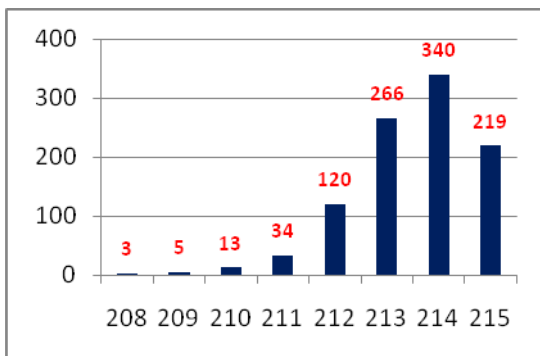
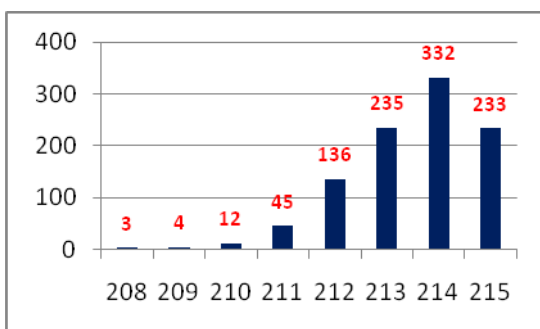


Figure 11. Histogram for f_2



Analyzing the histograms of f_1 and f_2 , we can conclude that at least 99% from the generated keystreams, regardless of the function we used to generate them, have passed over 210 tests from a total of 215, in other words - over 97% of them. This entitles us to say that functiona f_1 and f_2 have a very good randomness.

5. Conclusions

In the third chapter we theoretically have demonstrated, using instruments of the theory of nonlinear dynamic systems, that the proposed map has a good chaotic behavior. From the analysis of the experimental results, presented in chapter 4, we can conclude that the randomness of the sequences obtained using the PRNGs based on transcendental maps, raises the level requested by the current standards for the construction of type string encryption keys, both for text and images.

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Considerations Regarding the Reduction of Rural-Urban Disparities in the Developing North-East Region: Study on Iași Metropolitan Area

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Abstract

The developing regions creation represents a real challenge for the economic progress of EU countries. While some regions have an advantageous position in terms of future development conditions, there are others where are identified numerous impediments, on multiple levels. A detailed analysis of regional development possibilities requires a consideration of various and multiple criteria analysis.

In this paper we will refer to a development region from Romania, the North-East Region, which although holds a reach portfolio in terms of development conditions, is faced to many problems and obstacles. The main aspect that we identified as an obstacle for development of this region is the urban-rural disparities. The present study aimed to identify the main specific coordinates of rural sustainable development.

Key words: development, disparities, regions, rural, urban.

J.E.L. classification: R; R11

1. Introduction

The coordinates of rural development are anchored in a current issue for the national economy since it aims at attaining a stable balance between the need to preserve the rural values and the modernization trends. Sustainable human development may not be conceived outside the development of human localities, urban or rural, with a viable economy and a diversified social life (5).

Rural development is at the confluence between the expansion trend of the urban, industrial development and the need to maintain as much as possible the rural to its quantitative and qualitative dimensions. The scientific approach of the current issues of the Romanian rural area must take into account the fact that the development of villages may not be treated separately from that of the town. From the perspective of approach of the regional development which is the engine for the elimination of the rural-urban disparities, they measure certain key development indicators so as to identify the differences among regions, namely the differences between the villages and towns of a region. The significant analysed indicators are: GDP/inhabitant, unemployment rate, the number of SME's/inhabitant and the rural population. From the studies of statistic order made at national level, one may notice that both the regional disappearances and the urban-rural gaps from Romania have intensified and worsened (7).

2. Presentation of the developing North-East Region

The North-East Region is the largest of Romania having a surface of 36,850 km² representing 15.46% from the country's total surface. It is made of 6 counties. The population of 3,734,546 inhabitants, namely 17.25% from the Romanian population, is located in the rural environment (56.6%).

The first of the eight Romanian developing regions from the viewpoint of size, the North-East Region occupies the last place in our country in terms of the index of human development and the gross domestic

product/inhabitant, mainly due to the functional structure un-adapted to the market economy and an extremely low economic efficiency and productivity. From the perspective a social-economic analysis, the North-East Region is the most poorly developed at national level and occupies the penultimate place in Europe at the beginning of 2010 registering a GDP/inhabitant of 27% from the European average and 69.2% from the national average (8). The western part of the region has been in a process of deindustrialization for 10 years, a fact that worsened the economic situation, and the east of the region is traditionally underdeveloped.

There are areas having an advanced industrial decline and a high unemployment rate and they are mainly located in the areas surrounding the urban localities. The attractiveness index is the lowest in this region - 19.7 (by comparison, the highest level of attractiveness is registered by the North-West Region: 39.8).

The low attractiveness is directly observed by the reduced volume of foreign direct investments: 292 million Euros in 2005, only 1.3% from the total direct foreign investments in Romania.

Thus, besides the disparities of west-east development, in the North-East region we may highlight the rural-urban disparities in terms of the general development level, the infrastructure equipment of all types, and the level of attractiveness for investors.

3. Relevant aspects regarding the urban-rural disparities from the developing North-East Region.

Starting from the criteria defining the rural environment and the social-economic state of the developing North-East Region, in this case study we will present Iasi Metropolitan Area standing out by the need for development of its rural area. The basic observation is that the real development potential is not in a directly proportional ratio with the current stage of development of the area under study.

The idea from which we start in the social-economic analysis of the area under study is that, after a long period where the rural environment was the "victim" of the industrial explosion and rural exodus, they

started to reconsider the ratio between village and town in the developed countries, a period that may be called "rural reconstruction". Given the fact that today towns go through a new development stage where they extend towards the rural area and entail the adjacent areas in the increase processes making up social-spatial entities called *metropolitan areas* or *metropolitan regions*, we consider that it is normal that rural development of metropolitan nature should occur simultaneously with the development of rural areas taken over as a component part of a metropolitan area.

The analysis and research of the issues specific to the rural area is sustained by the following reasons: the rural area occupies the largest part of the territory of a country, the rural population has important shares in the developing countries and those in transition, the rural area offers opportunities for the carrying out of diverse economic activities (agriculture, tourism, food industry, handicrafts etc.), the rural area is the keeper of some unique cultural values and traditions.

The vision of the development process of Iasi Metropolitan Area comprises concepts and actions from different activity spheres and starts from the awareness of the need for development of Iasi in tight relationship with its neighbouring communes.

Iasi Metropolitan Area is a partnership variant where the common issues of Iasi and neighbouring communes may be solved, by which one may assume roles of national, regional and European level and turn to good use the chances for the area development so as to reduce the urban-rural disparities.

In April 2004, the County Council of Iasi, the Town Hall of Iasi and the town halls of 13 communes have become partners in planning and implementing the integrated development of the geographical and social-economic potential of Iasi Metropolitan Area (IMA).

As for the integration of Iasi Metropolitan Area into the developing North-east Region and the European Union, in Table 1 we give the comparative situation for a set of basic indicators.

*Table 1 Comparatives indicator:
IMA - Iasi County - North-East Region -
Romania - European Union*

Indicator	EU	Romania	N-E Reg.	Iasi County	IMA
Total area - km ²	4.230.000	238.390	36.850	5.476	808
Total Population (2007) – inhabitants	495.100.000	21.565.119	3.726.642	825.100	390.436
Density population (2007) inhabitants/km ²	.	.	101,10	148,4	483,21
Occupied population (2002)	.	.	1.308.900	302.800	150.997
Students number (2006/2007)	.	785.506	79.762	60.000	60.000

Source: data processing by information from <http://epp.eurostat.ec.europa.eu>; www.insse.ro

The data from Table 1 show that Iasi Metropolitan Area occupies 0.019% from the EU surface and 14.75% from the surface of Iasi County, so it does not occupy a very large territorial area. From the viewpoint of population, IMA has 0.07% from the EU population and 47.31% from the population of Iasi County (almost a half). The share of employed population in the total population of IMA is 38.7% as compared to the average of Iasi County which is 36.7%. As for the number of students, the existence of university centres in IMA represents an advantage since 75.22% of the students from the North-East region study in Iasi.

As for the sustainable use of the natural and social-economic potential of Iasi Metropolitan Area, the main advantages for the elimination of the urban-rural disparities are: the flexible economic basis of a high technologic level, equipment level ensured by institutions of political, legal and economic decision of international, national and regional importance and by educational, scientific research, health, cultural, commercial, mass-media, public order units, etc.

In tables 2, 3 and 4, we present some data referring to the level of economic activities carried out in Iasi Metropolitan Area (from 2007 year) and they are presented in the light of two reference indicators: turnover and the distribution of the number of companies by fields of activity. At the same time, the data from Table 5 highlight the extremely high level of rural-urban disparities from Iasi Metropolitan Area in terms of the number of enterprises possessed by every area.

Table 2 The turnover distribution of active enterprises by activities domains in IMA

Commerce and tourism	43,81%
Industries	22,17%
Constructions	15,44%
Services	13,94%
Research, development and high-tech	3,64%
Agriculture, fishing and aquaculture	1%

Source: data processing by information from http://www.zmi.ro/analiza_economica_zmi.html

Table 3 The number of actives enterprises distribution by activity domains in IMA

Commerce and tourism	43,64%
Services	31,60%
Industries	10,15%
Constructions	8,3%
Research, development and high-tech	5,15%
Agriculture, fishing and aquaculture	1,15%

Source: data processing by information from http://www.zmi.ro/analiza_economica_zmi.html

Table 4 Existing enterprises in IMA

	Large enterprises		SME's	
	Number units	%	Number units	%
Urban	44	97,77	18.778	91,64
Rural	1	2,23	1712	8,36
Total	45	100	20490	100

Source: data processed by document entitled *Integrated Development Plan 2009-2015 for IMA*, viewed at <http://www.zmi.ro/downloads/PIDPC%20IASI%201.pdf>

From the data given in Tables 2, 3 and 4 one may draw the following conclusions obtained by comparison with the information related to the potential of rural development

of the communes from Iasi Metropolitan Area previously presented:

- the sector where most companies act (43.64%) and which has the highest turnover (43.81%) is that of commerce and tourism; we consider that the contribution of this sector is remarkable and that future investments should be guided more towards tourism exploitation, given the existing potential;
- industry, though occupies the second place in terms of contribution to turnover (22.17%) and the third place in terms of the number of existing companies (10.15%), does not fully reflect the possibilities of turning to good use the existing resources;
- constructions are poorly represented in terms of the contribution to the social-economic development, the number of companies acting on the market of IMA being extremely reduced (8.3%), and turnover is only 15.44%; so, this sector also needs a reorientation of thinking from the viewpoint of the development perspectives;
- services occupy a quite satisfying position in terms of the existing companies (31.60%), but the contribution of turnover is low (13.94%); from the interpretation of these values we observed that the qualitative contribution of the provisions of the service companies is not satisfactory and that there are necessary new strategies for the reversal of the dynamics of services from IMA;
- as for the fields of research-development and high-tech, the data do not offer a satisfying conclusion; whereas IMA is recognized as a prestigious university and research center, we consider that the number of units acting in this domain is extremely low (5.15%) and the contribution of turnover is almost insignificant (3.64%);
- the most unfavourable solution may be found in the domain that should highly contribute to the rural development of Iasi neighbouring communes, namely the agriculture, aquaculture and fishing that contribute with only 1% to the turnover afferent to the metropolitan area and only 1.15% from all companies work in this sector; for these reasons, we express our critical opinion according to which the

development of a rural area without a healthy, dynamic and viable agriculture is not possible;

- the difference/discrepancy between the number of large, medium and small enterprises existing in Iasi as compared to all 13 communes from the metropolitan area is more than obvious and suggestive so as to establish some rapid and radical measures for the creation and sustaining of the development chances of the business environment in the rural area, too.

4. Strategic objectives for the development of I.M.A.

In accordance with the strategic objectives for the development of Iasi Metropolitan Area regarding both the municipality and the adjacent communes and related to the economic growth, rehabilitation/creation of the communication infrastructure, the improvement of the social situation, the turning to good use of the natural and cultural patrimony, the protection and preservation of the environmental factors and the promotion of territorial cooperation, they have proposed and launched investment projects in the rural area of Iasi Metropolitan Area. These refer to various domains of interest unanimously oriented towards the development of the adjacent rural areas of Iasi and are materialized in: arrangement of recreation areas, building family dwelling facilities, arrangement of wholesale and retail agro-alimentary markets, arrangement of wool processing workshops, opening a cheese making factory, creation of vegetable farms and vegetable product processing factory, reversal of industrial areas, creation of areas for production, commercial and service spaces.

The fulfilment of the investment objectives enumerated above may contribute to the diversification of the rural economy from IMA, the diversification and multiplication of the income sources for the inhabitants from the communes and thus allow the attenuation of the rural/urban disparities.

The development projects of Iasi Metropolitan Area include the economic and social sphere so that the urban-rural disparities should be diminished and the

inhabitants of the rural area included in the metropolitan area should enjoy the same life conditions and the same development rhythm in the social and economic plan as the inhabitants of Iasi who, at their turn, benefit from the privileges offered by the natural landscape and geographic potential of development of the rural area adjacent to the municipality.

5. Conclusions

Looking at the whole North-East region, we may notice discrepancies in terms of level and development potential between the more developed western part of the region and the lagged behind eastern part (especially Botoşani and Vaslui counties). The chance of the eastern areas neighbouring the eastern border of the European Union is to develop as a transit area for the products coming from the countries of the former USSR. For this, it is necessary to effectuate infrastructure works for the creation of some areas with specific facilities.

Due to the favourable conditions it has, the beauty of locations, the air and water quality and other natural resources, the mountainous areas and the inestimable cultural and religious patrimony, the North-East Region has a relatively high tourism potential that may be compared to other famous tourist areas from the country and abroad.

A traditional economic domain of the region, the wood processing industry has registered a significant progress in recent years in terms of the number of jobs and turnover. The increase of the furniture industry share in the total turnover shows an orientation towards the superior turning to good use of wood. At the same time, the textile industry has registered a spectacular increase of turnover in 2004 but productivity is low due to the use of Lohn system which has a small added value.

Among the general problems, the most important in Iasi Metropolitan Area is the need to improve the transport infrastructure so as to develop connectivity and the accessibility and mobility between the urban and rural areas.

The problems of the rural area are multiple and complex and favour the accentuation of discrepancies as compared to the urban area and of disparities as compared to the rural

area from many advanced countries of the EU. Among the problems directly related to the rural area we may mention:

- the deficiency of the technical-utility system and endowment with some basic utilities (water, sewerage, gas).
- the weak development of the road network and the low level of modernization of the existing transport infrastructure
- the lack of some landfills in most communes what represents a real threat to the environment quality;
- large surfaces of land abandoned, unused or insufficiently used;
- the lack of modernization of agriculture corroborated with the lack of professional forms of association lead to an inadequate subsistence agriculture;
- the structure of the poorly diversified economy negatively reflects on the use of manpower in the rural area, the quality of jobs and the income level of the inhabitants from the rural area.

The main territorial disparities registered in Iasi Metropolitan Area, mainly between the urban and rural areas, are:

- the high density of population in the municipality as compared to the low one in the rural area;
- the large disproportion between the population share in Iasi for the entire IMA and the share of population from communes in the entire IMA;
- the non-uniform distribution of the rural locality network in the territory;
- the poor diversification of the functional typology of rural settlements most of them having predominantly agricultural functions;
- huge discrepancies in terms of the very low level of income from the rural area and the higher level from the urban area;
- the poor development of the technical-utility facilities and the public utility services in the rural area.

Based on the results of the social-economic analysis, we propose the following measures:

1. Support and promotion of the SME's by specific activities;
2. Stimulation of SME creation in the production and service spheres;
3. Business information networks;

4. Development of the industrial activities concomitantly with the reduction of their negative effect on environment;
5. Fulfilment of the household and industrial waste management programme with an accent on the reuse of products and materials;
6. Rehabilitation of the areas affected by natural calamities;
7. Reconstruction of the natural capital in the deteriorated areas.

To attain these sustainability objectives in the rural areas adjacent to the big well developed towns or those having real development perspectives, it is necessary to implement measures such as: setting up some adequate entities for local governing, ensuring the adequate legal framework for the good development of their activities, promotion of the local economic development, creating a social and environmental sustainability, creation, development and modernization of the rural infrastructure, ensuring educational services that may guarantee the professional training and specialization of the rural population, ensuring the material, financial and human resources necessary for the application of rural development programmes and plans.

Thus, in Iasi Metropolitan Area it is necessary to attain some general objectives that may guarantee: the increase of competitiveness of the adjacent rural areas so as to maximize their contribution to the economic development, ensuring some opportunities for the rural population so that it may benefit from a life standard comparable to the urban norms, preservation and protection of the environment and the cultural inheritance existing in the rural areas, diversification and promotion of the occupational opportunities.

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Analysis of Fiscal Decentralization in the Context of Modern Governance

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Abstract

Financial decentralization aimed the central and local state structure by increasing local autonomy, leaving available to local authorities, public finances. It extended a global phenomenon and the world's developed countries have implemented the concept. Developing countries continue to seek solutions for the application of forms of decentralization. Theories on the impact of fiscal decentralization have been thoroughly discussed by Tiebout, Hayek, Musgrave, Oates. Thus, were highlighted the importance and necessity of fiscal decentralization, the allocation of financial resources to local authorities, giving them extra financial power, tipping the balance to the competition between local authorities, which can determine the size of fees and taxes, the level of public expenditure growth decision-making power.

The concept of decentralization has been approached from different perspectives overtime and this article will highlight the importance of research on this branch by reviewing the literature.

Key words: decentralization, public services, efficiency

J.E.L classification: G20

1. Introduction

In European Union countries the decentralization implementing process took place relatively quickly, in most former socialist countries this process is still slow. By applying effective strategies and regulatory reform at the legislative level of decentralization can provide the increasing of

local autonomy. It relates to the increase in financial and economic quantity resources through more efficient distribution of financial resources by the absorption of structural funds and increasing the quality of public services in Romania.

We are witnessing the implementation of the concept of Public Private Partnerships for achieving financial objectives and performance of public services. Also, they have initiated projects for administrative capacity development, association on a regional level, projects orchestrated by the World Bank.

Over time the purpose of the associative cooperation and the role that state institutions are in the process of modernization has been a subject of controversial debate. In the study, History of Liberalism in Europe, (Nemo, 2006) it's described in the chapter entitled, Friedrich Hayek and liberalism genius, the Hayek theory of liberalism. Friedrich A. Hayek views the state intervention as a negative element that prevents the development of private initiative, undermining economic efficiency. Hayek argued that the state can not provide all public services, but some, such as public order and national defense. The degree of state involvement in public services is not considered as important as the appearance of non-involvement in private state in economic activities that can bring profit to the entrepreneurs.(Vrabie,2004)

It not called for the abolition of all state aid, but private sector involvement in state activities, namely the fulfillment of public services.

2. Theoretical contribution made by Oates and Tiebout

In his article, "The Use of knowledge in Society" perspective on the use of information obtained from public opinion, determine the acceptance of decision making closer to the citizen. Richard Musgrave develops a theory of public finance study that identifies three main functions: resource allocation, income distribution and economic stability. In its conception, the central and local governments designed to identify sources and destinations of money. He also stressed the necessity of government intervention on the collection and redistribution of public money.

Professor Wallace Oates has made great scientific contributions of the University of Maryland in the United States of America.

He developed a number of theories about local taxes, federalism and a theorem which was subsequently called optimal decentralization theorem. This theorem developed in his work on fiscal federalism has been the starting point in the decision of several countries, regarding administrative reforms, and contain elements which emphasize decentralization.

According to this theorem, Oates states that for a public good whose consumption area spans several geographic areas (local authorities), whose production cost is the same at both central and local level, will always be easily (or at least as easy) as that object to be produced in quantities in paretian meaning, optimal effect locally than centrally (or just like the central level). The theorem focuses only on the economic aspect of decentralization.

Wallace Oates supported the notion of "asymmetric tax transfer"(Garcia-Milla, 2005). This grouping of terms explains the existence of different tax arrangements between the Government and local administrations.

In Oates's perspective, but also from other scientists point of view, that have included in their studies the decentralization process, such as Charles Mills Tiebout, in the paper about the economic theory of fiscal decentralization, it was concluded that a decentralized system is more effective in identifying and solving problems faced by local authorities.(Tiebout, 1961)

To cover these needs effectively requires the development of a decentralized financial system, with local implications.

Oates took Tiebout's ideas and used them as a starting point in developing his theory on an optimal model of decentralization. He identified that as the exchange between the general requirements of the population on public services and would be the government response to these requirements.(Musgrave, 1959)

Local governments that have an amount of financial resources enjoy greater financial autonomy and respond more effectively to meet the needs of public services. In Oates's view, the authorities should be concerned with stabilizing the local economy. It encourages extrapolation services, which involves encouraging public spending.

Through this theory he is encouraging mobility, although the mobility made by citizens, by restoring the home, involves relatively large expenditures. They tend to embrace the idea of moving to another region to lead a quality lifestyle, but are prompted by financial reasons, in terms of taxes. Oates and Tiebout support the idea that, in terms of ensuring public services, a centralized government is much less efficient than a decentralized government.

This theory may induce the idea that the Central Government is considered ineffective, because it would be pointless. Why is the government getting involved when the regions do not have sufficient resources to meet their expenses? It gives tax breaks, subsidies. Researchers argue that decentralization encourages positive incentives. The idea that emerges from this statement is addressing to the development of the state when it is much closer to the citizen.

3. Public services, effects of decentralization

The public sector has engaged in a long process of profound change, to face new challenges. After more than twenty years of administrative reform and modernization initiatives in member countries of the Organization for Economic Cooperation and Development (OECD), the transformations suffered by the government have been significant. However, the transformation of the public sector is far from finished.

Government is subject to changes both locally and globally by business and civil society. Indeed modernization, economic growth and transformation and social movements in interacting with the media are challenges for governments and corporations worldwide.

Public domain is being reconstituted, both nationally and internationally, as a result of the new role of NGOs and the adoption of Corporate Social Responsibility Policy (CSR) by medium and large enterprises. Furthermore, we are witnessing the increasing number of public private partnerships. This process generates new state tasks in democratic societies. Increase its capabilities in this century and therefore the importance of institutions and organizations that lead to the implementation of partnerships.

The most significant innovations have occurred in public management reform and modernization initiatives in the last two decades, along with the growing body of literature in terms of public governance. The premise from which we started to use the concept of relational state is accepting that the state has ceased to be omnipotent and self-sufficient, modern state is considered to be a modest state, characterized by Crozier, which recognizes the complexity and interdependence inherent in many sectors and recognizes that social problems can be solved only through nomination and active involvement of society we live in.

The transition from traditional government to government quality-oriented, serving the common good of citizens, involves the adoption of strategies, policies and local development programs, technical assistance and appropriate training, effective coordination, control, monitoring and promotion strategies work. Studies have demonstrate that strategies promoting the concepts, are viewed as a fundamental criterion in the development of efficient public services. Each local authority will be to initiate dialogues with citizens, local organizations and private companies and to approve a particular project or partnership.

By conducting consultations and promote projects, local authorities will receive support from citizens and civic organizations, local businesses and will obtain the information

needed to formulate the best strategy. Strategies to shift from traditional government administration are supported and effective as a common denominator to obtain funding for local, national, regional and international to have the opportunity of making them.

Paul Drucker, in the paper about the efficiency of the decision-maker, believes that there can be no efficiency without effectiveness. Specifies that it is more important to realize better what you've suggested here, indicating the effectiveness, to achieve better than nothing-efficiency, noting that between the two terms are set to hand a report to the full and effective public services greatly influences efficiency.

4. Conclusions

Returning to the theories developed by scholars, we bring into question the fact that Tiebout said that fiscal decentralization has an effect on the efficiency of public services.

Studies in economics and geography have shown that in countries where taxes are set at regional level, the local party, the beneficiaries of public services, which are also paying taxes, they can choose how by transferring them to another administrative territorial unit.

Oates and Tiebout argued skewed idea of financial decentralization. This grouping of terms explains the existence of different financial arrangements between the Government and different regions.

Oates's perspective but also from other scientists who study included in their study of decentralization process, such as Charles Mills Tiebout (1924-1968), found that a decentralized system locally is more effective in identifying and solving problems facing local authorities. To cover these needs, it's very important to develop a strong financial decentralized system.

Arguments for decentralization are made from the perspective of population control that has on political issues and corruption. They can be easily found at the local level rather than the central and the reverse of this statement would be that the degree of manipulation and corruption in some cases would be much higher.

Decentralization of any kind brings more responsibility to the local authority. The tasks of those responsible may be hampered but will also need of experts and people willing to be trained in this area. Decentralization, if one can call it drastic, may not be possible.

The total financial independence from state authority is not possible. There are regions that can not collect local revenues so that they no longer need to receive state aid. Even with various forms by which sites attract FDI financing from EU funds, local government is weak and can not face alone to cover public expenditure.

Implementation of decentralization in Romania has known now slow, tortuous, never missed obstacles. Solutions were sought in order to streamline the implementation of decentralization, but authorities have been hit by shortage of funds, lack of funding, inefficient management, low quality public services and public money dissipating phenomenon unjustified manner.

To meet financial shortfalls at local government level, the European authorities resort to non-reimbursable European funds to supplement the financial resources needed to modernize local government, infrastructure and improving public services but also various "tricks" to obtain them through partnerships, local action groups, as miniature model of regionalization.

5. Acknowledgement

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The Link Between Decentralization and Public Budgets

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Abstract

In an attempt to solve various problems that arise locally and improving public services, states in the transition period, have different strategies in terms of developing the financial systems.

The article highlights that the majority of states are in a situation where fiscal policy is determined by the Government and are applied according to instructions outlined in the territory. We are witnessing a decentralization achieved partly by the states.

Even if the premises are drawn, for the decentralization process, they are not strong enough to determine the implementation of fiscal decentralization to the regions. Dependence on state administrations on financial resources is obvious. The legal provisions on tax levies in some cases are regulated by local government. In some countries are drawn from the central level, but there are countries where the situation is mixed, decided by the central and local segments.

Key words: public budgets, decentralization, public administration.

J.E.L. classification: G28

1. Introduction

The public budget is the tool by which the state fulfills its functions: allocation, redistribution, macroeconomic stabilization and adjustment of economic activities.

The role of local budgets is to ensure local autonomy in financial terms, constituted on the basis of legal regulations that are sorted by the actual situation and to ensure local autonomy.

Making a link between the existence of financial autonomy and local public finance

we can define a system of economic relations. The system mobilizes and uses financial resources to local administrative units to meet collective requirements posed by education, culture, social welfare, public services and development.

Insufficient resources of local budgets have resulted in some of these additional actions. Thus England is the first country where the idea of Public Private Partnership established to facilitate the tasks of local governments, is the country where they developed the principles underlying the financial institutions.

The term spending in the public services, is a key factor to consider. The spending has grown exponentially over the years in Romania. Responsible in dealing with this trend of reducing public spending, but at the same time, meet the needs of the population, is the process of decentralization.

We can speculate that decentralization attracts more spending, but decentralization can argue that the authorities are aware of the needs of the local government, and the expenditures are increased due to the identified needs that were required to be covered.

These issues raise some important questions:

- Are the benefits to the population, through decentralized public services, exceeding expenditures in a budget of a local government, further than those specified in the original?
- Do we need to attract other funding sources to supplement the lack of budgetary funds?

2. Local budgets in Romania

Analyzing, Law 500 of 2002 on public finances, we can observe that a component of legislation that governs is the bookkeeping and financial resources.

Public financial resources are achieved through a uniform system of budgets that includes, according to Public Finance Law, the following components: the state budget, state social insurance budget, special funds budgets, the budget of the state treasury, budget-autonomous public institutions, budgets of public institutions funded wholly or partially from the state budget, state social insurance budget and special funds, as appropriate, public institutions budgets entirely financed from its own budget funds from external loans contracted or guaranteed by the state and whose refund interest and other costs are paid from public funds, external grants funding budget.

The consolidated budget has in its component financial flows, non-tax revenue and tax sharing their destinations in accordance with social needs and specific objectives of financial policy to which it relates.

Budgets are the main factor that determines the realization of state duties. The degree of accomplishment of public spending is influenced by the size of the budget. The budget provides local government autonomy. Through budgets are highlighted the resources to carry out the development of social protection.

State budget funds express economic relationships that occur during the distribution of national income opportunity fund formation and distribution of centralized, with general address to/and from the state to satisfy the interests of national problems. Effective financial decentralization has crucial role on the quality and level of local public services provided.

Distribution function of public finance is reflected in the budget, and results the financial decentralization. Distribution function takes place in two stages: first stage is to establish the funds and next stage is to distribute them.

Funds are established with the contribution of taxpayers that are represented by legal persons, individuals and the public institutions, public institutions subordinated units. The establishment of funds is done by collecting local taxes according to regulations.

Funds are collected to local government in form of: taxes, fees, fines, penalties, income from the sale of property belonging to the

private domain, income from concessions and rentals.

The funds are distributed in the second phase of the process according to local needs. These needs are recorded for education, social protection, culture, and various public services.

State or public sector entity is composed of all institutions at which decisions are collective or public administrations which are represented both at central and local government and public institutions.

The local budgets mobilize resources redistribution upon a series of economic tasks (infrastructure, extension and maintenance of water supply and sewerage, public lighting, transport, etc.). Direct funding from local budgets for these actions is ensured first by identifying the problems that occur locally. They are more easily identified by local governments in this way are removed some of the overly bureaucratized administrative steps. When local budgets expenditures are determined based on the established principle that no expenditure may be included in local government, can not be committed and done from the budget if there is no legal basis for that expense.

Local governments, in collaboration with school inspectorates, Health Departments, Department of Child Protection, County Departments of Roads and others, with the support of the General Directorate of Public Finance, shall establish each year the expenditure.

In this way, financial authorizing chief, secondary and tertiary officer determines spending requirements on standards and indicators. Foundation of public expenditure is carried out following the establishment of government spending.

At County Council level, decentralized expenditure have the following destinations: social assistance, child care, expenditure on special education resource centers and county educational assistance, cultural institutions decentralized, non-clerical employee contributions for members of religious establishments in the country, public services Community for People under the authority of county councils.

Law 273 of 29 June 2006 (Law 273/2006) on local public finances stipulates that the administrative-territorial units are entitled to sufficient financial resources, which local

authorities can use in their duties, on the basis and within the limitations prescribed by law. Local authorities have the power to establish the levels of local taxes under the law. By law, the amounts deducted from certain income to balance the state budget to local budgets will be distributed to counties, according to criteria established by law 273/2006. By law, county area is rated at 30%. Special-purpose deducted amounts shall be distributed according to law.

Financial capacity determined by the income tax collected per capita, the proportion of 70%.

In Article 33, paragraph 3 stated that the amounts deducted from certain income to balance the state budget to local budgets approved annually by the state budget law and the rate of 22% stipulated in art. 32. (1), a 27% share of the county's own budget is allocated, and the difference is allocated for local budgets of communes, towns and cities.

This is realized an allocating 80% of the amount allocated in two stages, according to population, area and financial capacity of the administrative-territorial. The remaining 20% of the amount shall be allocated by the County Council decision, intended for supporting local development programs, infrastructure generally requires local co-financing projects.

The amounts were not assigned in phase I are redistributed in phase II of the Territorial Administration of all units in the county according to their financial capacity, determined by the income tax collected per capita in the year preceding the year of calculation.

3. Cause-effect relationship

In a unitary state we can not rely on total decentralization, but rather on the decentralization of functions. Financial decentralization is seen as a measure to achieve good economic results. Testimonies to this statement were the United States, China, Britain, Spain, France, Italy and the list goes on. Transfers of responsibility from central to local, regional proved to be extremely effective.

Financial decentralization is a challenge for local government. Because of changes that have occurred in the transition from centralized to decentralized system was

necessary to establish new institutions and infrastructure. There was a problem with imposition reforms on privatization and decentralization of the economy, but directly, in decentralization of administration.

Romania, in the pre-accession period, published through the Government, for the period 2004-2008 a national strategy of decentralization that had the following objectives:

a) Reform of basic public services and public utilities of local interest;

b) Strengthening the administrative and fiscal decentralization;

c) Strengthening the institutional capacity of the central government and local;

Details of these dimensions of public administration reform were published in the Government Program, Chapter 11 entitled "Public administration reform".

Romania, in the decentralization process is slow. Significant changes have occurred in the year of 2009, by amending legislation in the areas of education, health, work. Also, identify major obstacles in implementing the decentralization process:

Lack of good legislation in place;

Lack of financial resources;

Lack of specialized personnel;

Excessive bureaucracy;

Financial Crisis.

After integration into the European Union in 2007, central authorities have tried to make a series of actions on the modernization of the administrative apparatus.

In this respect, the Government approved the strategy of decentralization in health, public safety, sports and youth, and in 2010 they have taken the law regulating education, culture, agriculture, the labor code.

Decisions made on the principle of subsidiarity, approaching the local authority's responsible citizens. It tends to have only the state control tasks.

The administrative reform strategy decision gives the mayor more power now than before and he will have dozens of new subordinated public institutions: schools, hospitals, airports, ports, agricultural directorates, labor, cinemas, and sports. Mayors will manage finances in the necessary proper course of these decentralized services.

4. Conclusions

Financial systems function as a set of institutions, processes and components linked by certain relationships. The link between the financial system with the economic and political is more than evident and one of the components can not function in isolation.

Local budgets revenue and expenditure administrative territorial units are independently developed, which stimulates local initiative to achieve revenue and meet local requirements.

According to the definition given by the Chamber of Commerce and Industry, self-financing capacity of companies is one indicator that reflects the company's financial potential to pay equity and to self-finance investment policy. From this definition we can implement the same requirements in terms of self-financing capacity of local authorities. This indicator determines the degree of financial autonomy of local authorities.

The degree of self-financing can be determined by the local authorities-own revenue share of total local budget revenues.

Analyzing the influence of local budgets in the process of fiscal decentralization, conclude that the share of expenditure showing planned to be performed, decentralized services local budget, determine the degree of financial decentralization. The degree of decentralization can be calculated and provided share of expenditures to be made for decentralized services and the state budget.

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An Empirical Perspective on Acknowledging the Relationship between the Economic-Financial Communication and the Cost of Capital

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Abstract

So far, numerous professional studies have focused on the effects derived from economic - financial communication (especially the voluntary one) on the capital market, all the while acknowledging the fact that the main consequences of this disclosure are essential for enhancing the liquidity of securities, for reducing the costs of capital and for encouraging, in any form, the secondary disclosure. Nevertheless, there are still certain grey areas that research is yet to unfold. Consequently, the authors of the present study wish to highlight a few elements correlated with the relationship disclosure-cost of capital.

Key words: communication, disclosure, value of economic capital, growth opportunities, financial-accounting reporting.

J.E.L. classification: M41,G10,

1. Introduction

Several approaches have been suggested by empirical studies focusing on the effects of financial reporting on the cost of capital. Among these, a first group of analysts have investigated the above mentioned association by using indirect measurements of the cost of capital, such as: risk indicators, purchase costs and informational asymmetries. A second group of researchers have focused on reporting decisions made towards the quoting on the capital market, while others have used direct estimations of the cost of capital.

The first studies have analyzed the relation between disclosure and the cost of capital by means of the impact of communication on the increased liquidity of securities as a result of an increased economic-financial voluntary communication and the decrease of informational asymmetries among informed and less informed investors, the latter being more confident that their shares would be negotiated at a fair rate. Moreover, there are studies focusing on the effects of the changes affecting communication policies, highlighting the importance of establishing the moment when these changes intervene, either by using analyst ratings or "disclosure" indices.

2. Debates

Most empirical findings have ascertained that communication decisions made by the company affect the speed at which the information is assimilated in the stock market prices. The increase of the reported information is actually associated with a simultaneous improvement in the evolution of securities after controlling the performance, the size and the risk, since the transmission of voluntary disclosure reduces informational asymmetries and limits the adverse selection phenomenon which, in its turn, leads to an inferior bid-ask-spread, i.e. the difference between a very high price that a buyer is willing to pay for shares and a very low price that a seller is willing to accept, other studies showing that a large quantity of information released on the market could increase the volatility of the securities and the cost of capital.

Other findings of the analyses that have recorded the "disclosure" effects on the "bid-ask-spread", as indicator of the liquidity of the shares, further confirm these effects, indirectly, even if on a segment disclosure level, based on the relationship between the reporting of additional data and the increased capitalization of the market, in agreement with the hypotheses related to the reduced cost of capital.

Further research has investigated the relationship between disclosure and the cost of capital, through the analysis of the managers' behaviour upon gaining access on the market, thus establishing whether they have acted appropriately in relation to a major reporting and to the cost of financing.

2.1. Basic concepts used when highlighting the relationship between communication and the value of economic capital

The value creation theory is usually linked to the value of economic capital, i.e. to an abstract market capital measure that meets the generality, rationality, demonstrability and objectivity criteria (Corvi, 2000, p. 21).

Under such circumstances, the economic capital value creation is a necessary objective of the company since it can meet the inherent objective of the entity – that of self-generation in time (Guatri and Vicari, 1994, p. 64).

The essential quantitative values that establish the value of economic capital may be expressed by the so-called key factors that establish the value. The following are especially taken into account (Guatri, 1991, pp. 49-59):

- The present value of economic capital (W)
- The value of growth opportunities of the economic capital (ΔW)

Growth opportunities are themselves established by the strategies and objectives that the company can achieve and this endeavour also depends on the environment circumstances and furthermore on the tangible and intangible resources (capacity, competence, image, trust) that the company possesses or is able to obtain from external subjects. The company creates value through all the processes that can create and protect

the competitive advantage and, therefore, through innovation, differentiation and communication. (Corvi, 2000, pp. 28-30).

The value of economic capital growth opportunities will subsequently be quantified based on the return of equity rate (ROE), generated by each initiative, by the length of time this profit is expected (n) and the potential growth rate (g). ROE is one of the most important indicators used to measure the performance of a company and calculated as the relation between the net profit gained by the company and equity capital, the latter standing for the financial contribution of shareholders to the business. The high yield of equity capital signifies that a small investment of the shareholders has been turned into a high profit and this is the main objective of the business done.

2.2 The effects of voluntary communication on the cost of capital (the major "disclosure" hypothesis)

The economic-financial communication does not consist only of a series of informational obligations required by the IAS/IFRS regulations, since companies deliberately choose to communicate to investors further information that is not required by the law and meant to acknowledge the fact that investors have brought capital to the business and they may need additional elements that would allow them to evaluate the company in the future.

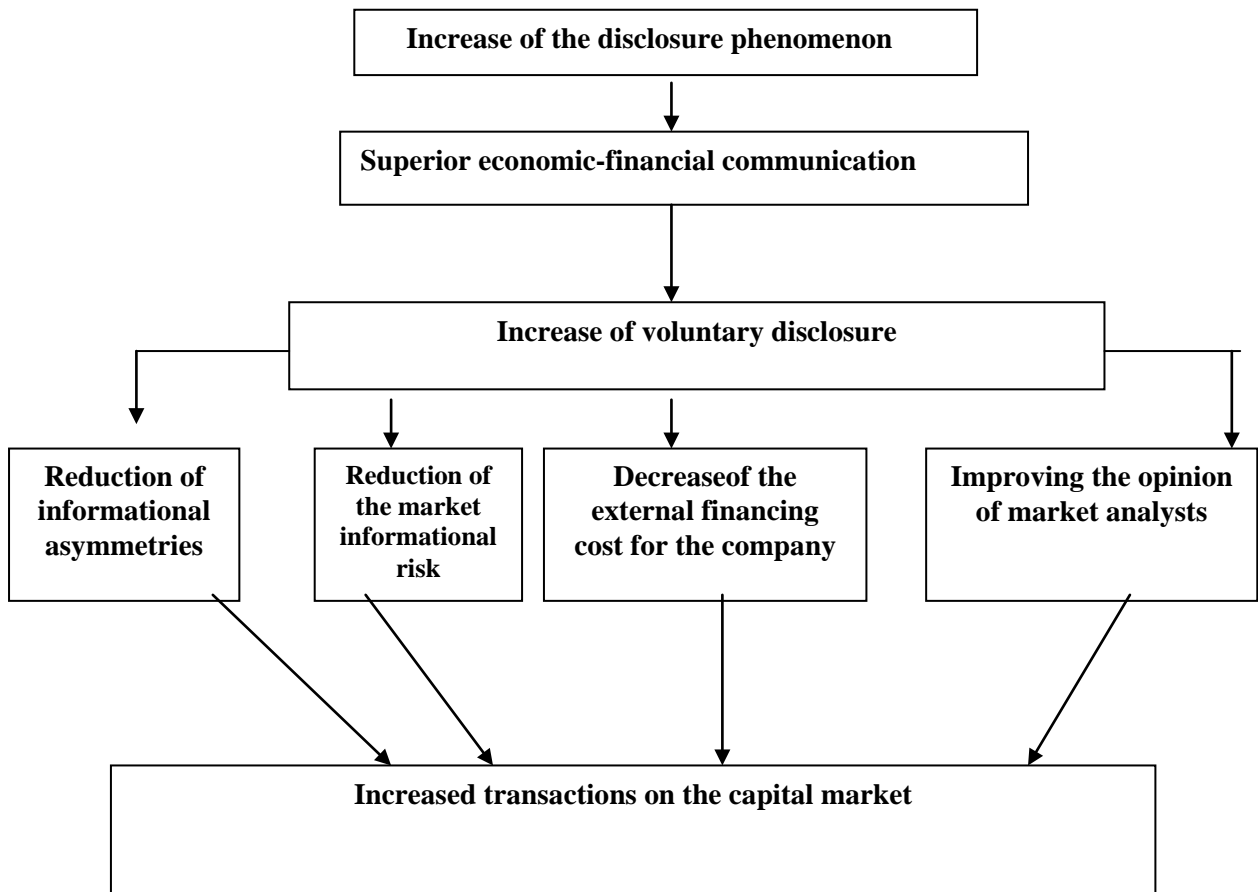
The reasons why the voluntary disclosure on certain hypotheses and transactions on the capital market hint at a major "disclosure" from companies heading towards the capital market and suggesting that these demeanours can provide benefits for companies, as concerns the cost of capital. In this respect, studies have shown that in companies that have taken an active interest in increasing their capital there has also been a significant increase in the reporting of information during the six months that have preceded the operation (Lang M., Ludholm R., 2000, pp. 623-662). Companies disclose more information about their economic-financial status, in order to reduce the transaction costs for investors and can, therefore, obtain a lower cost of capital as opposed to other companies that provide less information.

Gaining the trust of financial analysts is another important factor that leads to an increased frequency of companies heading for the capital market. (Healy, P.M., Hutton, A.P., Palepu, K.J., 1999, pp. 488-520). Moreover, in companies with favourable evaluations from analysts as far as financial communication ("disclosure" rating) is concerned, there has been a major informational contents of stock market prices (quotations of securities), considered as a correlation between the price of the share and the future profits, as compared to companies with a lower information level.

We can also emphasize the fact that the reduction of the cost of capital, as a result of voluntary informing, arises from the preference investors manifest for shares with a low estimation risk, limited transaction costs and a low level of informational asymmetry.

These three factors may actually be reduced by voluntary communication while a high demand for shares with such characteristics entail a higher price of securities correlated with a low cost of capital. We can thus highlight the fact that the increasing phenomenon of reporting information about the company may be briefly drafted in the scheme below:

Fig. 1 The influence of the increasing disclosure phenomenon on the company



This hypothesis on the estimation of the cost of capital, without the use of other variables as proxy, is being directly tested by an increasing group of researchers. The first empirical study conducted on the basis of this approach (Botosan, 1997, pp. 323-350) has tried to find negative correlations between

disclosure and the cost of capital by using an instantly created indicator to evaluate the financial reporting and to estimate the analyses on the cash flow and terminal values in order to forecast market expectations.

The results that have been obtained for a single task has thus revealed a negative correlation between the cost of capital and the voluntary disclosure in the case of companies benefiting from low coverage from financial analysts.

This study has been followed by other similar ones conducted by Canadian and Swiss companies that also support these results (Richardson and Welker, 2001, pp. 597-615; Hail, 2002, pp. 741-773); nevertheless, they must be carefully interpreted due to some criticism that has risen about the validity of the methods used.

The first refers to the effect of financial and social disclosure of the cost of capital and has thus highlighted a negative association between the quantity and the quality of the financial disclosure of the cost of capital contained in the annual financial statements of companies with low coverage from analysts.

The study has been conducted on a sample of non-financial Swiss companies and has revealed a negative and significant association between the disclosure quality, measured by an indicator that referred to the information provided by the annual financial statements, and the cost of capital.

As anticipated, both studies have variability issues, since they estimate the cost of capital by adopting a "discounted residual income" model (Gebhart and Lee, 2001, pp. 134-174) that leads to estimations of the cost of capital that are hardly related to risk, as revealed by further research (Botosan and Plumlee, 2002- A, pp. 123-141).

The effect of voluntary disclosure on the cost of capital in the financial sector has been supported by an analysis (Poshwale and Curtis, 2002, pp. 21-40) conducted on 135 European, American and Australian banking institutions, thus underlining the negative association between variables. The results have revealed that there is information related to risk management that highly influence the cost of capital, while European banks are subject to major reductions of the cost of capital as opposed to other companies included in the sample.

The contrasting results (Botosan and Plumlee, 2002-B, pp. 21-40) have also been revealed while analysing the relationship between the cost of capital and the ranking

made by analysts, concerning the various forms of corporate disclosure (annual and quarterly financial statements, public relations, investor relation), tested on a sample of companies operating in different sectors.

Thus, the empirical evidence has shown that this relationship is negative from the standpoint of the ranking according to financial statements, but it is positive (as opposed to the stated hypothesis), if we take into account the ranking of the quarterly statements and other public documents, as well as less significant as concerns the evaluation of the investor relation activity. This latter result arises from the hypotheses introduced by certain contradicting evidence that may derive from the failure to include certain forms of disclosure in the analyses and thus leading to different observations than what was expected. A possible explanation would emerge from certain relatively recent studies (Barron et al., 2005, pp. 404-420), suggesting that certain types of disclosure can further generate private disclosure and thus amplify the level of informational asymmetry and, consequently, the cost of capital.

Should this not be the case, the result obtained on the quarterly financial statements may be the consequence of a heightened interest that this type of disclosure has for institutional investors who abide by aggressive and short term investment policies (Bushee, 2000, pp. 171-202) and whose actions may increase the volatility of securities, with negative effects on the cost of capital.

3. Conclusions

As shown above, the activities performed by the company create value if their endeavours contribute to the long term sustainability and development of profit and if, at the same time, they influence the quality – and not just the quantity – of this profit, by reducing the variability or the inherent risks.

As far as communication is concerned, its benefits for creating value are justified, if we take into account the improvement of the company image, being fully aware of the fact that the manner of transmitting information through notoriety and combining the positive

image with positive notoriety is a synthetic, but very significant indicator of the value created by communication.

Innovation, differentiation and communication all contribute to the creation of value, thus generating opportunities of increasing the economic capital. Certainly, the contribution of communication to the creation of value can be described as follows: communication, as a collection of information, signals, symbols, behaviours and formal activities, significantly contributes to the image and notoriety of the company, given the common support of all its four branches – commercial, institutional, managerial and economic-financial, as well as the fact that, in order to create value for the company, a global approach of communication is of paramount importance. Communication conveys not only the value of economic capital, explicitly disclosing the real value on the market, but it also creates value, thus leading to an increase in the intangible assets of the company. By improving its relationship with the external environment, the company develops and acquires distinctive competencies and abilities, thus augmenting the credibility and feasibility in communicating with stakeholders, subsequently encouraging the development of its patrimony and creating a prolific cycle of value augmentation.

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Insurance Risks – Hedging Techniques

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Abstract

Insurance companies by their specific activity and by the variety of operations are exposed to a multitude of risks. We can say that the risk is the basic condition of the insurance. If there were no risks, there would be no insurance. Therefore, risk insurance is a specific element, being subject to any insurance contract. Seeking a definition for risk, one can say that "risk is a danger, a threat faced by goods, people, businesses and insurance companies may provide". The insurance companies have to deal with specific risks as their field of activity: risks generated by undercutting premiums, incorrect sizing of technical reserves, unpredictable changes in the frequency of claims, an inadequate reinsurance and risk of general nature common to all types of businesses: incompetent management or maladministration development strategies, etc.

Key words: ART, Hedging, CAT bonds, pools, reinsurance

J.E.L. classification: G22

1. Introduction

Any insurance company wants to attract healthy and profitable businesses, but history is full of examples that do exactly the opposite, and those who not learn from past mistakes are doomed to repeat it.

In a market where the insurance companies reduce premiums, where relaxed and underwriting procedures are frequently used, it is compulsory to apply a hedging strategy. Competitive pressures generated

two reactions: the first one, the low-cost policy (or generous in terms of protection) resulted in a considerable reduction of their income, and the second one, the freezing policies (do not to the market changes) resulted in losing market share.

A sign of a new increasing capacity will relax the market prices.

In an example, a company is in real danger if this relaxation is combined with a defective calculation of reserves, with a lack of substantial financial investment income (in order to compensate all technical losses), with an anemic coverage through reinsurance, or with a loss to be recovered from a previous year. Some insurers are able to maintain technical underwriting criteria in such market phase, avoiding the reduction in commercial premiums, but paying special attention to the terms and conditions. Others have a sales force that behaves as if it understands the financial implications of the insurance rate of profits. Taking a subject with an adequate financial incentive is a possible answer.

2. Hedging techniques

In the last years, insurance companies have increasingly used more hedging techniques. Hedging techniques are aimed either at risks associated with assets or the risks associated with the debt or interaction between them, such as a ratio mismatch between liquidity risk and liability for the debts or assets (ALM risk).

Default hedging on debt maturity is achieved through processes of reinsurance (for primary insurer) or retrocession (for insurers), the issuance by catastrophe

bonds¹ (CAT bonds), through alternative risk transfer (ART) or carrying out transactions in financial derivatives.

Techniques reinsurance / retrocession

a) Reinsurance is the main mechanism by which insurers reduced their risk exposure. Through the process of reinsuring, the reinsurer agrees to indemnify an insurer, the assigner, against a total or partial damage that may support the latter in the original policy or in the policies they issued. Reinsurance provides a secondary spread risk, reducing the potential damage that can be attached to the reinsurers.

The reinsurance strategy greatly influences the underwriting policy of an insurance company on one hand, by allowing it to assume a greater number of risks and on the other hand, by reducing the insurer's exposure to a number of major damages.

Reinsurance can be provided by both specialized companies and direct insurers that are authorized to handle reinsurance contracts.

Reinsurance could be proportional or non proportional and concluded either on an optional basis (facultative reinsurance), either by treaty (treaty reinsurance).

b) Proportional reinsurance – A type of reinsurance where the ceding insurer cedes to its re-insurer a predetermined proportion of the liability and premium of those policies subject to the reinsurance agreement.

c) Facultative reinsurance – A form of reinsurance in which the terms, conditions, and reinsurance premium is individually negotiated between the insurer and the re-insurer. There is no obligation on the re-insurer to accept the risk or on the insurer to reinsure it if it is not considered necessary.

d) Non-proportional reinsurance - Generic description for those reinsurance contracts where the re-insurer agrees to provide coverage based on premiums and

claims which are not proportionate to those of the original risks taken on by the insurer. The contracts may be arranged as treaty reinsurance or on a facultative basis. Types of non proportional reinsurance include first loss, excess of loss, catastrophe loss or aggregate excess of loss, spread loss, and clash cover.

e) Treaty reinsurance – The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a "treaty") between a primary insurer or other reinsured and a re-insurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the re-insurer is obligated to accept a specified portion of all such type or category of risks originally written by the primary insurer or reinsured.

f) In international practice along with basic methods presented above, were also outlined other methods: open covers, obligatory and facultative reinsurance pools.

Open covers methods and voluntary-mandatory agreements appeared as an answer to the continuous growth of the size of individual risks that affect all types of insurance.

The reinsurance market, such as voluntary-mandatory contracts are defined as those contracts signed between the transferor company and a re-insurer, the latter has to accept voluntary reinsurance yield to the other side. In terms of protections provided and the relationship between reinsured and re-insurer, the method is between the voluntary and mandatory methods. It is optional for the direct insurer that yields some risk of a re-insurer, in terms of which he himself is bound to decide the re-insurer to accept the proposed offer configured by the transferor company.

Reinsurance pools are owned by the participants of several companies, generating an independent entity that will cover the reinsurance business of a certain part of the risk underwritten by these companies, sometimes in exchange for the restitution of the member companies of the party that has initially accepted the risk. The management is provided by an alternate member, companies or joint venture, established by an organization with the primary task ceded reinsurance pool split between all members in the proportion agreed by them or assigned

¹ CAT bonds – are risk-linked securities that transfer a specified set of risks from a sponsor to investors. Catastrophe bonds emerged from a need by insurance companies to alleviate some of the risk they would face if a major catastrophe occurred, which would incur damages that they could not cover by the premiums, and returns from investments using the premiums, that they received. An insurance company issues bonds through an investment bank, which are then sold to investors.

to them in proportion with the volume of the business.

Restitution – the transaction whereby a re-insurer (retro) reinsures some of its risks (retrocession) by another re-insures (retrocession).

CAT bonds – Catastrophe bonds emerged from a need by insurance companies to alleviate some of the risk they would face if a major catastrophe occurred, which would incur damages that they could not cover by the premiums, and returns from investments using the premiums, that they received.

Alternative risk transfer (ART) is a generic expression used to reflect the various non-traditional forms of (re)insurance and techniques where risk is transferred to the capital markets. In a broad sense, it refers to the coverage of (re)insurance with banking and capital markets through financial reinsurance business, alternative risk financing, securitization, reinsurance of limited risk, weather derivatives.

ART is the last frontier towards the global insurance industry is heading. If this will be the future means to be seen, the fact is that this concept is still far by being operational on the Romanian market.

Alternative risk financing is a term that describes techniques that provide a different funding source for conventional (re)insurance. The insured could try to equalize his incomes for a period of several years by looking for a safe financing source in order to cover future damages and/or for ensuring his post-damage financing. The insurer taking the risk combines the low cash-flow risk technique and the actuarial risk analysis. These techniques include: financial reinsurance, finite reinsurance and contingent capital.

a) financial reinsurance – there is no clearly accepted definition, but financial reinsurance tends to refer to the value of money over time and the financial objectives, rather than transfer risk. It is intended to stabilize the balance of the assignor and to offer capital support. The assignor pays a prime in order to cover the damages (these damages are calculated on a multiannual basis, having a fixed maximum). The assignor beneficiaries of a credit increase improving his key rates, such as the combined rate.

b) finite reinsurance – is similar to the financial reinsurance, but implies a higher risk transfer. It is a retrospectively rated insurance, where the re-insurer's responsibility is limited. The multiannual contract allows the re-insurer to equalize the assignor's damages along the years, offering funds to cover the costs of the damage. The re-insurer will pay back these costs as stipulated in the contract. The assignor beneficiaries of a credit increase improving his key rates, such as the combined rate. The income generated by investments represents an underwriting component.

c) The contingent capital – is a post-damage financing method based on an agreement between a (re)insurer and a bank, through which the latter will offer a loan or funds after the triggering event has occurred. The bank receives a minimum amount for the prepared and awaiting funds. Contingent capital is less expensive than an ordinary (re)insurance in terms of paid costs, if the triggering event does never occur.

Weather derivatives represent a share, swap or option, whose value is directly linked to the weather condition for a certain period of time and a specific location. The weather derivatives are paid in cash depending on the event (significant temperature fluctuations, levels of precipitations)

Following a report by the Director General of Internal Market of the European Commission, we identified some of the advantages and disadvantages of this technique for each of the groups involved: the insurance company, the insured client and the regulator:

3. Financial derivatives

Hedging risk associated with assets as in ALM is achieved through the use of complex risk transfer mechanism such as the Collateralized Loan Obligations (CLO) and through the purchase of financial derivatives.

The transaction of financial derivatives it is considered to be one of the most efficient methods to maximize the profit and to minimize the risk in the portfolio management. Financial derivatives transactions have become the most popular mechanism to increase the performances of the portfolio.

In October 1977, in the U.S., the Commodity Futures Trading Commission gave the first definition for "hedging". Its main purpose was to reduce the risk that could appear in the following conditions:

- the change in value of an asset
- the change in value of a present or future debt
- the change in value of a service (provided or bought by a person in the present or in the future)

Risk management can not be conceived without involving financial derivatives that exist on the term market. When used in hedging operations, derivatives can protect or increase the value of a currency portfolio, depending on the purpose, either to hedge, or to increase the profit.

Although the investments on the derivatives markets are considered to be highly risky, the derivatives are used by insurance companies in order to eliminate risk. Their role is to transfer the risk from the spot market to the futures market. This allows an advanced management of the portfolio and generates important gain opportunities through speculative operations.

4. Conclusions

It is easily noticeable that in the international practice there are more than one method to hedge. Basically, each contract must be analyzed and dealt with individually. This is possible because of the infinite number of situations that the insurance or reinsurance companies must face. The method must be chosen depending on the operations particularities (size of the operation, profitability, associated risk, etc.)

Each company is unique and risk management should be customized according to their size, characteristics and complexity.

For the people working in the insurance and reinsurance field and professional and continuous training is mandatory. They permanently have to study the new risks, the appropriate hedging method so that both the insurer and the insured benefit.

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Techniques Used for Risk Measuring in the Insurance Field. Risk Management

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Abstract

The insurance companies that concentrate a large amount of funds that they seek to invest on the financial market in the most cost effective manner. That is why, in order to face the competition and achieve their goals, the insurer must take into account the interdependency between the activity of subscribing and investment.

Today, the financial managers play a crucial role in every company; they have to provide good financial principles knowledge and also the latest innovations in the field.

Due to the unique financial structure asset, the financial department has a critical role in an insurance company.

Key words: risks management, scenarios, simulation, updated cash flows, sensitivity analysis

J.E.L. classification: G22

1. Introduction

Risk management is a relatively new field of insurance, providing a high interest and especially a practical unity.

Occurring in the United States, risk management has rapidly expanded around the world. It consists in adopting all the necessary measures to prevent damages and to limit all of them in order to ensure. It is of high importance for both the insured and the insurer, as follows, the insured person can benefit of reduced insurance premiums; the insurer takes all required measures in order to limit the financial losses that may occur.

Risk management is a process that has two types of objective. The first type of objective concerns pre-loss goals: the organization must prepare for potential losses in the most economical way, by analyzing the cost of safety programs, insurance premiums and costs determined by other methods of treating loss.

The second type of objective in risk management refers to post-loss objectives. The survival of an organization after a loss appeared is an example of such an objective, imposing the resumption, at least partially, of the activity in a reasonable period of time. Maintaining income after losses have appeared is another prerogative of the superior management of any organization, even if a perfect stabilization can not be achieved.

Nowadays, risk management consists of the totality of methods and means through which uncertainty is managed.

Risk management is not intended to eliminate risks. Risks are the main source of appearance of development and improvement opportunities. Superior advantages can be obtained by fructifying opportunities that appear by taking certain risks. A risk management program can help in making better funded decisions.

Risk management is being more often considered a general function of a company's management, whose objective is identifying, analyzing and controlling the causes and effects of uncertainties and risks that appear in an organization. Its purpose is to support the organization in order to progress towards

achieving its goals and objectives in the most efficient way.

This is why, in our days, risk management and insurances are essential for the understanding the fundamental changes that take place in the modern economy and for the developing strategic economic opportunities world wide.

The implications that the investing process has on entities, especially on insurance companies, determined by immobilizing big amounts of money for long periods of time have increased the cancers for developing preferment risk analyzing methods.

In this context, the possibility of approaching risk with the help of an analysis model is formed, model that is based on the sensitivity analyzing technique, script technique and decision tree technique.

2. The sensitivity analysis technique

The sensitivity analysis technique, also known as the "what if...?" technique, represents a method of studying the way certain conclusions, that have resulted from research, modify to the possible variations of values of the factors or to the errors.

Sensitivity analysis allows a better understanding of the risk that implies different kinds of actions and stability of the chosen decision maker.

It is interested to know the tolerance for some parameters, which does not affect adversely, or the achievement of expected levels of indicators.

The analysis can be used for any type of model, and because of the analyzing facilities it offers, many applications are realized by using „table calculating sheets” calculating types, which allow a very good visualization of the results through tables and graphics and it assists the decision makers in making decisions based on the formulated objectives.

Among the advantages this methods offers we can mention:

- it helps with making decisions and formulating recommendations because: it tests the robustness of the optimal solution; it identifies the critical values or the crisis point values when changes of strategy/optimal solution occur; it identifies the sensitive or important variables; it develops flexible recommendations depending on the

circumstances; it compares the values of a simple or complex decision making strategy.

- it facilitates communication by: making more creditable recommendations that are easy to comprehend; it helps the decision makers also incorporate other perspectives on the problem; it helps managers choose a certain approach when handling decision making problems.

- it increases the power of understanding of systems because: it estimates the relationship between the entry and exit variables; it develops hypothesis testing.

- it helps with model developing by: testing the accuracy and validity of models; it identifies the errors within the model, it simplifies and calibrates the model.

The sensitivity analysis undergoes two stages:

- taking in account the changes of each parameter, while the others remain unchanged;

- taking in consideration simulated changes of several variables and then the efficiency indicators are recalculated.

In order to analyze the results different graphics can be used, such as Tornado, Spider and sensitivity graphics.

The sensitivity analysis method describes the risks insurance companies confront, but it does not offer decision making criteria. The sensitivity analysis gives us a more detailed view on the possible evolution of the indicators, but the decision depends on the utility function of the investor or, more concretely, on his attitude towards risk.

Although sensitivity analysis is probably the most used risk analyzing technique, it has certain limits, taking in account that, in general, the risks of a insurance company don't depend only on the sensibility of the efficiency indicators to the variation of the variables, but also on the range of probable values of these variables, that is reflected by the probability distribution.

3. The scenario technique

In order to eliminate this disadvantage of the sensitivity analysis, the scenario analysis and the simulation technique were created. Making decisions based on the scenario method is founded on a distinct philosophy of the decision making process, namely, in order for decision making strategies not to be

vulnerable to unexpected events, the following are necessary: the explicit consideration of several possible evolutions of the "states of nature" and projecting, in consequence, a number of possible corresponding actions.

Because the scenario method is used for situations targeting a longer time span, ranging from decades to hundreds of years, it can also be used to calculate the solvability for insurance companies. This method takes in consideration both the sensibility of the indicators to the "key" variable variations and the probable range of the values of these variables.

In analyzing risks based in the scenario method, managers have to imagine a set of unfavorable circumstances, or a pessimistic scenario and a set of favorable circumstances, or an optimistic scenario. The indicators for each situation are calculated and then compared to the initial situation's indicators.

Exemplification of a model used to analyze sensitivity

The discounted cash flow technique can be used for both solvability testing and estimating the return of the investment of an insurance company, which is based on the idea of actualization of cost and future income. The technique is founded on the thesis according to which future cash flow has a greater value in actual terms because of the individuals' time preferences, which is usually positive.

The most popular techniques that are used in the actualization process are: the discounted net income (DNI) and the internal rate of return (IRR). Both techniques use the discount of all future net income flow and their sum. The discounted net flows include all incomes and payments, including interest and taxes, but not amortizations.

The discounted net income (DNI) calculates $DNI = Id - Cd$, where Id is the sum of the discounted incomes of the investment, and Cd represents the discounted investment and exploitation costs. When the net cash flow does not involve risk (or they have a risk already reflected in the interest rate), then any investment that assures a value of $DNI > 0$ is considered to be efficient, from an economical point of view. If more (mutually exclusive) investments are being analyzed,

by using the DNI the one of efficiency can be chosen $max.\{DNI_i > 0\}.i$

The Id value is deduced by discounting all the future values of the net cash flow income at their present equivalent, based on the interest rate.

When investments run for more years, Cd can include not only the initial investment, but also other costs integrated in the net cash flow of future periods.

In fundamenting an investment decision, sensitivity analysis is frequently used to identify the factors that have the most influence over the discounted net income (DNI), considered to be the most important economic efficiency indicator.

With the $DNI > 0$ decision making criteria being satisfied, in order to obtain a deeper analysis of investment running opportunities, it is necessary to do a sensitivity analysis in order to highlight the critical factors of influence in the formation of the net income. One of the sensitivity analysis advantages derives from the fact that it allows appreciations about the degree in which changes of different factors of influence (investments, prices etc.) affect the performance indicator used in the analysis (DNI).

In a successive sensitivity analysis (the modifications of only one variable are taken in account, the other parameters being constrained) subsequent disturbances are effectuated (small variations in a certain manageability domain) in order to study their effects on the DNI (the investor's performance indicator)

1. *Identifying the factors* which determine modifications of the DNI when it comes to an investment and estimating its value. In general, the elements whose information are available and are used in calculating the discounted net income are:

- the value of the investment (I)
- the annual sales volume (Q)
- the unit sales price (P)
- the cost plus the workforce per unit (L)
- the cost plus the raw and processed materials per unit
- the capital cost (represented by the discount rate or the interest rate in the case of credit financing) (r)
- the life span of the investment

2. Calculating the DNI for investments

In the previously mentioned hypothesis – the annual income is equal and constant in time, the formula for calculating the DNI is:

$$DNI = -I + Q [P-(L+M)] \cdot A^n_r$$

Where A^n_r represents the current value of an annuity factor and it expresses what value a sum of 1 u.m., spent or earned yearly on an n years type of horizon, has at the current time.

3. Determining the level of the factors for which $DNI = 0$

A relatively easy way to make a sensitivity analysis is to solve the equation $DNI = 0$ in relation with each relevant factor of influence; thus we obtain the "critical" values (XC) of the initial investment, the sales volume etc. which modify the character of the investment from a *possibly feasible* to a *potentially unfeasible* one.

4. Calculating the percentage difference of the calculated value of each factor, compared to the value initially estimated and analyzing the percentage difference obtained and identifying the most sensitive factor, which is the factor that at a very small percentage variation determines $DNI = 0$.

There are a couple of ways to build possible scenarios:

- the *optimistic* or *pessimistic* scenarios

- the *superoptimistic type of scenario*

where DNI is calculated for the most "favorable" values of random variables $DNI = f(\min Q_i, \max L_j)$ or the *superpessimistic type of scenario* where $DNI = f(\max Q_i, \min L_j)$.

Any of these scenarios allow the construction of DNI variation parameters and, eventually, the funding of operational calculus, in order to be able to answer a question of the following type: *what is the probability of this project becoming unfeasible (meaning $DNI < 0$)?*

4. The simulation technique

The word "simulation" comes from the Latin "simulation" which means the capacity to reproduce, represent or imitate something.

In the context of a quantitative approach of the decision making problems, to simulate means to reach the essence without reality because, generally, in order to simulate, a model of a real system is built and an experiment is realized on this model, in order

to achieve a better understanding of how the system behaves and/or evaluations of different strategies for the analyzed system.

Simulation is a computer using test technique and it implies the use of logical or mathematical models that describe the behavior of a real system on a big period of time.

Solving a decision making problem through simulation implies undergoing a few steps. The steps of the simulation generally follow the modeling cycle, but a simulation model is much more complex, because it implies the use of computers and statistical analysis. The most important steps in order to conduct a successful simulation can be grouped in four major fields:

- Problems that need to be solved
- Building the simulating model
- Conducting the simulation experiment
- Result analysis

In order to apply the simulation in the field of investment risk analysis, the following steps must be gone through:

1. Identifying the factors that influence the cash flow or, as appropriate, the duration of the investment and the relations between them.

2. Establishing the number and significance of the parameters and the random variables taken in consideration. The bigger their number, the more complicated it gets to solve the problem and the results are more susceptible to errors.

3. Formulating a model that can show the connections between factors and that respects the particularities of the field being analyzed.

4. The sensitivity analysis of the model, in order to identify the factors that have the biggest influence over the calculating indicators.

5. Determining the probability distribution of the important factors

6. Conducting the actual simulation.

7. Analyze the simulation's results, compare the results and choose the proffered option. The results obtained through simulation allow analyzing the risk and the uncertainty of a proposed variant. These results can take the form of probability distribution of the calculated indicators, of coefficient of correlation and regression that allow sensitivity analysis or reports of scenario analysis.

The actual simulation can be effectuated by choosing a simulation model type, among which we mention, the Monte Carlo simulation, the discrete event simulation, the Forrester type of simulation and the game type simulation.

For risk analysis associated with investments we recommend the use of the **Monte Carlo simulation**, in spite of the fact that it is more complicated than the sensitivity analysis and it needs a higher level of specialized knowledge.

Several methods and models can be found under the name of the Monte Carlo method, whose only common element consists in the sole fact that the real phenomena is replaced with an artificial one. In essence, the entire assembly of the real phenomena is replaced with a representative sample, approximating that the sample will give a pretty clear image on the whole.

In the past years, the best program packs based on the simulation technique are done based on spreadsheets, which have problem to be a very efficient and flexible method. This gives multiple advantages for simulating a system, for which time is not an important variable.

These advantages include the fact that they have a wide range of distribution (most companies must spreadsheets for activity reports), it involves a lower level of training, they incorporate many statistic functions and the results of the analysis can be developed, modified and displayed, in many cases, testing the model can be easily achieved and the time necessary for decision making is reduced.

The biggest advantage of spreadsheets is the possibility to simulate the effects of the decisions by the "What happens if...?" type of analysis without complicated models and extra programming efforts.

Based on the results provided by the simulation technique the following can be achieved: the analysis and comparison of the risk profits of an investment portfolio, comparison between the probability distribution of several investment options, the calculation and comparison between the averages and the dispersion of the indicators values, obtained after the simulation experiments.

5. Decision tree technique

Often, decisions are not isolated, but are arranged for a long time span and are inter-conditioned by the manifestation of random events. In these cases, the use of a decision tree type of analysis could be useful. This is a graphic way of presenting a chain of decisions and their results.

The main concepts used in the representation of the tree are:

- decision knots (represented through \square), that mark the starting points for the branches that represent decision alternatives. Characteristic for these knots is the fact that the choosing of the optimum alternatives is done by the decision maker; the option that is chosen is the one to which correspond the biggest expected medium income or the lowest losses, depending on the economic indicator used to compare the results.
- Uncertainty/event/chance type of knots (represented through \circ), in which state of nature branches are represented and whose values are calculated by using the expected value formula, based on probability and decision making consequences, associated with the state of nature that starts from every knot.

In order to identify the best option, the "roll-back" procedure is used. This means calculating the value that corresponds to each type of knot, starting from the end of the representation towards its start. Reading the solution implies determining a strategy through the tree and it is done starting with the initial knot towards the final ones.

The advantage of using the decision tree method is represented by the possibility to chain the decisional successions, but its disadvantage is generated by the tree constructing procedure, which is still laborious, in spite of the fact that it has been sustained by the appearance of preferment computer programs.

6. Conclusions

A specific domain of the general management, risk management targets reducing the probability and consequences of damages caused by accidents that insurance agencies have to deal with.

In Romania, the awareness levels of the necessity of risk management are still low. Companies are required by law to ensure occupational safety of the employees and often forget to protect their goods and the activity they carry on. As consequence, economic agents are not prepared in case of accidental events with grave financial implications.

The cost for implementing risk management techniques is incomparably lower than the damage value with which people or companies can confront, especially in the case of natural disasters.

The efficiency of using risk management methods and techniques is proven by the reduction in the numbers of accidents, in the value of repairing expenses, in the income loss determined by ceasing activity and production delays.

In conclusion, the use of risk management in a company's activity is required by the laws of market economy, promoters of competitiveness and profitability of businesses.

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The Controversial Activity of Multinational Companies

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Abstract

Having put their two cents in highlighting the economical interdependency process on a global level, the great multinationals are characterized by some as economical invaders and as the main development promoters in developing countries, by others. Multinational companies have sequentially followed the liberalization of commercial trades and of the capital flow movements, proclaiming to be interested in a least regulated international economical environment. Multinationals aim at maintaining a turbulence free international climate, which allows them to streamline their economical activity.

Key words: multinational companies, foreign direct investments, globalization, subsidiaries..

J.E.L. classification.: F 23

1. Introduction

In the last few decades, multinational companies have become the main source of private capital for most countries, through foreign direct investments (FDI).

It is important to assert that FDI does not create external debts for the country referred to and the capital outflow involved (repatriation of profits) depends on the enterprise's economical results and replies to the investor's interest as well as the interests of the state that encourages the economical growth.

The activities undertaken by multinational companies are complex and their impact on host countries is much greater than we are led to believe by statistic data. Their indirect effect is reflected on demands made to national enterprises, on creating new working places, on encouraging horizontal industries,

carrying out indirect exports a.s.o. We can, thus, state that FDI has become more and more important for production, trade, technology transfer and capital flows in the global economy and, that multinational companies are playing a more significant role in the economies of host countries. Today, FDI is manifested as a powerful force in the process of boosting the efficiency of resource allocation, on a global level, and as a channel for conveying economical input related to production, technology and quality of work.

2. The conflicting effects generated by multinational companies' activity

Foreign direct investments may be considered a driving factor for insuring competitiveness, where multinational companies raise the bar on the complexity of production in their foreign branches, from simple assembly operations to more complex operations, by using new technologies which they integrate in their external production network.

The beneficial effects of the multinationals' actions are less obvious in developed countries, seeing as how developing countries, those in South-Eastern Europe and members of the CIS, receive 30.0% (valid figure for the period between 2000 and 2008) of the international FDI flow. In the case of the host country, most often, the branch owned by the multinational company contributes more than the domestic company to the betterment of the professional training level in the work force, to the research-development activity or the productivity growth of the relative domain.

Multinational companies contribute greatly to the development of capital in host countries. Through investments, they create new working places, generating higher salaries than local enterprises. Moreover,

local suppliers are presented with the possibility to obtain better income.

While doing business with local enterprises, multinationals transfer onto them a series of knowledge, sometimes offering them technical and financial assistance. Concurrently they influence the strategies adopted by local firms, their entrepreneurial spirit and their orientation towards exports, having a fair impact on the efficiency of the economical activities in the host country.

FDI contribute to the integration of less developed countries in the global economy, stimulating international trade, especially by importing vehicles, hardware and equipment. Along with external trade, multinationals also stimulate the supply of services, necessary to international trade (banking, insurance, transportation and telecommunication services) that contribute to the economical growth of the host countries.

Multinational companies have made it possible to infiltrate less developed countries with low priced products, fact which is closely connected to the betterment of the standard of living in many parts of the world. Also, these companies have created conditions, on markets pertaining to developed countries, for the boom in exports with manufactured products originating from developing countries.

There were many discussions on the relation between the multinational company and the host country. This mostly depends on the group of states (developed or developing) in which the host country is included. When host countries have a high economical potential, multinationals tend to drive at applying the mutual advantage principle, while taking into consideration the perspective of obtaining a good profit as well as strong competition between investors. When host countries are developing countries, multinational companies become more influent in their relationship with the governments of those particular states. This happens due to the lack of an adequate legislative framework in the host country, and is enhanced by the myriad of corruption deeds. In less developed countries, multinationals try to compensate deficiencies resulted from high inflation, monetary and political instability etc., with a series of opportunities given by cheap labor, generous

natural resources and easy access to the local markets.

Multinationals locate their branches in those countries that offer the best of developing conditions. On the other hand, potential host countries are interested in attracting multinational companies, and use a series of means of servicing: stimulatory regulations, the stability of the legislative framework, building roadways, railroads, water supply systems etc. basically, a multinational company cannot activate in a hostile environment, but no host country determine a multinational company to forcibly open a branch on its territory. There has to be a mutual agreement, based on the ability of the multinational to produce positive value. The multinational must be content with the profit influx, and the host country must be content with the advantages brought on by taxation, work force occupancy and, last but not least, economical growth.

Multinationals stand at the origins of many positive aspects generated, as they are the main vectors of globalization.

Still, we cannot ignore the deficiencies generated by the activity employed by multinationals in various states, mainly developing countries.

The first shortcoming arises from the allocation of wealth between the multinational and the host countries. This depends on the tax rate levied by the hosting government and the regulations in that sector. One of the most grievous measures against foreign companies would be to tighten up the rules of the game after the multinational company already set up shop in the host country. It is very possible that the multinational will draw back from that arrangement, raising a red flag for other potential foreign investors.

Trade policy measures that are supported by the host country may lead to issues with the multinational firms that have branches on those particular territories. Normally and traditionally, due to their competitiveness, multinationals excel at promoting liberalization in international trade. Paradoxically, in limited cases, some multinationals, encourage the host countries to practice protective policies to limit imports. In such cases its more profitable for multinational companies to open productive

branches in the host country than export their own products, even given the host government's intention of liberalizing international trade relations.

The host countries' concern to generate more working places, manufacture products with higher added value and ultimately to cash in more budget income, drives them to condition assignment of facilities for the growth of the integration level of production, achieved by multinational companies' branches. This is how conflicts are born, with multinational companies, because there are situations where maximization of profit is achieved through assemblage of components within the branches in the host country.

The unorthodox fluctuations in the exchange rate registered by the national currency of the host country in relation to the main currencies may use deficiency for the multinational firms. For example, with the depreciation of the national currency, even if exports are stimulated, multinational branches that produce for the domestic demands of the state they inhabit, are forced to pay more for the import of limbs or parts that compose the end product, due to the precipitation of the currency risk.

Aggressive and discriminating behavior toward the employees of the foreign branches is just one of the various problems that should attract responsibility from multinational companies' managers. Most managers that have acted inadequately or even illegally in their affairs with host countries benefit from corporate immunity and walked away unreformed or facing minor charges, because the registered offices of multinational companies are located abroad. A graphic example is the case of Exxon, whose oil carrier, Valdez, hit the beach in 1989, causing one of the gravest marine pollution in history. The value of the damages was estimated at several billion dollars. The culprit was the boat's captain, who coordinated a faulty course, as he was intoxicated at the time. The penalty he received was a knock-out price to pay: a fine for \$51.000 and 1000 hours of community service, collecting garbage.

Organizing multinationals in the shape of limited liability trading companies allows them to claim huge profits; because the worst owners risk to lose is the amount they contributed with for the establishment or

development of the respective legal entity. Hence, a company opens a factory for the production of blacking. After several years of activity, when the effects on the environment become eloquent and larger numbers of the employees and local inhabitants begin having health problems due to pollution, the owners of the firms that cumulated substantial income file for bankruptcy. They are exempted from responsibility of invest in environmental betterment in the area as well as from bringing material compensation to those whose health was affected.

The tension between multinationals and host governments may occur from reasons of insecurity. Manu American who companies extract oil from Nigeria had temporarily ceased their activity, until the Nigerian government sent troops that eliminated the ethnic conflicts in the area.

In order to reach their objectives, multinational companies use an arsenal of instruments to condition host governments to proceed accordingly. Amongst the means used we might mention: employing lobbyists, aggressive advertising (such as the case of Rosia Montana) to influence public perception and decision makers, using bribe and corruption to constrict governmental agents into satisfying the interests of the respective trading companies.

3. The need to improve the attitude of multinational companies

Regularly, there are a series of measures meant to restrict deficiencies brought to multinational companies, mostly implemented in less developed countries, such as:

The salience of social responsibility

Practice shows that there is a direct line between a multinational's cultural value and the actions it unfolds, where social responsibility is concerned.

Notably, the actions undertaken by a multinational company must be voluntary in order to be catalogued in the social responsibility area, and not be a consequence of applying legal care.

Multinationals have established amicable relationships with communities where they activate and attracted positive appreciation

from members of the community, many of whom wish to work for the referred to companies, by treating their employees, partners and shareholders fairly, and paying attention to the environment.

Contrariwise, even if efficient economically speaking, companies that have a tense connection with the members of the community and who negatively affect the environment where they activate, may record, due to the bad reputation surrounding them, a drop in value of shares traded on the stock market.

For wanting to have a higher profit rate on the longer term, companies are in pursuit of eliminating competition on the market they are activating on, or make settlements with businesses they are competing with in order to set prices high. Developed countries have established a well defined legal frame, in order to protect their consumers, which implements criminal correction, as well as the payment of substantial material compensation by those who displayed an anti-competitive attitude.

The globalization of the economical world brought on the surfacing of monopolist trends on an international level. Anti-competitive behavior in international affairs is much harder to refute in the absence of some special interstate regulations. Moreover, in their national legislation, developing countries don't generally envisage measures to limit monopolist trends. If developed countries adopted along the years laws to protect their citizens from the anti- competitive manifestations on the part of multinational companies, when it comes to their governments' involvement in international affairs, they will support their own entrepreneurs, most often than not, in order to reach monopolist agreements that will ensure higher profit. It is evident that developed countries apply a discriminatory standard regarding the inhabitants of economically underdeveloped countries, unlike that displayed on their own citizens.

Thus, it is commanded that besides adopting anti-monopoly and anti-cartel laws, there be the establishment of institutions that handle the regulations of these aspects globally, track down anti-competitive practices and apply coercive and restoring measures in the field.

The perfection of the corporate legislation

Corporate legislation must mainly ensure the possibility of applying criminal justice to transgressing managers. Just as managers must capitally answer for their actions facing shareholders, they must also capitally answer for the damage inflicted on employees and the pollution of the environment.

Secondly, corporate legislation must ensure the payment of restoring damages done by guilty parties. For prejudice brought abroad, multinational companies are usually brought to court in the host country. Although the complainants are given satisfaction, on the basis of fair trials, they cannot restore their prejudice because the multinational is either represented by a branch that files for bankruptcy, or own too few properties that can be executed. Multinational companies' shareholders, who most often stand to gain hugely from activities that take place abroad, cannot be held responsible for prejudice brought in the host country because they are under the m of limited responsibility and generally leave real ecological disasters behind.

Among others, there should be a possibility for the multinational to be brought to trial in the mother country, which is generally a developed country, and be tried based on national standards on environment, health etc.

Fraud duress

High frequency and notoriety have become defining notions for: corruption, dishonest agreements regarding prices, illegal material contributions for political parties, tax evasion, breaking the antitrust law and even murder.

We should notice that the range of corruption includes: bride, nepotism, fraud, embezzlement, the use of others' resources, harassment etc.

Even if corruption is more widely known in developing countries, it takes other, more sophisticated forms in developed countries. In these notorious states, we find electoral campaign financed by extremely powerful multinationals. The amount of money reclaimed by corporations after such financed politicians issue favored laws, are several times the amount spent.

US' issue of the law regarding corruption abroad is estimable and should be adopted by as many countries as possible. Some American corporations reflect on this legislative action, because they consider they are entering disloyal competitions for investment bids on international markets with companies that reside in countries where bribe is accepted.

The amounts deposited in banks, especially in tax heaven and derived from acts of corruption are hard to identify because of bank secrecy. The use of funds protected by bank secrecy for the financing of the terrorist acts of September 2011 in the US, led to promoting regulations against bank secrecy policies when it comes to terrorism. This attitude regarding bank secrecy should also be in. it would seem that certain strategic arguments are delaying them from taking that initiative. This subject, of renouncing bank secrecy, in other cases than concerning terrorism should be debated within the OMC, but the same strategic arguments make it intangible for now.

4. Conclusion

Multinational companies tend to concentrate on countries with better perspectives of economical growth what have natural resources, large internal markets, well trained and relatively cheap work force, a favorable legislative assembly etc. They also influence these countries' ability of development in turn. Interdependency and integration, but also the need for righteous footing, implies permanent interaction between hosting governments and multinationals, based on the principle of mutual advantage.

Currently, the multinational companies' network and their worldwide branches form an integrated system, with common economical, social and ethical values and play a leading role in the evolution of global economy in the main and within each country in particular.

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Corporate Social Responsibility (CSR) - a Theoretical Approach

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Abstract

In the last years the expectations towards CSR are increasing and with this also the demand that businesses behave in a socially responsibly manner. But we should not forget that Corporate Social Responsibility (CSR) is a contested and also evolving concept, fact that is evidenced also by the different points of view concerning the definition and also by the lack of consensus about why it might be a worthy marketing objective.

This article aims to illustrate the main concepts and frameworks regarding the corporate social responsibility (CSR) and the expectations towards it.

Key words: *Corporate social responsibility, consumer`s expectations*

J.E.L. classification: M14

1. Introduction

The corporate social responsibility (CSR) is a concept that has become more and more important in the past years and that has a long history. This importance is also reflected in the public relations and marketing literature (Kotler and Lee, 2005; Maignan et al., 2005).

Different research studies have focused on clarifying and developing the concept but also on attitudes and reactions to CSR (Sen and Bhattacharya, 2001). The expectations toward the corporate social responsibility (CSR) are increasing and they have become an important driver of public opinion and reputation.

Also, looking through the definitions given to this concept CSR, ideas appear to have developed in contrasting ways in different parts of the world (Welford 2004 and 2005).

2. Corporate social responsibility (CSR)

Definitions of corporate social responsibility (CSR) first have appeared in USA in the 1950`s (Carroll 1991).

During the following years efforts have been made to clarify and develop this concept. The first definitions focused on the connection between `business responsibility` and `business power`.

By the 1980`s the focus shifted from developing new definitions to further research on CSR and his dimensions.

All these definitions have in common the idea of the stakeholder expectations and social preoccupation.

The basic idea is that no company can afford to act against society (Matten and Moon, 2005).

During the last years, interpretations have developed from a focused concept to a more broader to a more broadly conceived notion that attempts to combine and balance economic, social and environmental commitments as part of a drive towards sustainable development or sustainability (Acutt et al. 2004).

Therefore, the use of the term CSR has not been diminished and furthermore its core concerns have been recast into alternative theories, concept models and themes (Habisch and Jonker, 2005).

CSR refers to the contribution that the companies have to give to the development of the modern society.

Because of the various definitions given to this concept there are also a lot of interpretations.

They range from the neo-classical economics definitions to the definitions that embrace the idea that the company is a `citizen` that have social goals.

For the neo-classical perspective Milton`s Friedman view of CSR is: "to conduct the business in accordance with [owners' or

shareholders] desires, which generally will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in local custom" (Friedman 1970). He argues that only people can have responsibilities and not companies. An argument that sustains this theory is that there are a lot of empirical tests that could not find a direct relationship between CSR activities and the financial performance indicators in a company (e.g. Agle, Mitchell and Sonnenfeld, 1999). But there must be underlined the fact that it is very difficult to quantify the social corporate performance. This fact was highlighted also by Agle (1999): "The social corporate performance is famous because it is difficult to quantify".

Yet, in present the general tendency is to adopt the corporate social responsibility (CSR) concept, the critics of the Friedman's Theory sustaining that he had a narrowed perspective, focusing only on the business itself and not taking into account all the benefits that can be brought by the CSR activities.

Also in the literature are a lot of definitions, each of them illustrating the advantages of this concept.

The European Commission's definition of CSR is: "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

Also the European Commission presents the main obstacles in the development of CSR:

- insufficient knowledge of the relationship between CSR and business performance;
- insufficient knowledge of the CSR concept on the part of consumers and investors;
- the lack of a consensus concerning the general CSR concept arising from differences between Member States;
- insufficient emphasis on CSR in university education;
- lack of resources for actions to promote CSR in small and medium-sized enterprises (SMEs);
- a lack of instruments to communicate and administer CSR activities;

- a lack of a coherent strategy by public authorities.

Corporate Social Responsibility is part of the Europe 2020 strategy for smart, sustainable and inclusive growth. It can help to shape the kind of competitiveness model that Europe wants (European Commission).

More specifically, Jennings and Zandbergen (1995) analyze the role of institutions in shaping the consensus within a firm regarding the establishment of an "ecologically sustainable" organization.

Baron (2001) defines CSR as the "private provision of a public good." More importantly, Baron (2001) asserts that companies compete for socially responsible customers by explicitly linking their social contribution to product sales.

In Kotler & Lee's book (2005, p. 3), "corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources".

The same authors consider that "corporate social initiatives are major activities undertaken by a corporation to support social causes and to fulfil commitments to corporate social responsibility".

Table 1- Corporate Social Initiatives

Marketing Related Social Initiatives	Non- Marketing Related Social Initiatives
<ul style="list-style-type: none"> • Cause Promotions • Cause-Related Marketing • Corporate Social Marketing 	<ul style="list-style-type: none"> • Corporate Philanthropy • Employee Volunteering in the Community • Social Responsibly Business

Source: Kotler and Lee 2005

Also Kotler and Lee (2005, p. 22 – 24) describe the following initiatives:

Cause Promotions: A corporation provides different resources to promote a social cause or to support fundraising, participation, or volunteer recruitment for a cause.

Cause-Related Marketing: A corporation commits to making a contribution/donation to a cause based on product sales, usually for

a specific period of time and for a specified charity.

Corporate Social Marketing: A corporation supports a change campaign intended to improve public health, safety, the environment, or community well-being.

Corporate Philanthropy: A corporation makes a direct contribution to a charity or cause, most often in the form of cash grants, donations, and/or in-kind services. This initiative is perhaps the most traditional of all corporate social initiatives and for many decades was approached in a responsive, even ad-hoc manner, but more corporations are now experiencing pressures, both internally and externally, to move towards a more strategic approach, choosing a focus and tying philanthropic activities to the company's business goals and objectives.

Community Volunteering: A corporation supports and encourages employees, retail partners, and/or franchise members to volunteer their time to support local community organizations and causes.

Socially Responsible Business Practices: A corporation adopts and even conducts discretionary business practices and investments that support social causes to improve community well-being and protect the environment.

Kotler and Lee (2005:3-4) also list various causes that business's support in contributing beneficially to society, including:

- Health;
- Safety;
- Education;
- Employment;
- The Environment
- Community and Economic Development

Finally, a recent paper by Waldman, Siegel, and Javidan (2005) applies strategic leadership theory to CSR. They conjecture that some aspects of transformational leadership will be positively correlated with the engagement in CSR and that these leaders will employ CSR activities strategically.

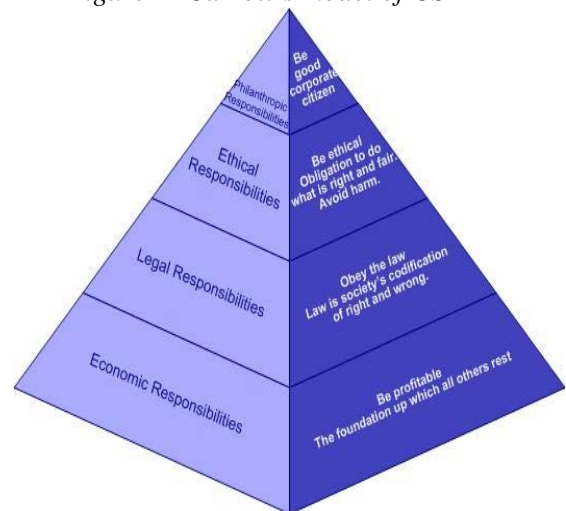
Despite a variety of different types of CSR definitions in the field of management and marketing (De Bakker et al., 2005; Maignan et al., 2005), the most widely accepted definition seems to be Carroll's (1979, 1991) which is often used both by the management

and marketing scholars (Abratt and Sacks, 1988; Aupperle et al., 1985; Maignan, 2001).

The reason for its acceptance can be that the CSR concept is really broad and problematic in terms of drawing up a definite list of issues which constitute CSR (Evuleocha, 2005).

Carroll (1979) defined CSR based on normative arguments and suggested that a company has to fulfill four main responsibilities. Hence, the definition encompasses "the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time" (Carroll, 1979, p. 500).

Figure 1- Carroll's model of CSR



Carroll's CSR Pyramid

Source: Carroll 1979

In the model proposed by Carroll (1979, 1991), the definition of the corporate social performance should comprise three articulated and interrelated aspects (1979, p. 499): a basic definition of the total social responsibilities of a company, an enumeration of the issues for which a social responsibility exists, and a specification of the philosophy of corporate response to social pressures ("social responsiveness").

Considering the first aspect mentioned, an exhaustive definition of corporate social responsibility should emphasize the whole range of social obligations a business has to society: economic, legal, ethical and philanthropic (discretionary) responsibilities.

These four types of social responsibilities form the concept of corporate social responsibility (CSR) in the vision of Carroll, and they should be analyzed together.

According to Carroll (1979, 1991), the corporate social responsibility is more than complying with economic and legal obligations; it also includes ethical and philanthropic responsibilities as another two dimensions.

3. Conclusions

Despite the multitude of possible approaches, we can identify a few main characteristics, based on which other concepts or attitudes can be defined. The following are the most important:

- CSR expects that organizations voluntarily carry out measures through which they can contribute to solving social and ecological problems;

- There is a strong connection between CSR and the concept of long term development, determined by the fact that organizations have to include the economic, the social and the environmental impacts in every one of their actions;

- CSR related actions are not an optional "accessory" for a business' main activity (mainly about the way in which business' are managed);

- CSR related actions are not just about simple money donations carried out through charitable events. The main difference between CSR and charity is that CSR includes the development of a strategy regarding the company's involvement and a partnership with the community, which can be of great benefit for the company;

- This way we can talk about a partnership from which every member has something to gain;

- The reasons why companies get involved in CSR programmes are selflessness, personal interest, commercial spirit, competitiveness, or any of these reasons combined.

I consider that corporate social responsibility is important for the company's success for at least three reasons:

1. it improves the organization's image because it has to adopt an ethical behaviour and create benefits for the society;
2. it improves the organization's image because it has to adopt an ethical behaviour and create benefits for the society;
3. during a crisis situation, the company will benefit from higher credibility;
4. the organization benefits from a different type of publicity.

CSR is becoming a priority for the managers of the Romanian companies and for the managers of companies around the world. The continuous development of companies with ethical, community and social boundaries is becoming more and more important in the global business culture.

Still, the sustained corporate development concept is controversial, by definition and by indicators used to measure the degree of corporate involvement or by efficiency of the CSR strategies and initiatives.

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Interest and Role of the Economic and Financial Analysis in the System of Management Sciences

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Abstract

The financial analysis is a discipline that belongs with accounting, management control, auditing, etc.. in the category of management sciences. This paper aims to highlight the importance of this discipline into the management sciences

Economic and financial analysis contribute to develop future professionals thought, to enhance their ability to understand complex economic and financial phenomena, supporting them in an effort to explain, scientific assessment, diagnosis and resolution of the various situations occurring in the enterprise.

Increasing the role of economic and financial analysis as an indispensable tool in the diagnosis and control functions of any economic unit, training and decision-making requires a systemic approach, presentation of factorial mechanisms, the casual intimacies of economic phenomena and processes. From here, we conclude that economic and financial analysis is a discipline of basic science management system, a performance management in any field of activity and an essential condition for development and implementation of decisions.

Key words: financial analysis, management science, financial analyst

J.E.L classification: M41

1. Introduction

Like all management disciplines financial analysis is in perpetual development.

The organization must have the ability to adapt to the economic environment and improve economic and financial performance. Thus, economic-financial analysis has the role of investigating economic phenomena and processes, to establish causal relationships, the factors that generate them and basing on this, taking decisions for future activities of the enterprise.

2. The meaning of financial analysis

„Economic and financial analysis is a set of concepts, techniques and tools that provide internal and external information processing, for formulating relevant assessments on the situation of an economic agent, the level and quality of its performance, the degree of risk in a competitive environment extremely dynamic.” [1]. Thus defined, financial and economic analysis integrates three meanings: analysis as a subject, analysis as a scientific research and analysis as practice.

The financial economic analysis contribute in knowing the efficiency of using human, material and financial resources by the knowledge of current forecast. Its complex character, based on the cause-effect relationship, comes from the following reasons:

- the same effect can be generated by different causes;
- different effects can be combined, giving a resultant complex actions or forces;
- intensity and complexity of cause can determine not only the intensity of the phenomenon, but also its quality

- in the analyzed phenomenon can appear characteristics which were not present in none of the phenomenon elements

- in the objective reality, the essential characteristics can be combined with the non-essential, secondary or incidental [2].

"Economic and financial analysis is above all a science of interpretation, interpretation based on a system of information to be collected, treated, processed. In terms of reliable and accurate information, pertinent formulation of value judgments depends on the extent to which the analyst knows the economic theory, knows the objective reality and the experience accumulated by it" [3]. According to Norbert Wiener's consideration "the concept of amount of information links in a quite natural way of [...] the concept of entropy. As the amount of information in a system is a measure of the degree of its organization, so the entropy of a system is the measure of the degree of disorganization, an equal one with the other taken with opposite sign"[4], we can conclude that the lack of information leads to the instability of the system and creates disorganization inside of it.

Users of financial and economic analysis is an important category in the communication process and information processing.

This category has varied over time being influenced by social, economic and cultural specific to each country. Thus, the information provided in the XIXth century economic and financial analysis mainly addressed leaders and business owners in our century, while its coverage area has expanded greatly.

The objectives of economic and financial analysis is highly complex, arising from the variety positions occupied by those who realized it and as a consequence, the diversity views and information they have access.

When the problem of analysis is made within the firm we have the internal financial and economic analysis. It is addressed to:
- managers, shareholders or employees and has as objective the detection of possible weakening of the financial situations in order to identify the origin and causes that have generated them and determining remedial measures. Because it is based on the entire system of information on business activities, internal analysis addresses issues regarding:

the size and structure of assets, performance, risk and provide the information necessary for business management decisions.

When the problem of analysis is made outside the company, we have the external review and its users will be: creditors, business partners, financial analysts, potential investors, or even the state. The classic example is the procedure used by banks for the study of loan requests of firms. On this occasion they follow the company's ability to pay its obligations and grants, in this context, particular consideration to enterprise value, liquidity and solvency of analysis.

Local or central government bodies use financial analysis, on one hand, for the knowledge of the situation of the enterprises which call for financial incentives, and secondly to determine their potential to pay taxes. Economic and financial analysis, is also an essential component in an expertise or a negotiation aimed at estimating the value of an enterprise during privatization, merger, sale of assets, stock exchange listing, etc. Evolution of economic and financial of analysis must adjust objectives or needs of different users. In this case, the analysis involves for the analysts in addition to accounting and financial management knowledge a certain subtlety in interpreting the figures reported for investigation.

Agreed consultants and auditors use the analysis as the working tool used in missions to inform and protect the legal fund providers and creditors.

3. The domains of financial analysis

To underline the importance of financial analysis, I will present in the following chart the users of the information:

Chart no.1

The users of financial – accounting information	Internal	Management of the company	
		Employees	
	External	The donors of the company: - stock donors (if publicly traded companies); - bank financing (enterprise resources come from bank loans); - public power by the quality investor in RAs; - other types of financing (leasing contracts).	
		Commercial partners: - suppliers - clients	
		Unions	
		The public	
		The state	

Areas of financial analysis in relation to its partners are presented in the following chart:

Chart no.2

Crt. No	Analys is type	The informat ion users	Decisions made based on the information
1	Strategic Analysis Performance review Analysis of financial position	The managers The boarding administration	Decision: Strategic Investment, Financing
2	Treasury Analysis Risk Analysis Profitability analysis	Investors	Decision to invest

3	Solvency analysis Risk Analysis Profitability analysis	Creditors	The decision to grant credits
4	Treasury analysis Solvency analysis Risk analysis on a certain field of activity	Suppliers	The decision to work with the analysed enterprise
5	Strategic Analysis Stability analysis (Continuing activity)	Clients	The decision for supplying The decision to sell Strategical decision
6	Stability analysis Analysis of human potential	State	Decisions on fiscal policy and economic policy
7	Stability analysis Analysis of company performance	Financial analysts	Fundamentat ion of strategic decisions

4. Economic and financial analyst job

Today economic and financial analyst profession plays an increasingly more important. Individuals with such expertise should be "a professional of figures who makes account speak" [5] thus providing a critical analysis of financial situation of the enterprise which would be the basis for the formulation of judgments about the business. The financial analyst may be regarded as one of the categories of users for financial accounting information. In the specialized literature they are considered an intermediate category because information processing and interpretation of financial accounting information is done for another customer [6].

Financial analysts are being employed in an enterprise, whether they services for banks, brokers, using specific tools to the analysis accounting and information obtained from accounting and extraaccounting sources.

In their work as a financial analyst, it must:

- to use the relevant accounting and financial documents
- to determine needs and objectives of business partners;
- to choose your specific analysis tools for the proposed object. These methods of analysis can be traditional or modern;
- to give importance to the processes of globalization of markets and harmonization of accounting;
- to show obedience to the rules of professional ethics and deontology.

The financial analyst must seek to meet the satisfying of informational needs for each category of users, because the elements of financial situation do not have the same relevance for all category of users.

When a company secures financing through banks, the analysis must address their needs through the study of debt repayment capacity of the enterprise. In this case we have a credit analysis.

Employees, customers, suppliers are interested in: the risk of bankruptcy of the company, their vulnerability and not least of ability to continue business operations.

The credit analyst relies primarily on traditional analysis tools, following the repayment capacity of the company. He calls for adjustments to present a real case of the activity of the enterprise, because synthesis documents usually show a flattering image regarding the financial position and the performances of the company.

From investors point of view, the analyst must play an intermediary role between the company and capital markets. In this case the financial analyst can be called market analyst. Market analyst with main concern the understanding and anticipating the market reactions, he uses traditional methods and technics (profitability, leverage, break-even), but also modern ones (indicators of value creation, strategic analysis).

Market analyst uses more complex information being demanding on quality. Therefore to eliminate errors from the analysts, the companies provide a permanent direct or indirect quality communication,

through annual analysis of financial statements, intermediate, press releases, interviews and providing information on investment policy, social policy, environmental policy , sector development, etc.

Financial communication is designed to produce information that meets users' expectations. It can be considered an opportunistic communication to generate a reaction from the business partners. In this case we can remember the impact that financial statements have in the day of their public presentation on the market: changes in stock performance, changes in the volume of transactions.

Since the strategies adopted by the shareholders and investors rely on the dualism financial communication - accounting figures, it is easy to understand why presentation modalities and creation of results is a key success factor obscuring true strategic objectives.

5. The report between the financial economical analysis and other management subjects

Management sciences is a set of theoretical practical knowledge on the behavior of organizations. Accounting, management control, audit and business strategy are part of management sciences.

Accounting, as a scientific discipline, locates itself in the science of management today, long after it has been regarded as a discipline of economics category. The new position resulted from the practical role of accounting which became a management instrument of business. Accounting and financial analysis always had a connection area. As we showed in the previous section accounting information is the essential basis of financial analysis.

Management control is defined in the specialty literature as the process by which managers ensure that resources are obtained and used with efficiency, effectiveness and relevance to business objectives. The present race for competitiveness is a challenge to management control that must become a tool for managing organizational performance. Management control has evolved from simple cost analysis based on the budget and then to a real flight deck of the economic

entity. Management control is defined today as a system of pilotage of the company that comes into all the decisional levels from an enterprise, combining information from several subjects. Financial analysis makes a vital contribution through financial variables in control of the company.

In practice diagnostic term is replaced with analysis and **audit**. This phenomenon is due to rise and extend of investigations to which the company is brought. Diagnosis shall not be confused with analysis even if its approach relies on this. The concept of audit has expanded even more as an effect of the trend in the financial economical language, and this is why the speciality literature recommends its use only for the situations in which there are made value judgements through norms, laws, etc (eg. quality audit, accounting audit) [7]. The audit means the professional examination of information in order to express a responsible and independent opinion through reporting to a quality criterion (standard, norm) in order to satisfy the needs of information users. The audit is intended to control financial information with a national utility, for leadership, and an external one for customers, banks, and other categories.

In a firm, audit and control are complementary. Thus, in all its steps, it has a contribution to the control of management control, because internal audit is intended to ensure the quality of information used by the controller. In addition, audit reports provide pertinent information about the appreciation of process functioning from the company in order to elaborate its projects. In turn, in carrying out its duties, the auditor may use by the information to financial analysis to determine weak points. Financial analysis is one of the facets of the audit.

"Enterprise strategy is the art of selecting and optimizing resources and means of any kind that he may have in order to achieve one or more objectives for progress by requiring competition venue, timing and conditions for the competitive struggle" [8]. From this definition we can consider the strategy as important as the production, commercial function, management function, not just as a technical discussion and planning for the enterprise. Financial analysis is a discipline of interpretation using information that must be

treated and handled before being interpreted. The increasing complexity of financial analysis of the company under the extend of competitive economy has profound implications in the process of adopting managerial decision-making which requires the abandonment of routine and use of scientific methods based on reality, in order to establish causal links between economic phenomena and the financial situation of the economic agent, regardless of ownership.

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Actual Tendencies of the Relation between Accounting and Financial Analysis

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Abstract

Accounting and financial analysis had always a connection zone. Especially in recent years, financial analysis adapted and improved its methods and study processes regarding synthesis accounting documents, which provide database and information required for financial diagnosis, as the main instrument for assessing the financial situation of the company. The theories presented in this paper endorse the affirmation that “the analysis is a particular discipline”. It must be based not only on financial and accounting information, but it must also take into account the environment of the company, and how it is managed. The trends and processes of the economy tend to trivialize the relationship between accounting and financial analysis, by limiting the role of analysis to identifying, collecting, treating and explaining the accounting material.

Key words: accounting, financial analysis, financial statements, accounting information
J.E.L classification: M40.

1. Introduction

The organization must have the ability to adapt to the economic environment and improve its economic and financial performance. Thus, the role of financial analysis is to investigate the economic phenomena and processes, to find causal relationships and factors that generate them. On the basis of these findings, the enterprise decides on future activities.

Financial analysis is an interpretative discipline, which uses information that must be treated and manipulated before being interpreted. The increasing complexity of financial activities, under the expansion of the enterprise competitive economy, has profound implications in the managerial decision-making process, which requires the abandonment of routines and use of scientific methods based on the reality, in order to establish causal connections between economic phenomena and financial statements of the company, regardless the form of ownership.

2. Classic report: financial analysis – accounting

According the Accounting law no. 82/1991, the accounting system applied to Romanian firms is formed by two subsystems: financial accounting and managerial accounting. This structure of accounting system generates a dichotomy. On a hand, financial accounting produces transparent information and, on the other hand, managerial accounting produces confidential information. Between the two disciplines, “managers do not make a clear separation, their treatment often is conjunct, financial accounting needing the information disposed by managerial accounting to establish the results” [1]. The functioning of the enterprise in a competitive environment requires a cost-effective management. This influences the results, as it intervenes in the process of cost analysis that provides to the managers the information necessary for decision making. The information provided by financial accounting is not sufficient for

the calculation of the costs and profitability of a company. In this new accounting system, the synthesis documents serve as tools to inform and develop the financial analysis.

The relationship between financial analysis and accounting focuses on indentifying the accounting as privileged source of information for the financial analysis. Hence, the common concern of specialists is to ensure the quality of information. However, new developments have shown, however, other key connections in the relationship between analysis and accounting, important for both practitioners and researcher. In this paper, we will focus, on highlighting of the relationship between analysis and accounting, emphasizing the connection point, the financial reporting.

Accounting reform in Romania began with the advent of the Accounting Law 82/1991 which targeted and aimed to improve the Romanian accounting system by adhering to principles and rules laid down by European directives, so that financial statements prepared by entities comply with the requirements of certain categories as range of users.

The position, financial performance, and management of any entity (public institutions, economic - commercial, administrative, etc.) necessarily require that their regular work is synthesized and subjected to an analysis of financial statements. As the art.10 of Accounting Law no.82/1991 (republished and modified) states "the official documents used to present the economic-financial situations of legal persons referred to in art.1 (companies, public institutions, associations and organizations, etc.) are annual financial statements, determined by law, which should provide a true financial position, financial performance and other information, related to their activity".

Financial statements are drawn from current accounts, which are audited trough the verification balance, prepared at least annually, or at the time of preparation of periodic financial statements.

Today, the objective of the accounting, according to IASC (International Accounting Standards Committee) can be defined as: "the objective of accounting synthesis documents of an enterprise is to present information regarding financial statements, performance

and evolution of financial statements, to be useful for a wide range of users in order to take financial decisions."

Information regarding financial situation is provided by the balance sheet, information regarding the enterprise's performance in profit and lose account, and information regarding the evolution of financial situation in the cash-flow. Thus, a great importance is given to the summary of accounting documents, known in literature as financial statements.

The rich background of financial statements makes them known as basic tools for managers at all levels. Considering their importance, P.A. Samuel, Nobel laureate in economics, stated "is absolutely important for the modern man to be initiated a little in the accounting items. All those working in the economy should be able to understand the two key surveys, to know the balance sheet and the profit and loss account." [2]

Financial analysis has the responsibility of interpreting and analyzing financial statements. By doing this, the financial analysis provides vital information in the decision-making process to the company's leadership and to other persons interested in this information. Regardless if this information is analyzed by the company's leadership, financial analysts or third parties, the goal of financial analysis remain the same – to provide important, reliable information which facilitates the decision-making process and rational grounds to foresee the future.

Financial statements are a complex of specific accounting summaries, situations, annexes, comparative calculations, also including the management's explanations. They are discussed and approved with signature by authorized bodies, audited and made public. These "formalizations" are meant to enhance the cognitive value of accounting information along with their capitalization in managerial and decisional processes.

The main purpose of financial analysis is to translate and interpret the firm's reality, to serve as the foundation of the resources-allocation decisions. The vision that prevails in the Anglo-Saxon view is the one of the investor, the investment decision. However, in credit-based economies, the financial analysis focuses on the elements of credit

analysis, often followed by specific procedures established at banking level.

One of the approaches is that the financial analysis is part of overall strategic business diagnosis. [1] The approach also touches upon the issue of the source of the information and of the connection with accounting. It analyzes the types of diagnoses and analysis topics, emphasizing the accounting norms relating to the specific analyzed area. The stages of overall diagnoses (economic, financial and strategic diagnosis) can be based on accounting information which is standardized, directly or indirectly by international norms. This brings in question the issue regarding their quality.

We consider that the relationship between financial analysis and accounting must be improved, and we bring as argument the model of financial analysis defined by Cohen: "a set of concepts, methods and tools that cover the accounting information and other managerial information in order to formulate a relative position regarding the financial statements of a company, regarding the risks which affect the entity, the level and the quality of its performance". [3]

3. Actual tendencies of the relationship between accounting and financial analysis

Based on the relationship between the two, we can define the accounting as the main provider of information for financial analysis, and the analysis as a specialized operation and recovery of accounting information.

Financial analysis, "in the acceptance of its basic component of the overall diagnosis, it is targeted towards the investigation of complex issues (global performance of the enterprise, its perennality), ultimately converging with the economic and financial objectives of any economic agent" [2].

We can consider the tendency of financial analysis to find new methods for the diagnosis of the company a normal trend in the current condition of a rapidly changing economy, and in the context of a new accounting system.

The approach cannot exclude the contribution of the accounting, as the information it provides has is irreplaceable in the diagnosis process. Cohen believes that we are dealing with a trend of emancipation of

the financial analysis on its accounting sources in the contemporary economy. According to Cohen, the factors that determine this emancipation are [4]:

- the development of financial markets which leads to the development of the portfolio management tools, based largely on statistical methods of analysis;

- the focus on prospective information in traditional analysis (like credit analysis in economies based on bank financing), which bases its predictions on economic, commercial, political, and social elements.

- economic information providers have a richer offer in today's business environment (financial databases, extra accounting), which relaxes the dependence on analysis of accounting source. The main purpose of financial analysis is to translate and interpret the reality of the firm, and to serve to strengthen the resource allocation decisions.

The studies made by Market Opinion & Research International (MARI), at the request of PricewaterhouseCoopers, regarding the information needed by two categories of user of financial analysis data (employees and investors), shows that companies have as a main purpose improving the result's presentations. Studies aim to encourage the firms to seek ValueReporting and were made for:

- June-July 1997. In this period were interviewed 102 investors and 107 analysts;

- September – October 1997. In this period were interviewed 108 members, managers of large British companies.

According to this study, two problems arise:

- large differences exist between the information needed by the analyst and by the investor. The investor is interested in results and cash-flows;

- there are errors in the information provided, especially for those related to market development, market share, etc.

According to data obtained in the study, the financial statements were satisfactory just for a quarter of those interviewed, the others considering them less useful. In conclusion, the information quality must be improved.

4. Extra accounting information and financial analysis

Accounting information produced by the enterprise, even though it constitutes the essential information for financial analysis, is not its only support. An assessment of the financial statements requires analyzing information both quantitatively and qualitatively. Thus, the financial analyst is forced to use the extra accounting information because accounting information only covers the financial aspects of the enterprise.

Even if is influenced by standardization and normalization, the accounting information is related to the past. We can say that it is not sufficient for making judgments about its future development and the company's performance. Thus, the financial analyst completes its accounting information with extra accounting and non-financial information, from the following sources"

- press releases;
- mass media.

The financial analysis tends to use the extra accounting and non-financial information, because they are more reliable and less standardized.

The main tool of financial analysis is the comparison of information. The reliability of its conclusions is dependent on the quality of information, but also on the experience and interpretation of the financial analyst.

5. Conclusions

Even if the accounting information does not cover the full economic reality of an enterprise, the financial statements remain a reliable source of information. The significance of the accounting information contained in the financial statements also increases when the information is used in the financial analysis.

By exploiting the data from the financial statements, the financial analysis provides the basis of financial information required by all users (internal and external).

The financial analysis can help prepare forecast financial statements, which will allow the assessment of the implementation of the long-term management decisions that may affect the company's financial position and its performance, thus providing a scientific basis for choosing the best strategy.

In order to search for new diagnostic tracks, we consider a normal financial trend analysis. Its approach cannot exclude the contribution of the accounting, information provided by the accounting.

Having an irreplaceable nature in achieving a diagnosis, the trend of the relationship between financial analysis and accounting is in a profound renewal.

6. Acknowledgements

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The Procedure for the Approval of Activities with Economic and Social Impact on the Environment

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Abstract

The problem of pollution and, thus, of environment protection, should be addressed within the broader context of the future economic growth model.

Given that in the environmental protection activity, the emphasis is on preventing unwanted detrimental effects of natural and anthropogenic components of the environment or the environment as a whole, the prior authorization procedure and, prior to it, the obligation to carry out a study on the consequences of human actions on the environment and the possible solutions to be taken in order to reduce or eliminate their effects, are particularly effective legal means for the achievement of sustainable development objectives.

Therefore, impact assessment procedure is a process in accordance with the national environmental legislation, which requires that public and private projects regarding activities with significant environmental impact by their nature, size or location, undergo an assessment process of their effects before the issue of an environmental approval.

Key words: Sustainable Development, Environment, Environmental permit, impact

J.E.L. classification: K 32

1. Introduction

In this area, so sensitive to environmental protection assurance and nature conservation, the legal techniques have evolved significantly over time.

Starting from the idea that it is better to prevent environmental damage than to repair the damage already caused, the

environmental impact assessment procedure of economic and social activities (assessment which is at the basis of the authorization and operation of these activities) emerged and asserted itself. The assessment of potential environmental consequences and the development of measures aimed at eliminating or reducing their allowable limits have become mandatory for social and economic activities, so that future generations can enjoy a healthy and clean environment.

2. The Matter Seat

The restructuring of agriculture, the rational use of energy and of industrial production according to the model offered by nature are imperiously necessary in order to meet the imperative for sustainable economic development. In industry, it is necessary to develop processes which efficiently use materials and energy, which take advantage of secondary products and which generate small amounts of waste. In its turn, agriculture will have to be based entirely on free services provided by ecosystems and thus give up to the almost exclusive dependence on man-made substitutes. Finally, in all systems, products and services prices should reflect the environmental costs of their provision (currently, a country's overall national product does not reflect the consumption of forests, wildlife, reservoirs, potable or fresh water reserves and soil or ecosystem services - maintenance of soil fertility, rainfall storage, air filtration and climate regulation - despite the fact that their loss can lead to high costs).

In this context, the regulation on the prevention, reduction and integrated control of pollution in our country, amended by Emergency Ordinance no. 152 of 10 November 2005 concerning integrated

pollution prevention and control, plays an important role (published in the Official Gazette no. 1078 of 30 November 2005, approved with amendments by Law no. 84 of 5 April 2006, published in the Official Gazette no. 327 of 11 April 2006).

The intertwining dependence and completion of elements of different branches of environmental law, administrative law, community law, constitutional law, civil law and criminal law is obvious, highlighting the complexity of the administrative act, be it legal or individual.

The precautionary principles for taking the environmental decision and the principle of preventing ecological risks and damage production (article 3 of the amended Ordinance no. 195 of 2005 on environment protection) are at the basis of the authorization procedure.

As part of the authorization procedure, the assessment of the impact on the environment is a process by means of which it is identified, described and set, according to each case and in accordance with the law in force, the direct and indirect synergistic, cumulative, main and secondary effects of a project on human and environment health.

If the main cause of ecosphere degradation depends upon the forms of production and consumption of the industrial society, then the solutions must be sought from the perspective of economic positions, but without undersizing the importance of other social, moral, cultural agents and, last but not least, the importance of means offered by positive rights.

An original objective of this procedure lies in its contribution, more or less efficient, to the integration by the public and private decision makers of the environment within their action strategies, in order to avoid the irreparable degradation of the environment by their works and activities. Therefore, this impact study has a twofold purpose, corresponding to the application of two fundamental principles of environmental law:

- the principle of prevention and
- the principle of sustainable development.

The principle of prevention is the oldest of the principles of environmental law. In the face of ecological disaster, and in order to prevent it happening again, States must

provide prior authorization and planning for forecasting activities and formulating programs. But prior planning and automation are not sufficient and safe for taking into consideration the effects of projects upon the environment. Thus, even if those who are responsible think about the consequences of their acts on the environment, the absence of a detailed study would seriously preclude the acknowledgement of environmental requirements.

That is why the impact assessment, as a formal and organized procedure, emerged as an essential element which is necessary in order to ensure that protection becomes a reality and that it does not remain a mere declaration of intent.

Sustainability (development that meets present needs without compromising the ability of future generations to meet them on their own; see Ernest Lupan Dicționar de protecția mediului, Lumina Lex Publishing House, Bucharest, 1997, p. 99) is the most recent of the principles of environmental law. The requirement for the integration of the environment into sectorial policies needs a legal instrument called impact assessment, which has to be applied to both plans and programs and works and activities. The integrated environmental approach can be achieved only through comprehensive institutional approaches, allowing the environment to be represented in all decision-making and administrative structures, and, due to an impact assessment procedure, to be inserted in all decisions affecting the environment. This mixture of the objective of sustainable development and the prevention objective transforms the impact assessment (the main legal instrument of scientific and environmental policies, which basically expresses the requirement that an applicant seeking an environmental permit has to ensure the performance of an impact assessment of the effects of his/her project upon the environment and the possible solutions to reduce or eliminate any inconvenience; Lupan Ernest, op. cit., p. 208) into a very effective instrument of protection proceedings.

The amended Emergency Ordinance no. 195 of 2005 on environmental protection defines the environmental impact assessment as the quantification of the effects of human activity and natural processes on the

environment, health and human safety and on property of any kind.

The impact assessment institution endorses, in principle, the requirement that the person applying for an administrative permit ensures the execution of an assessment of the project impact on the environment and, thus, four main elements are considered:

1 – the analysis of the initial state of the site and its environment (the inventory of what exists);

2 – the assessment of the potential effects due to the impact on the site and on the environment;

3 – social and economic justification; it can be supplemented with additional requirements by special provisions of normative acts.

The environmental impact assessment is a mechanism which allows competent authorities to take a determinant decision. As a specific instrument, the impact assessment fulfills the following purposes:

a) allows the administrative authority which must approve the project to do so knowingly;

b) helps the person in the charge with the work to lead the operation designed in the best conditions;

c) is a study of the consequences that the project may have on the environment.

This procedure is particularly prevalent in all countries, being adequately regulated by national laws and representing the subject of a significant administrative practice.

All States which have environmental regulations quasi-automatically integrate the provisions on impact assessment.

The study refers to the authorization of economic and social activities with an impact upon the environment, including the procedures for establishing environmental obligations with regard to the need of promoting, among administrative authorization acts, clean technologies, the changing of patterns of production and consumption for the sustainable use of materials and energy resources and of reducing the negative impacts on the environment and human health.

The Administrative act becomes an regulatory administrative act (environmental permit, integrated environmental approval/ permit, environmental agreement etc.); it is

issued by the authorized bodies on environmental protection and, for those who are directly/ indirectly interested, and, at this moment, those whom the administrative act is issued are responsible for the compliance with the measures imposed by it; it is also necessary to maintain the cooperation between the issuer and the person who benefits from the act, in order to achieve the desideratum of "A clean Romania".

3. Conclusions

At the end of the study we are bringing a series of legislative suggestions that would be necessary in order to improve and streamline the environmental protection activities in our country:

1. The amendment of Art. 7, paragraph (1) of Government Emergency Ordinance 152/2005 on Integrated pollution prevention and control: although the integrated environmental authorization is issued by Regional Environmental Protection Agencies, its annual authorization (according to the amended Emergency Ordinance no. 195 of 2005) has to be carried out by the County Environmental Protection Agencies, the latter knowing better the conditions and status of the environmental factors on the site of the approved establishment.

2. The establishment of a procedure in case the holder of an activity with environmental impact is changed, because the Government Ordinance no. 195 of 2005 specifies in article 15 that, in this case, the Environment Permit, the Environmental Balance and the Compliance Program that is part of the environmental permit should be revised; the Order MMGA no. 876/2004 on the approval of the authorizing procedure of the activities within an impact upon the environment, mentioned in article 23 that the environmental permit is transferred to the new owner, without incurring the environmental revision provided for in the law for environmental protection.

3. Although it is desired to simplify the procedure for issuing environmental agreements for investments affecting the environment, the terms provided for in MAPM Order no. 860/2002 on approving the Procedure for environmental impact assessment and for issuing the environmental agreement, cause the procedure for issuing

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The Accountant Instrumentation of the Tangible Fixed Assets for the Companies in the Construction Field

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Abstract

The paper approaches the problems of tangible fixed assets. We consider pertinent such a research, even if the accountancy of tangible fixed assets in the constructions field does not differ from their accountancy for other firms with different activity field, in the case of firms in the constructions field we encounter tangible fixed assets specific to this entity, such as scaffold and falsework and also documents found in the accountancy of these firms such as the sheet of the equipment daily activity.

Key words: constructions, tangible fixed assets, scaffold and shuttering, the sheet of activity

J.E.L. classification: M41

1. The notion of tangible fixed assets in the specialised literature

In the European perspective, the International Standard of Accountancy IAS 16 „Corporal assets” [6], which describes the accountant treatment applicable to tangible fixed assets and defines them as being those assets which are owned by a company in order to be used in the production of goods or the service in order to be rented to third parties or in order to be used for administrative purposes and it is possible to be used in several periods.

The generic term of tangible fixed assets (also called tangible assets) is used in order to generally identify those assets especially used in the production activity from which the company will benefit on a longer period than 1 year. The term „corporal” or

„tangible” makes the difference from non-corporal assets which are assets without a physical substance or whose value cannot be entirely indicated by their physical existence.

There are authors who define the immobilised assets from the investment point of view, the different aspects of immobilized assets being treated in the economic literature especially separately, on sub-categories of immobilised assets, or from only one point of view, either the accounting or the legal one, that is why we consider that such a paper is useful, because it combines all the aspects, representing a complete guide for the investor [1].

The normalization of the accounting aspects regarding the tangible fixed assets was achieved by the international organization which normalizes the accounting information, beside IAS 16 „Corporal assets” and in the framework of other standards:

- IAS 23 „The loan costs”, the costs components;
- IAS 39 „Financial instruments, recognition and evaluation”;
- IAS36 „The assets depreciation”;
- IFRS5 „Immobilised assets owned for sale and interrupted activities”;
- IAS17 „Leasing Contracts”;
- IFRS5 „Non-current assets owned with the purpose of transaction and activities abandonment.

A problem connected to the tangible fixed assets and which must be analysed is related to the real estate investments. Thus, IAS 40 „real estate investments” defines the real estate investment as being that real estate property (a land or building or part of a building – or both of them) owned (by the

owner or the lodger on the basis of a contract of financial leasing) rather with the purpose of renting or for the increase of the capital value or both of them, than to be sold during the normal course of activity [6]. Nevertheless, IAS 16 „tangible fixed assets” excludes from its application area the real estate investments, highlighting that these real estate investments could be treated according to IAS 16 only if the cost based model is applied, meaning that after the admission as asset, an element of tangible fixed assets must be accounted at its cost minus any accumulated amortization and any losses accumulated from depreciation.

In the continental perspective regarding evaluation, it is considered that in order to be recognized, the asset must be able to be assessed. The input of tangible fixed assets in a company can be done by several possibilities: classical acquisition, own production, leasing contracts, valorisation, exchange with other assets, share to the social capital or donation. The most frequent way of tangible fixed assets input is acquisition; in this case the cost is the value of the respective good which is registered in accountancy (IAS 16 „an element of the tangible fixed assets which is recognised as asset must be initially measured at its cost”).

In the British perspective, in the case of tangible fixed assets, it must be highlighted that the ownership criterion is not retained in order to define them, these containing owned goods (used) by the companies (lodger) in the location-financing contracts, the following are included in this category: land and buildings, plant and machinery, fixtures, fittings and equipment, payments on account and assets in course of construction.

In the British perspective, important stipulations regarding the evaluation of the assets and not only, can be found in the Companies law (CA 85) where the historical cost is retained as main evaluation method.

The tangible fixed assets, as a general rule, are accounted at the historical prize but the British companies can account them at their real value, only the lands are usually registered at their real value because the buildings must be amortized at their accounting value. Concerning the lands and buildings, there is a difference between „freehold property” and „leasehold property”. The first category of buildings

(built on the owned lands) is amortized on the service time of 40-50 years.

For the other tangible fixed assets (cars, fittings, plant, means of transport), the amortization calculated on the economic service time, the period applied to the difference between the acquisition cost and the residual value, the most frequent amortization method is the linear method.

In the American accountancy, there is no norm specifically dedicated to the accountancy of these category of assets, notions regarding the tangible fixed assets can be met in several texts. By analysing these texts, we can observe the different conception towards the notion of real estate heritage, if in the French system, the concept of heritage is based on the legal property of goods, in the American system, it is based on the concept of economic control, which makes the goods which came in by a location-financing contract to be part of the fixed assets.

Regarding the evaluation of tangible fixed assets, in the American perspective, the basic rule is that the assets are assessed at the acquisition cost. The self-cost (the production cost) of the tangible fixed assets developed by the company or the retained expenses having in view their maintenance must be estimated according to the income they generate. The methods used for the cost determination are: the acquisition cost, the right value, the actual value of the expenses retained for the acquisition of the tangible fixed assets and the right value of the goods offered in exchange of the received assets.

We must assign certain aspects connected to tangible fixed assets and the fact that all the expenses retained on the occasion of their entrance, putting into service of the asset are incorporated in their cost and its evaluation is achieved at the historical cost. The demolition and arrangement costs of the land bought for the execution of buildings are part of the land cost; the lands are not the object of amortization.

2. The definition of the tangible fixed assets in the national legislation

The national legislation in force [5] envisaged the same definition of tangible fixed assets, adding a supplementary condition, so that an asset is recognized

as tangible fixed asset, it should have an input value higher than the limit predicted by the law (at present the minimal limit is 1800 lei).

According to the accountant regulations applicable in Romania [7], the tangible fixed assets include:

- land and land organisation;
- buildings;
- technical equipments, means of transport, animals and plantations;
- Furniture, office automation, equipment protecting the human and material values and other fixed assets.

The most used category of tangible fixed assets in the case of construction companies being that of technical installations and means of transport.

Because the main basic requisites so that an asset should be recognized, it should generate some future benefits and be owned by the company, we endorse to the opinion of IAS 40 that the recognition of the assets investment owned by the company and which are generators of income should be recognized as assets.

A tangible fixed asset recognized as asset, according to the legislation in force, must be initially assessed at its determinant cost according to the legislation in force, in terms of the acquirement form [7]:

- for the acquired tangible fixed assets, the initial evaluation is done at the acquisition cost;
- in the case when they are obtained by production, the assets will be registered at production cost;
- in the case of those brought as capital share, the registration is achieved at the share value;
- For the assets received for free, the registration is achieved at right value.

The evaluation of the tangible fixed assets, according to the legislation in force, is achieved on the following moments:

- On the moment of the recognition suspension, meaning at the date of getting out of the heritage, the evaluation of assets is achieved at input value, which is equivalent to their subtraction from inventory. The moment of the recognition suspension comes when an asset is completely amortized and it is taken out by cassation or in the moment of its sale.

- On the occasion of stock-taking, the assets evaluation is performed at actual value, also called inventory value.
- On the moment of closing the exercise, the evaluation is performed at heritage input value, namely, the accountant value which is in accordance with the inventory value.

3. Peculiarities concerning the tangible fixed assets in the construction field

The construction units generally assess the tangible fixed assets entered in inventory at acquisition cost and very rarely at share value or production cost.

The acquisition cost is applied in the case of tangible fixed assets acquired from suppliers by onerous title and it is equal to the purchase price, to which we add the customs taxes, the irredeemable taxes and the other expenses directly connected to the start up of these ones (transport, storage, handling, mounting expenses and other necessary accessory expenses for their start-up at optimal parameters).

The tangible fixed assets used in the production process are specific to the developed activity:

- Machines and equipment for digging and preparation of the ground, which have a normal service time between 4 and 8 years;
- Bulldozers, ditch and cavities diggers with a useful duration of service time between 4 and 8 years;
- Excavators under 150KW have a normal exploitation period between 4 and 8 years and those over 150KW between 6 and 10 years;
- Machines and equipment for infrastructure have an amortization period between 4 and 8 years, except the compressed-air hammers which are amortized on a period between 2 and 4 years;
- Pan mixers and pug mills are amortized in a period between 2 and 4 years;
- Machines, equipment and installations for stonework, coating, finish, casing have a normal service time of 4 to 8 years, an exception being the portable mechanical tools (electric, pneumatic and hydraulic) which are amortized in 2-4 years.

The analytic accountancy of machines, installations, apparatus and control means is performed in the same way as for the other companies in the asset sheet. Specific for the construction companies is that by the end of each month, you should attach at the sheet of each equipment or installation an „Operation report” in which there are presented according to the type of tangible fixed asset, the following:

- for the machines and equipment for digging and preparation of the ground, the number of active hours operation with the specification of the number of loads-unloads every day, the number of break hours of these ones and the stipulation if the break was a normal one or from other reasons;
- for bulldozers the number of operation hours and the number of kilometres;
- for excavator, the number of operation hours and the number of rotations for load-unload;
- pentru rabe, bascule și alte mijloace de transport similare, se specifică atât numărul de ore de funcționare, numărul de basculări cât kilometrii parcurși.
- For trucks, weighing machines and other similar transport means, it should be specified both the number of operation hours and the number of overturning and the kilometres covered.
- For all the others, the number of operation hours.

For all these, there is the daily activity sheet (DAS) drawn by the manipulator of the equipment or machine, it is approved by the end of the day by the technician of the equipment park. Likewise, he registers on each DAS the number of litres and the type of the used fuel, the number of litres of engine and gearbox oil, the completed brake fluid, he also calculates the real consumption for each transport means separately, the number of break hours and the reasons of the break, if there were any repairs and what parts were used.

Besides the tangible fixed assets common to other branches of the national economy, in the category „technological equipments”, in the case of the construction field, we also encounter a specific category of this one, shuttering and scaffolds. Even if by their denomination, they send our thought to the

constructing elements which are used only once, then we do not use them, these elements specific to the construction activities are not consumed at their first use: the carpenter shuttering and scaffolds are made of wood which will be used at least 3 or 4 times, the scale boards are used 20-30 times until they must be replaced, the sliding formwork can be used up to 100 times [2].

The formwork is a wooden or metallic pattern in which a material is poured in its fluid shape in order to harden in the desired form. The use of formworks leads to the execution of two processes specific to constructions:

- Concrete forming supposes the mounting of formworks during the execution works of the monolith concrete;
- Striking is the operation of removing the formworks after the concrete hardened and got the desired form and resistance.

Among the tangible fixed assets, there are the following formworks types:

- Sliding formworks are used at the execution of steel concrete or prestressed walls or for the mixed masonry and it results from the combination of wooden or metallic formworks and metallic frames, hydraulic pumps and lifting gear.
- Pneumatic formworks are used for the construction of sewage pipes;
- Planar metallic formworks are made of metallic panels with big plan surfaces;

The scaffold is an auxiliary temporary construction made of wood or metal, serving as support for equipment or workers who work at height. In the category of tangible fixed assets there are the following scaffold types:

- Exterior fixed scaffolds used for the execution of high exterior facades for plastering, paintings and other operations;
- Self-lifting scaffolds which are electrically operated.

According to the data centralised from the construction companies we have analysed, this category of tangible fixed assets are included, according to the Catalogue concerning the classification and normal service time of the assets in the category „equipment, devices and instruments used in constructions” (classification code 2.1.20),and they have normal service time between 2 and 4 years [5].

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Brands and Brand Equity

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Abstract

Nowadays brands have become significant drivers for product purchasing and usage decisions. Thus, they constitute a substantial intangible asset for most companies. In order to gain customers and make them become loyal, firms have to establish the equity of the brand and present it in a clear and visible way to their target market. Therefore the topic of brand equity plays a major role in the creation and development of product and company brand strategy. The paper focuses on some general information about the brand and discusses the two stages of defining the brand, where one can find new elements that lead to brand equity. The purpose of this article is to present the main issues pertaining to brand equity and to analyze the customer-oriented and the market performance-oriented perspectives of brand equity.

Key words: brands, brand equity, marketing perspective, financial accounting perspective.

J.E.L. classification: M310

1. From products to brands; from identity to differentiation

It is important to contrast a brand with a product. A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a need or want. Thus, a product may be a physical item, service, a shop, person, organization, place or idea. The brand, on the other hand, is a product that adds some dimensions that differentiate it in some way from other products designed to satisfy the same need. These differences can be rational or tangible – related to product performance of the brand or more symbolic, emotional and intangible – related to what the brand represents.

There are two important stages in defining the brand. The first one refers to its function as an identifier while the second one introduces new elements which lead to the concept of brand equity.

The American Marketing Association (AMA) defines the brand as "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors". Within this view, as Keller (2003) says, "technically speaking whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand". He recognizes, however, that brands today are much more than that. As can be seen, according to these definitions brands had a simple and clear function as identifiers.

The second stage deals with concepts such brand loyalty or brand image. Brand loyalty is the result of the brand's presentation of a level of quality which makes the satisfied customers to repurchase the product. Loyalty offers anticipation and prevents other companies from entering the market.

Kapferer (1997) mentioned that "the brand is a sign - therefore external - whose function is to disclose the hidden qualities of the product which are inaccessible to contact". The brand initially served to identify a product and to distinguish it from the competition. The shift in focus towards brands began when it was understood that they were something more than mere identifiers. Brands, according to Kapferer, serve eight functions: the first two are mechanical and concern the essence of the brand: "to function as a recognized symbol in order to facilitate choice and to gain time"; the next three are for reducing the perceived risk; and the final three concern the pleasure side of a brand. He adds that brands perform an economic function in the mind of the consumer, "the value of the brand comes

from its ability to gain an exclusive, positive and prominent meaning in the minds of a large number of consumers". Therefore branding and brand building should focus on developing brand value.

The Functions of the Brand for the consumers are [2]:

- Identification – to be clearly seen, to make sense of the offer, to quickly identify the sought-after products.
- Practicability –to allow savings of time and energy through identical repurchasing and loyalty.
- Guarantee –to be sure of finding the same quality no matter where or when you buy the product or service.
- Optimization - to be sure of buying the best product in its category, the best performer for a particular purpose.
- Characterization - to have confirmation of your self-image or the image that you present to others.
- Continuity - Satisfaction brought about through familiarity and intimacy with the brand that you have been consuming for years.
- Hedonistic - Satisfaction linked to the attractiveness of the brand, to its logo, to its communication.
- Ethical - Satisfaction linked to the responsible behavior of the brand in its relationship towards society.

2. Brand Equity

An emerging debate started to address whether brand equity should be analyzed from a consumer-oriented or a market performance-oriented perspective. Motomeni and Shahrokhi (1998) presented this disagreement and they identified two opposing viewpoints: the marketing perspective and the financial accounting perspective.

There have been two general motivations for studying brand equity. One is financially based motivation to estimate the value of a brand more precisely for accounting purposes - in terms of asset valuation for the balance sheet or for merger, acquisition or divestiture purposes. A second reason for studying brand equity arises from a strategy-based motivation to improve marketing productivity. Given higher costs, greater

competition, and flattening demand in many markets, firms seek to increase the efficiency of their marketing expenses.

As a consequence, marketers need a more thorough understanding of consumer behavior as a basis for making better strategic decisions about target market definition and product positioning. Perhaps one of the firm's most valuable assets for improving marketing productivity is the knowledge that has been created about the brand in consumers' minds from the firm's investment in previous marketing programs. Financial valuation issues have little relevance if no underlying value for the brand has been created or if managers do not know how to exploit that value by developing profitable brand strategies. [1]

The practice of branding has been conducted for centuries as a means for producers to distinguish their goods against those of competitors by creating a recognizable and memorable image. Farquhar (1989) states "A brand is a name, symbol, design, or mark that enhances the value of a product beyond its functional purpose". The term brand equity first came into wide spread use in the 1980s and was defined as "The „added value" with which a brand endows a product." [4]. This definition, served as the springboard of future research.

Aaker defined brand equity as "a set of five categories of brand assets (liabilities) linked to a brand's name or symbol that add to (subtract from) the value provided by a product or service". He presented in his model the five dimensions of brand equity: a) brand awareness; b) brand perceived quality; c) brand associations; d) brand loyalty; and e) other proprietary brand assets, such as patents, trademarks and channel relationships. Aaker considers these dimensions the main bases for brand equity measurement. This conceptualization focuses only on the consumer oriented perspective and does not take brand market performance into account.

One of the first critical articles of brand equity Feldwick (1996) finds that the term brand equity has three different meanings depending on the instance of use. At any one time brand equity can be used to refer to brand description (consumer associations with the brand name), brand strength (similar

to Aaker as a measure of relative consumer demand for the brand), and brand value (to set a price of the brand for when it is sold). Feldwick argues that brand equity is a vague concept especially due to its lack of measurability and application in the business environment.

As Feldwick was contending against brand equity, Kotler et al. (1996) were supporting the conclusions of Farquhar and Aaker by defining brand equity as "The value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships." Kotler did not directly counter the assertions of Feldwick, but gave a highly credible voice to the validity of the topic subject.

Aaker's subsequent work (1996) added to his earlier findings, making the model more encompassing of different markets with modifications based on updated research. This debate continued as Ehrenberg (1997) built upon earlier arguments against brand equity by reasserting the lack of tangibility and clear definition of the concept. He argued that high brand equity is due to large sales and a sizeable advertising budget, since consumers are more likely to favor the larger brand names. However, Baldinger and Rubinson (1997) argued against the assertions of Ehrenberg by showing research that customer attitudes can be measured with some level of validity and that brands (large or small) do show a decrease in strength when observed over a long period of time.

Other authors have also tried to provide some insight and credence to the field of branding and brand equity by reducing the ambiguity in the term and misinterpretation regarding the use of similar terms. Faircloth, Capella and Alford (2001) developed a stage model that shows the attitude consumer's form regarding a brand leads to the image the brand takes in their mind. Brand attitude does not fully explain brand equity, but rather contributes to the framing of a brand image, which will lead to positive or negative brand equity. Moving from one stage to the next does not involve a full transfer of beliefs and feelings, but rather they lead to the full development of a brand in the mind of the consumers.

Winters (1991) connected brand equity to added value and suggested that brand equity involves the value added to a product by consumers' associations and perceptions of a particular brand name. Aaker (2004) also stated that brands "provide value to the customer by enhancing interpretation and information processing, confidence in decision making, and use satisfaction; and provide value to the firm by enhancing efficiency and effectiveness of marketing programs, brand loyalty, prices and margins, brand extensions, trade leverage, and possessing a competitive advantage. Such conceptualization shows that the brands offer value both to customers and to companies.

Simon and Sullivan (1993) defined brand equity as "the incremental discounted cash flows that would result from a product having its brand name in comparison with the proceeds that would accrue if the same product did not have that brand name". Their conceptualization is based on a financial accounting perspective, considering brand market performance, without emphasizing consumers' attitudes towards the brands. The financial based methods use estimation techniques to determine the incremental cash flows which accrue to the firm through their branded products.

The ones who are in favor of the financial accounting perspective argue that it incorporates both macro and micro approaches. The macro approach assigns an objective value to a company's brand and related this value to the determinants of brand equity, while the micro approach isolates changes in brand equity at the individual brand level by measuring the response of brand equity to marketing activities. Therefore, they consider that the financial markets do not ignore marketing factors, and stock prices should reflect marketing decisions. [3]

The literature review reveals further that brand equity provides value for both the customer and the firm. Brand equity creates value to customers by enhancing efficient information processing and shopping, building confidence in decision making, reinforcing buying, and contributing to self-esteem. Brand equity creates value to firms by increasing marketing efficiency and effectiveness, building brand loyalty, improving profit margins, gaining leverage

over retailers, and achieving distinctiveness over the competition.

Brand equity offers certain strategic benefits to companies. It is important for adding line extension. When a product category has entered the decline stage of the product life cycle, strong brand equity can help a brand survive longer than its competitors. Likewise, in periods of economic downturn, brand equity provides a platform that keeps the brand afloat at a profit long after competing products without strong brand identification begin to flounder. The power of brand equity is especially important in international marketing. Global brands have international presence and visibility, and this "equity" makes it easier for them to expand. Brand equity is also what enables branded products or services to charge premium prices. Many major brands are positioned as quality products, and many people are willing to pay more for a quality product they are familiar with, particularly if the brand has an image with which they would like to be associated. The challenge is to find the point where the premium price is still acceptable in exchange for the confidence embedded in the brand. [12]

In conclusion one could state that brand equity helps to differentiate the product from competitors' offerings; serves as a proxy for quality and creates positive images in consumers' minds; presents market share erosion during price and promotional wars; and prevents market share erosion by giving a firm time to respond to competitive threats.

3. Customer-based brand equity

The basic premise with customer-based brand equity is that the power of a brand lies in the minds of consumers and what they have experienced and learned about the brand over time. The advantage of conceptualising brand equity from the consumer's perspective is that it enables managers to consider specifically how their marketing program improves the value of their brands. Though the eventual goal of many marketing programs is to increase sales, it is first necessary to establish knowledge structures for the brand so that consumers respond favorably to the marketing activity of the brand. [1]

Keller defined "Customer-Based Brand Equity" as "the differential effect of brand knowledge on consumer response to the marketing of the brand". There are three key ingredients to this definition: 1) differential effect, 2) brand knowledge, and 3) consumer response to marketing. First, brand equity arises from differences in consumer response. If no differences occur, then the brand can essentially be classified as a commodity or generic version of the product. Second, these differences in response are a result of consumers' knowledge about the brand. Thus, although strongly influenced by the marketing activity of the firm, brand equity ultimately depends on what resides in the minds of consumers. Third, the differential response by consumers that makes up the brand equity is reflected in perceptions, preferences, and behavior related to all aspects of the marketing of a brand [1].

Further, Keller identified streams of research that attempted to formally conceptualise brand equity: a) psychology-based approaches; b) economics-based approaches and socio-cultural approaches. The first type adopts associative network memory models, where a given brand is depicted as a node surrounded by different associations. The Economic-based approaches centered on the role of credibility as primary determinant of Customer-Based Brand Equity. It is argued that brand reduce consumers' uncertainty by lowering information costs and perceived risks. Socio-cultural-based approaches refer to elements such as brand communities and brand relationships [1].

Conceptualising brand equity from the consumer's perspective is useful because it suggests both specific guidelines for marketing strategies and tactics and areas where research can be useful in assisting managerial decision making. Two important points emerge from this conceptualisation. First, marketers should take a broad view of marketing activity for a brand and recognise the various effects it has on brand knowledge, as well as how changes in brand knowledge affect more traditional outcome measures such as sales. Second, markets must realise that the long-term success of all future marketing programs for a brand is greatly affected by the knowledge about the brand in memory that has been established by

the firm's short term marketing efforts. In short, because the content and structure of memory for the brand will influence the effectiveness of future brand strategies, it is critical that managers understand how their marketing programs affect consumer learning and thus subsequent recall for brand-related information [1].

A brand is said to have positive (negative) customer-based brand equity when consumers react more (less) favorably to a product and the way it is marketed when the brand is identified as compared to when it is not. Thus, a brand with positive customer-based brand equity might result in consumers being more accepting of a new brand extension, less sensitive to price increases and withdrawal of advertising support, or more willing to seek the brand in a new distribution channel. Customer-based brand equity occurs when the consumer is familiar with the brand and holds some positive brand associations in memory. Favorable consumer response, in turn, can lead to enhanced revenues, lower costs, and greater profits for the firm [1].

Brand knowledge is the key issue in creating customer-based brand equity. Brand knowledge can be conceptualised as consisting of a brand node in memory with a variety of brand associations. Brand knowledge is composed of 1) brand awareness, which relates to consumers' ability to recognise or recall the brand and 2) brand image, which consists of consumers' perceptions of and associations for the brand. Building brand awareness requires repeatedly exposing consumers to the brand as well as linking the brand in consumer memory to its product category and to purchase, usage and consumption situations. Creating a positive brand image requires establishing strong, favorable and unique associations for the brand.

Brand awareness is related to the strength of the brand node in memory, as reflected by consumers' ability to identify the brand under different conditions. Brand awareness consists of 1) brand recognition reflecting the ability of consumers to confirm prior exposure to the brand and 2) brand recall reflecting the ability of consumers to retrieve the brand, when given the product category, the needs fulfilled by the category, or some other type probe as a cue. Brand awareness

can be characterised according to depth and breadth. The depth of brand awareness concerns the likelihood that the brand can be recognised or recalled and the breadth of brand awareness relates to the variety of purchase and consumption situations in which the brand comes to mind [1].

Brand image is defined as consumer perceptions of a brand as reflected by the brand associations held in consumers' memory. Brand associations are informational nodes linked to the brand node in memory and contain the meaning of the brand for consumers. Brand associations come in many different types, which include e.g., product-related and non-product related attributes, functional, symbolic or experiential benefits and attitudes. For customer based brand equity to occur, some of these brand associations must be strong, favorable, and unique. Strong associations are likely to result with information deemed relevant and presented consistently over time. Favorable brand associations occur when consumers believe that the brand possesses attributes and benefits that satisfy their needs and wants. In terms of uniqueness brand associations may or may not be shared with other competing brands. The strength, favorability, and uniqueness of brand associations play an important role in determining the differential response that makes up customer-based brand equity, especially in high involvement decision settings where consumer motivation and ability are sufficiently present (Keller 2003). Brand image is the sum of impressions that affect how we perceive a brand, including elements that identify or distinguish the brand from others, the personality the brand acquires, and the benefits it promises. Brand image is largely a subjective and perceptual phenomenon that is formed through consumer interpretation, whether reasoned or emotional. When brand images are strong, they can be used to enhance a person's self-image [12].

4. Conclusions

Brand equity can be regarded as a managerial concept, as a financial intangible asset, as a relationship concept or as a customer-based concept from the perspective of the individual consumer.

In a general sense, brand equity is defined in terms of the marketing effects uniquely attributable to the brand. That is, brand equity relates to the fact that different outcomes result from the marketing of a product or service because of its brand element, as compared to outcomes if that same product or service did not have that brand identification.

The main asset dimensions of brand equity can be grouped into brand loyalty, brand awareness, perceived quality and brand associations.

Brand equity can be built by creating positive brand evaluations with a quality product, by fostering accessible brand attitudes to have the most impact on consumer purchase behavior, and by developing a consistent brand image to form a relationship with the consumer.

Brand equity can create advantages and benefits for the firm, the trade or the consumer. From the firm's perspective brand equity imparts competitive advantages to the firm.

Brand equity from an individual consumer's perspective is reflected by the increase in the strength of associations an individual has for a product by using the brand. Successful branding means lower uncertainty in purchasing. There is also less need for an extensive decision making process on the part of the customer. Brands carry with them certain assurances of product quality and reliability in use. Product identification in large, cluttered supermarkets, department stores or mass merchandising outlets is facilitated. There are also psychological benefits to the customer using brands.

5. Acknowledgment

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Aspects of Social Policy in Romania in the Context of E.U. Integration

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Abstract

The social policy is an ensemble of public policies pursuing the accomplishment of social protection and wealth. In Romania, the social protection strategy targets the following directions: protecting the employee through an appropriate legislation; protecting the disadvantaged social groups; satisfying collective necessities (education, health, culture, etc.); protecting the population against pathological social processes (alcoholism, drug consume, etc.).

An important role in the social protection has the social security. It's a system formed from elements used to ensure the existence of resources necessary for people that are confronted with social risks like unemployment, sickness, old age, insufficient or no income and supporting families with more than one child. These resources can be cash benefits in form of aids (allocations, indemnities, pension), free goods or with partial payment, reductions or exemptions from taxes. The Romanian security system is characterized through insufficient resources necessary to ensure the existence of some categories of poor citizens.

Key words: poverty, social protection, social security, social policy

J.E.L. classification: F15

1. Poverty – definition and implications on the economic growth

Poverty represents a state that encompasses the individual or the group he is a part of (family), characterized through the lack of intellectual capacity and a minimum of economic resources needed to satisfy the basic needs and the survival in a society. It

implies inadequate basic life conditions and economic resources that will allow the individual to have at least minimal participation in the social life.

Poverty usually means the lack of financial resources that could assure the human individual a standard of living fit to the collectivity's standards [1].

Poverty can also be understood as an absolute phenomenon or a relative one [2]. Absolute poverty means the absence of the minimum conditions that will allow to the individual and his family to survive as the society requires. Relative poverty means the absence of the minimum resources required for an individual (family) to normally function in a given socially-cultural context.

The phenomenon of poverty is met in all the world's countries, without being compared to a certain standard of poverty.

Therefore, the standard of poverty in a rich country is different from the one of a poor country and the percentage of poor people in the total of the population differs in developed countries compared to poorly developed ones.

Poverty is an unstable phenomenon that can be present or can disappear from a person's life according to the support offered by the state and the use of his intellect and creativity to find new ways that will ensure him the conditions necessary in order to live a decent life, as well as his family.

The factors that contribute to surpassing or avoiding poverty of a person are the education he receives, the level of socialization of the group he is a part of and the living standards of the collectivity he is living in. Family is another important factor that can remove the individual from poverty through the model of life it offers, the support given for his preparation for life and a certain profession.

In the same time, the individual has reduces opportunities to avoid poverty when his family does not offer a proper environment for his development and harnessing his own potential when it gives wrong life models, that do not contribute to the development of winner mentality.

The extension of poverty represents a restrictive factor of the economic growth and the revival of economic and social development [3].

2. Preventing expansion and poverty reduction ratios - the heart of social policy

Another severe phenomenon that the Romanian society is facing at the beginning of the third millennium is the growth of poverty.

The diminishment of poverty is a basic objective of the social policy. In our country, the social policy currently targets the protection of the population against the negative effects of the economical crisis. The social protection strategy follows the following directions:

- protecting the employees trough an appropriate legislation;
- protection for the disadvantaged social groups: unemployed, families with more than one child, old people, orphans, handicapped, etc.
- satisfying some collective necessities: education, health, culture, sport, etc.
- protecting the population against some pathological social processes: alcoholism, drug abuse, criminality, etc.

This kind of social measures is taken to ensure the economic freedom and the fundamental human rights.

Usually the social protection offered by the social policy is focused on health spending, unemployment benefits, aid for disadvantaged people, etc.

In the total of the means of social protection, an important role has the social security [4]. In a modern economy, the social security contributes to the attenuation of the effects of poverty trough assuring some social income for individuals that couldn't obtain incomes from work anymore due to social risks (old age, sickness, unemployment), as well as to families with

many children that do not meet the social requirements.

The social security consists of a system based on an aggregate of elements made to ensure resources necessary for the existence of people facing social risks like unemployment, sickness, the lack or insufficient incomes and to support families with more than one child.

The offered resources can be:

- cash benefits like aids, allocations, indemnities, pensions;
- free goods or with partial payment, reductions or exemptions from taxes.

The cash benefits are direct incomes used for various costs, costs of current or occasional consume. Benefits in kind and exemptions from taxes are indirect incomes because they shield the families from various expenses like paying for medical services, obtaining free medicine or partially paid, etc.

The Romanian social security system is complicated and contains different protection schematics for the same social risk and institutions that have the same attributions and responsibilities.

It is characterized trough insufficient resources necessary to ensure the existence of some categories of poor individuals. In terms of the massive restraining of occupation and economic recession the number of people that need social protection has grown. The restraining of occupation has caused the growth of the number of retired people, mostly because of early retirement, aiming to ease labor market. The number of retired people with social insurances (without farmers) has grown from 2.2 millions in 1989 to over 4.7807 millions in October 2010 [5].

Under these conditions, the relation between unemployed + pensioners and wage-earners is burdensome for wage-earners and the economical units.

Reducing the number of wage-earners and increasing the number of people that need to benefit from social aids has created and amplified the tasks that the wage-earners and economic agents must do. As a response, the costs and prices had grown too, the increase of salaries was restricted, the underground work market was encouraged and the real value of social insurances has dropped.

The budget expenditures have also grown trough payment of pensions for the old agricultural pensioners from budgetary

sources. The adopted solution is correct because the peasants had contributed with working force and important financial resources to the development of the Romanian economy during the years of centralized government. Therefore, it wouldn't have been fair that the payment of the peasant pensions to depend on the resources of the current farms and agriculture in development. The number of agricultural pensioners has grown from 1.6 millions in 1996 to 7.181 millions in October 2010 [7].

The social security coverage has extended through the development of social protection schemes, through instituting a social aid and by increasing the number of handicapped people and politically persecuted individuals. The number of handicapped people has grown from 80.000 in 1992 to 670.000 in 2009 [8].

The extension of the social security coverage constitutes a major restriction that disallows the social security system to contribute in a greater fashion to the fight against poverty.

Another major restriction is the reduced percentage of the public expenditures in the GDP. If the developed countries invest more than 30% of the GDP in the social policies, Romania invests less than half of the EU average: 16,41%, less than all the European countries that had recently passed through transitions and are currently EU members [9]. Reducing the budgetary resources and implicitly the resources needed for social security has as a main cause the decrease of the macroeconomic incomes. Also, the main factor to fight poverty is the recovery of the economic activity and the resuming of the economical growth. Another restriction that diminishes the capacity of the social security to fight against poverty is the necessity of a correlation between the incomes from social benefits and those from work, as well as those between the social assistance benefits and the ones from social security. To determine a fair behavior towards work, the social benefits must be lower than the wages.

The social security efficiently contributes to combating poverty when the incomes of the majority are above the poverty threshold. The possibilities of combating poverty grow by increasing the economic activity and the general level of incomes. A better usage of the available resources implies to direct them

towards the categories of population and families that need them more in order to be protected against poverty.

3. Lines of action to alleviate poverty

The alleviation of poverty implies objectives, actions and social policies strategies analyzed at the level of EU and each state.

The extension of unemployment and the lower purchasing power determines lower living standards. Decreasing the incomes as one of the measures against the crisis diminishes the consume budget of a great part of Romania's population. In these conditions expenses won't be possible in order to cover the needs for alimentation, medication and others.

A decisive factor to restrict the extension of poverty is to resume the economic growth and to increase the budgetary revenues. Otherwise, Romania's economy will have the traits of poor countries, with living standards for the majority of the population close to the poverty line.

A less covered subject compared to the economical dimensions tied to the development of a unique market, the liberalization of the capital movements and the creation of the monetary union is EU's social dimension.

An explanation can be that in the first three decades of the post-war period a high level of economic prosperity was recorded of the citizens of the member states, creating the conviction that the economic progress generates social progress. But the positive economical results do not automatically resolve the social problems that the citizens face. Among the social problems that the population of the EU must face are:

- increasing the number of unemployed and a low employment rate;
- large share of structural and long term unemployment;
- high discrepancies of the unemployment rate between countries;
- the need for a reform in the social security system, particularly in the areas of pensions, unemployment benefits, familial allowances, etc.

The Lisbon summit (March 2010) has underlined the necessity of an economic and social reform, in the context of a strategy that

combines competitiveness with social cohesion.

The Lisbon strategy contains directions and measures for the modernization of the work markets and the social protection systems, combating poverty and promoting the equality of chances in order to stimulate prosperity and solidarity in the EU [10].

The main priorities of the EU's social policy are:

- increasing the working force through ways like:

- o increasing the professional mobility
- o increasing the jobs

- combating poverty and promoting the equality of chances, actions that necessitate solving some problems regarding:

- o managing the demographic changes
- o updating the pensions and healthcare
- o analyzing the discrimination of the working factor

In July 2008, the European Committee has elaborated a renewed European agenda that bases on 3 interconnected objectives:

1. Creating opportunities, something that implies the creation of jobs and the facilitation of mobility.

2. Improving the access at education, social protection, medical assistance and better quality services for the citizens of the EU members.

3. Manifesting the solidarity between generations, regions, the rich and the less wealthy, the richer member states and the poorer ones. The solidarity means the act of helping the disadvantaged ones, who cannot benefit from the advantages of a defensive society that finds itself in a rapid change. This means fostering social inclusion, integration and poverty reduction.

The accomplishment of these objectives implies actions for whose realization each member state is responsible, targeting areas like: the youth, the human capital, health and the average life expectation, the mobility of the working factor, social inclusions, equal opportunities and others.

That main factor that contributes to alleviation of poverty is the stimulation of the economic growth and the creation of jobs.

Another factor facilitating the finding and occupation of the working factor is the modernization of the work market. It implies the extension of the employing forms (employing based on flexible and reliable

work contracts), lifelong learning and others. An important role in filling skill shortages plays immigration.

Investments made to develop human capital and education increase the employability of the work factor. In a world found in a perpetual change, human can have access to employing opportunities that arrive in different stages of life if they learn and continually renew their skills.

The geographical mobility of the work factor and the elimination of potential obstacles is contributing to the increase in the occupation degree and stimulates the economic growth.

Increasing the share of elderly in the EU member states requires the enhancement of research regarding the way through which the health and wealth of elderly can be improved and how the public funding required for the accomplishment of these objectives can be acquired. The European strategy regarding health targets the citizen's access to key aspects regarding health and the aid of individuals to remain on the working market for a longer time through the improvement of protection against risks at the working place.

In the EU it is promoted a policy of combating the discrimination in order to assure equal opportunities for the citizens when it comes to the opportunities in employment or other areas of the social-economic life. In this purpose a legislative framework was created, meant to promote the rights of the European citizens as consumers and (or) producers.

A vital contribution to the promotion of opportunities and social cohesion has the partnership between the institutions and European states. Through the collaboration between the institutions from the member states the workers and firms capacity to anticipate the changes can be increased, in order to find the best use for the European funds, to accomplish the objectives of social policy.

In Romania, the social policy was particularly based on promoting active policies regarding the social inclusion in all the areas. At the basis of the inclusion policies lie the principles "ensuring a sufficient income" and "the activation" of people facing the risk of social exclusion.

The social policy includes measures of occupation growth and development of the social services to support people found in vulnerable situations. Their number is higher considering that Romania faces a high rate of unemployment, with an extended poverty, with regional disparities under the aspect of economic and social development, with an aging population.

Among the problems that our country faces are the active inclusion on the work market of the people with disabilities and the development of adequate social services in order to facilitate employment for all the disabled individuals that can and want to work. In this purpose, the professional training of the handicapped persons is needed, as well as creating assisted workshops to employ them.

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Exchange Rate - a Tool to Influence Economic Life

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Abstract

The exchange rate, the price of a national currency against another currency to which we compare values in certain conditions of time and place, has different influencing factors and various effects over the economic life. Among the influencing factors are the evolution of the national currency demand and supply relation, economic, fiscal and politic stability, interest rate, capital movements, the external commerce situation, long term loans, investments made by a country abroad, etc .In Romania, during the transition years, the leu's exchange rate has dropped due to factors like exchanging lei deposits to foreign currency one in fear of interest rate lowering, purchase of foreign currency by importers with part of the sums in lei owned, purchase of foreign currency by the National Bank in order to prevent de fast growth of the exchange rate in terms of declining confidence in lei, etc .

Key words: exchange rate, supply and demand relationship, economic stability, balance of payments

J.E.L. classification: F31

1. Exchange rate – definition and influencing factors

The exchange rate is a variable with various causes and implications on the evolution of an economy. It represents the price of a national currency in relation with another currency with who its value is compared in certain conditions of time and place. The exchange rate approximately shows the parity of the purchasing power and it can appreciate and depreciate on different time intervals. A currency appreciates when

its value increases in relation with other foreign currencies; when its value drops, the currency depreciates.

The exchange rate is influenced by various factors like: the evolution of the currency supply and demand relationships, the economical, political and fiscal stability, inflation, interest rate, capital movements, the situation of the exterior commerce, long term loans, investments made by a country abroad and others.

The extern purchasing value of a currency or the exchange rate is influenced first hand by *the evolution of the supply and demand relationship*. When the demand for a currency increases, the exchange rate grows too and the currency appreciates. The demand for a currency increases when more individuals or entities make investments, exchanging their money with the currency in case.

The political, economical and fiscal stability of a country determines the increase of demand for its currency. Any information that signals instability determines the erosion of the external value of the currency.

In Romania, the leu's exchange rate has depreciated because of the inflation, in the years of transition to a modern market economy. When in a country is registered an inflation rate higher than in the countries with which it has economical relationships, the currency of that country depreciates.

The increase of the unemployment rate and the preservation at a high level of this phenomenon determines a lower exchange rate. In the same way acts the manifestation of a political incertitude in a country or a region.

The interest rate is another important factor that influences the exchange rate, especially for a country with a free convertible currency and with consistent foreign reserves.

The interest rate increase determines the withholding of withdrawal of capital from abroad and the growth of the exchange rate.

The significant capital movements exert a powerful influence over the exchange rate¹. The substantial increase of the foreign capital in a country favors the appreciation of the country's currency. The causes of the capital movements are the evolutions and the expectations regarding the evolutions of a country's exchange rate.

This way, the international merchants are interested to keep their money in deposits that will bring to them interests and have the desire to loan them on the markets where the interest rates are the highest, the other conditions being constants. If, on a short term, the interest rate grows and becomes bigger than in other countries, it will attract capital toward this country or at least deposits in the country's currency. When the interest rates drop and become lower than in other countries, there is a tendency for capital to move from that country.

The high rates of the interests in a country tend to appreciate the currency and the low rates tend to depreciate it.

The demand for a country's currency grows when the currency's appreciation is expected; if the depreciation is to be expected, the demand drops because the individuals and entities will be more reluctant to buy.

Capital movements on a long term are influenced by the expectations regarding the profit opportunities along with the expectations regarding the exchange rate evolution.

The foreign companies are willing to invest in a country if they think they might earn a higher profit than in their own countries.

The exchange rate is also influenced by the status of the *exterior commerce*. When a country imports more than it exports, it registers a deficit in its current account on the financial markets; the deficits of the current account are signs of long term instability. All the other conditions being equal, the countries with current accounts surpluses have a strong currency and the countries with current account deficits have weaker currency.

Increasing the export determines the appreciation of the national currency and the growth of the import determines its depreciation. In order to appreciate the national currency, the economical assets exports must be greater than the imports. Also, the national currency appreciation stimulates the import and the national currency depreciation stimulates the export.

The export volume depends on the exported goods demand elasticity. When the demand is inelastic, the increase of exported goods determines in a lower measure the appreciation of the national currency because the amount of foreign currency entering the country is smaller.

The price growth for the imported goods determines the depreciation of the national currency. When the imported goods have an elastic request, the depreciation is greater because more foreign currency is spent, and when they have an inelastic request, the depreciation is lower.

The role of the commercial trade balance is primordial on the currency market; a chronic passive balance due to the exports brought forward by the importers determines the depreciation of the national currency; a chronic active balance determines the growth of the exchange rate (national currency appreciation).

The commercial balance is the most important component of the *payment balance* that generates a statistical synthesis of the economical and financial relations of a country with foreign countries. The situation of the payment balance influences the exchange rate. A positive sold determines the growth of the exchange rate and a passive sold determines a lower rate. The passive sold of the payment balance can be liquidated through exports of goods, currency and by credits (loans) from abroad.

Usually, the short term loans generate sums of currencies that could be sold on the currency market, which stimulates the growth of the exchange rate. The long term loans determine a lower exchange rate.

2. Aspects regarding the evolution of the exchange rate in Romania

In the transition year of Romania, the factors that have depreciated the national currency had a more powerful influence than

the factors that appreciate it. Its depreciation meant the payment of a larger sum in lei for a foreign currency unit. For example, if in 1989 a dollar could have been bought with 14,9 lei, the exchange rate reached a course over 31000 lei (ROL) per dollar at the beginning of 2011.

For the level of the excise in 2011, euro was quoted at 4,2688 lei (RON).

A characteristic of the exchange rate depreciation of the leu was that it was done during the transition period in relation with all the currency and not only towards the dollar.

The exchange rate or foreign currency value depends on the demand and request existing on the market at a given point. In Romania, the demand and request for national currency can be observed at a macroeconomic level through the currency inflows and outflows at a national level and through the difference between this inflows and outflows.

The leu's exchange rate evolves under the influence of the supply and demand relationship towards the currency which is in turn influenced by various factors. The main factors that cause the increase of the lei supply and implicitly the growth of the exchange rate (national currency appreciation) are the following:

- buying economic assets, securities and real estate by foreign individuals and entities;
- borrowing outside the country by commercial banks and offering loans inside the country;
- formation of deposits in lei by foreign individuals and entities, in terms of a higher interest rate in Romania;
- using part of the currency gained by the exporters from Romania to make payments in lei. These payments are bigger when the economical activity is expanding;
- lei purchase by the National Bank from the market in order to prevent the fast depreciation of the leu;
- sending foreign currency in Romania by the Romanian workers abroad, to their families.

The main factors that influence the growth of the lei offer and implicitly the exchange rate depreciation are:

- the foreign investors capital return to their native countries;

- returning outside the country the loans made in foreign currency by the commercial banks of Romania;
- exchanging deposits in lei in deposits in foreign currency out of fear of interest rate lowering;
- buying foreign currency by the Romanian importers with part of the sums in lei;
- foreign currency purchase by the National Bank from the market in order to prevent the quick growth of the exchange rate;
- increase of the foreign currency demand in terms of declining confidence in domestic conditions;
- out of stock of a great number of foreign investors;
- sharp decline in the currency sent by Romanians abroad to their families in the country;
- reduction of domestic interest rates;
- higher growth of imports compared to exports.

A factor that has depreciated the leu is the inflation. During 2000 - 2010 the general index of consumer price in our country and some European countries is the following:

Table 1 - General index of consumer price in various countries in December 2010

Country	December 2010
0	1
UE – 27 countries	113,42
Bulgaria	139,30
Denmark	111,6
Germany	110,0
Estonia	129,94
Greece	120,37
Spain	115,09
France	109,75
Italy	112,2
Lithuania	130,51
Hungary	131,18
Poland	116,9
Romania	139,76
Sweden	112,27
Norway	113,30
Switzerland	104,0

Source:

http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-QA-11-002

It can be noticed that in Romania and Bulgaria, during December 2005 and December 2010, the consumer price had grown in average with about 39 percent, while in the EU (27 countries), the growth totaled only 13 percent.

A major role in the currency policy of a country has the Central Bank that manages the official national reserve funds. It intervenes in the forex market to stabilize the daily fluctuations of the exchange rate and to restrict speculation on the forex market.

In order to control and diminish inflation, the Central Bank makes internal loans difficult by increasing the interests of the required reserve so it can diminish the cash in circulation. During times of high inflation, the Central Bank absorbs part of the available lei offer by emitting securities with high interest and acts in order to increase the interest rate.

To the leu's depreciation have contributed the evolutions of imports and exports. The yearly advancing of the exports compared to the imports has lead to a lowering of the exchange rate and implicitly to the appreciation of exchange rate for various foreign currencies.

The leu's appreciation against the main foreign currency has both advantage and disadvantages. Among the advantages are:

- those who receive salaries in national currency and exchange them in foreign currency;
- people with debts in foreign currency because they pay less to repay the loan;
- the importers who can get foreign currency at a more advantageous exchange rate compared to the past;
- the buyers of energetic resources (gas, petroleum, etc.) with prices in foreign currency;
- the National Bank because a strong currency makes the lowering of inflation easier.

The ones at disadvantage are:

- the employees who receive their salaries in foreign currency because they exchange them for less lei;
- the exports because they face a diminishment of the external competitiveness and an invasion of foreign products on the internal market. They obtain less lei for the foreign currency gained through export.

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Absolute Convergence: the Main Challenge in the Enlarged European Union

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Abstract

Regional economic convergence issue has been and continues to be intensively treated and debated topic in the economic literature, not being able to accurately assess whether the process of regional economic growth is a convergent or divergent one. Multitude of studies and research in this area indicate the relevant subject matter and also the difficulties of analyzing the regional convergence and divergence processes and theoretical limits of the substantiation of European Union cohesion policy.

Key words: European economic integration, real convergence, divergence, regional disparities

J.E.L. classification: F15, O47, R11

1. Introduction

The literature that treats issues relating to regional economic convergence identifies two schools of thought dealing with this process. Adherents of the first one, the so-called “*convergence school*”, consider that deepening economic integration generates a progressive reduction of geographical disparities, while the advocates of “*divergence school*” think that the integration emphasizes the discrepancies between the countries participating at the final stage of economic integration.

Form a methodological point of view [1], the “*convergence school*” applies an econometric model based on theoretical principles of classical economics according to which the differences between the two regions in relation to wages or return on investment are offset, ultimately, by flows of goods and/or capital and labor mobility,

while the “*divergence school*” operates with a classical model modified by the introduction of new factors, such as so-called “*economies of scale*”. Based on the applied model, the “*divergence school*” advocates want to highlight the advantages of absorption likely to generate significant external economies. Thus, in case of a region, depending on the extent to which convergence or divergence factors predominate, the single market integration can have a positive, negative or neutral influence for that region. In other words, it is a “*subtle mix of factors problem*” [2] which can have a negative impact on a state in the monetary union, although the trade costs are significantly reduced per whole union, conclusion reached by Paul Krugman in his theoretical analysis.

In order to designate the European assembly economic convergence, there are two terms used: *nominal (conditional) convergence* and *real (absolute) convergence*. Harmonization on the *nominal economy axis* requires institutional and national monetary-financial policies changes for Member States (MS) imposed by Economic and Monetary Union (EMU) accession. *Real economy axis* aims to improve and gradually remove the disparities between MS and between regions through real convergence variables.

In relation to the process of real convergence, nominal convergence can be considered “*privileged*” [3]. This is *mainly* due to the attention given to the conditional convergence criteria stipulated in the Treaty of Maastricht, detrimental to the absolute convergence criteria that aim to ensure a high degree of structural similarity between the candidate countries. *Secondly*, also responsible for the nominal convergence privileged status, is the temporal dimension

implied by the achievement of the two processes. As is well known, joining EMU becomes possible only after the fulfilling of a series of minimum economic requirements in the form of nominal convergence criteria, but in a much shorter time horizon compared with the performance of real convergence.

2. Real convergence coordinates in the EU countries

Absolute convergence, seen as raising the standard of economic development level of a country or group of countries in regional integration, can be measured using instruments such as: *the level of economic development*, expressed by GDP per capita (calculated either based on the nominal exchange rate, or based on purchasing power parity (PPP) or the purchasing power standard (PPS)); *the degree of diversification of production*, expressed by the share of economic sectors to GDP; *the degree of openness of the economy*, expressed by weight of total imports and exports in GDP; *the share of bilateral trade with EU countries in total foreign trade*.

Based on the available statistic data and calculations and considering the indicators mentioned above as the most expressive in determining the degree of a convergence, we aim to evaluate it for EU member states.

The comparative analysis of GDP per capita level calculated on the basis of purchasing power parity (PPP), which can be traced in Table 1, we want to highlight *the degree of economic development* for MS.

Tabel 1. GDP per capita (in PPP) in 2004, 2007, 2009 (% of average EU-27)

	2004	2007	2009
Austria	127	123	122
Belgium	121	115	116
Bulgaria	34	38	:
Cyprus	90	93	98
Denmark	126	121	117
Estonia	57	70	63
Finland	116	118	111
France	110	108	107
Germany	116	116	116
Greece	94	93	95
Ireland	142	147	131
Italy	107	103	102
Latvia	46	56	49
Lithuania	50	59	53

Luxembourg	253	275	267
Malta	77	77	78
United Kingdom	124	117	116
Netherlands	129	133	130
Poland	51	54	61
Portugal	77	78	78
Czech Republic	75	80	81
Romania	34	42	:
Slovakia	57	67	72
Slovenia	86	88	87
Spain	101	105	104
Sweden	126	125	120
Hungary	63	62	63
EU-27	100	100	100
EA-16	109	109	108

Note: :=data not available

Source: Eurostat, <http://epp.eurostat.ec.europa.eu/gm/table.do?tab=table&init=1&language=en&pcode=tsieb010&plugin=1>

The evolution of GDP per capita level in the EU and Euro Area has a general tendency of reducing during the enlargements so far.

The 2007 EU enlargement, when Romania and Bulgaria joined the EU, increased to 8,6% of the Union territory and to 6,3% of its population, but GDP per capita level measured in PPP has increased less in comparison with any other previous expansion. The lowest performance was recorded in Bulgaria, 38% and in Romania a value slightly higher, 42%. Both countries will have to recover in the coming years, significant gaps in terms of real convergence. In contrast is Luxemburg with an average of 275%, far from other MS. Overall, 14 MS have an average GDP per capita calculated on the basis of PPP below the EU-27 average, the other 13 states achieving higher values. If we consider the average value recorded in EA-16, we can appreciate that more than half of EU MS are situated below its level of development.

The situation is not essentially different in 2009 compared to 2007. In the EU, overall, there was a tendency to reduce the level of GDP per capita (in PPP).

Data presented in Table 2 regarding *the dynamic growth rate of GDP per capita* indicates its oscillatory trend for the period 2004-2009, with a decreasing trend since the last enlargement in 2007. Since the mid '90s, the EU has initially achieved a boom, the real GDP growth per capita has reached 3,9% in 2000 and, later, a slowdown with an increase

of only 1,3% in 2002 and also in 2003. In 2004 and 2005, there was a modest increase from 2% up to 2,5%. Between 2004 and 2009, GDP growth rate per capita has varied significantly among the 12 new MS (10 that joined the EU in 2004 and the two were joined in early 2007), some of them registering a very rapid GDP growth per capita and exceeding the EU-27 average.

In 2009 the situation could be translated by a general reduction in growth rate of GDP per capita, except Poland (1,7%), the largest decrease registering in Latvia (-18%). The 15 MS, including Romania, had in 2009 GDP growth rates below the EU-27, and 17 countries were below the EA-16.

Tabel 2. Evolution of GDP per capita growth rate in 2004, 2007, 2009 (% from the previous year)

	2004	2007	2009
Austria	2,5	3,7	-3,9
Belgium	3,2	2,9	-2,8
Bulgaria	6,6	6,2	-5
Cyprus	4,2	5,1	-1,7
Denmark	2,3	1,7	-4,9
Estonia	7,2	6,9	-13,9
Finland	4,1	5,3	-8
France	2,5	2,4	-2,6
Germany	1,2	2,7	-4,7
Greece	4,6	4,5	-2
Ireland	4,6	6	-7,1
Italy	1,5	1,5	-5
Latvia	8,7	10	-18
Lithuania	7,4	9,8	-14,8
Luxembourg	4,4	6,5	-4,1
Malta	0,9	3,7	-2,1
United Kingdom	3	2,7	-4,9
Netherlands	2,2	3,9	-3,9
Poland	5,3	6,8	1,7
Portugal	1,6	2,4	-2,6
Czech Republic	4,5	6,1	-4,1
Romania	8,5	6,3	-7,1
Slovakia	5	10,6	-4,7
Slovenia	4,3	6,9	-8,1
Spain	3,3	3,6	-3,7
Sweden	4,2	3,3	-5,1
Hungary	4,9	1	-6,3
EU-27	2,5	3	-4,2
EA-16	2,2	2,9	-4,1

Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsieb020&plugin=1>

Regarding *the degree of diversification of production*, expressed by the share of economic sectors to GDP, we can appreciate, based on statistical data [4], the greater role of the primary sector in the latter two countries that become EU members, Romania (7% of GDP in 2009) and Bulgaria (6% of GDP in 2009), compared with the other MS, especially with EA-16. Also in these countries, services sector occupy a place below than other members. In the EU-27 and EA-16 the tertiary sector has a significant contribution in comparison to the primary and secondary sectors.

In analyzing real convergence the *degree of openness of the economy*, expressed by weight of total imports and exports in GDP has also a major significance. A low value indicates a low degree of openness of the economy of that country, while a high value signifies an economy with a high degree of openness. Therefore, for example, statistic data in 2009 [5] reveal that the Romanian economy (62,40% of GDP) is much less open economy than Poland economy (71% of GDP), the Czech Republic economy (130,20% of GDP), the Hungary economy (136,50% of GDP) and even Bulgaria economy (115,20% of GDP).

Regarding *the share of bilateral trade with EU countries in total foreign trade* there were not considerable discrepancies between Central and East European states that joined EU in 2004-2007.

3. Regional disparities in larger EU

EU enlargement to 27 MS forms a community and an internal market of 493 million citizens, which emphasizes economic and social disparities between the countries and their 271 regions.

Regarding to the regional disparities in terms of causality phenomenon the research has revealed a variety of economic determinants, which is reflected in at least *four basic categories* [6]:

(1) *Differences in competitiveness, more obvious after the integration of new countries or regions in the EU.* In order to improve them, there are a number of *conditions* [7] which determines the potential for economic growth and employment potential.

Sound macroeconomic policies combined with structural policies are essential in improving competitiveness, stimulating investment and capitalization, increasing both productivity and employment. It also increases the release rate and innovation, reduce the cost of capital and hence can record consumption and therefore consumption and wages can increase in relation to production real wages.

Efficiency and effectiveness of public administrations at national, regional and local level have a significant impact on economic development and job creation. For example, in the context of a poor administrative performance and changes in productivity level of public sector, the global competitiveness is directly affected.

Framework conditions and infrastructure facilities of various kinds – physical (in the form of transport and telecommunications networks), *human* (in the form of skills and know-how labor) and *social* (in the form of assistance services and other support services) – and the *capacity for innovation* have become increasingly important as competitive factors in recent years, closely related to *the acquisition of human resources for research and development* and *effectiveness* with which they are used.

Bridging the release mechanisms of convergence will inevitably be a long term process, which is why the least developed regions is the main priority of *cohesion policy*, although almost all regions are experiencing a continuing need for restructuring and modernization and promote innovation based on knowledge, in order to overcome the challenges of globalization.

The economic objectives [8] that aim, with the support of the cohesion policy, to achieve the real convergence of economic performance target, are stipulated in *the Treaty of Lisbon* and concern: *sustainable development of Europe based on balanced economic growth and price stability, on an intensely competitive social market economy, aiming a full employment and social progress, with a high level of environmental protection; promoting economic, social and territorial cohesion and solidarity among member states; maintaining the commitment to Economic and Monetary Union with the euro as its currency.*

Lack of a cohesion policy cannot provide certainty of achieving the so-called process of "catching-up" by the less developed states with growth rates of GDP per capita higher than those recorded in developed countries. Therefore, a well-founded strategy excludes the perpetuation of national and regional disparities and requires the maximum resource recovery policies available at EU level. Implementation of the EU cohesion principle is possible using two *instruments: the structural funds and the cohesion funds*, aiming to spread the new poles of attraction for business expansion into new areas of sustainable cohesion countries containers by tangible and intangible infrastructure development.

(2) *The existence of industrial clusters that perpetuates and accentuates the differences from other regions.* Economic reality has shown that economic prosperity in the EU is becoming less and less concentrated geographically, traditional economic "core" Europe (the area between London, Paris, Milan, Munich and Hamburg) recorded in 2004 a GDP rate substantially below the EU-27 one compared with 1995 while it share of the population remained stable. This trend is explained by the emergence of *new development centers* such as Dublin, Madrid, Helsinki and Stockholm, and Warsaw, Prague, Bratislava and Budapest.

Within the MS economic activities and population experience a high concentration throughout the EU capitals (except Berlin and Dublin). This is due, on the one hand, to the recent enlargements, and on the other hand, to the concentration of the growth process in the early stages of development in the most dynamic areas within the countries. In the long run, this could generate a restriction effect on economic growth. The pressures on the capital region (the so-called *negative externalities*), such as increasing housing costs, lack of space for commercial activities, congestion and pollution, negatively affects their image and competitiveness, a solution for this being the emergence of *secondary growth poles*.

(3) *The existence of important agricultural sectors and the lack of a sustained process of industrialization.*

(4) *The existence of geographically isolated areas and for which, among the others, the costs of transport are high (the*

periphery effects), such as: northern Finland and Sweden, the extreme south of Portugal, Spain and Italy and islands, including Malta and Cyprus. The higher costs of transport (partly caused by *rising energy prices*) may affect key sectors for many of these regions, such as *tourism*. Reducing accessibility constraints was possible by investment in airports and through increased efficiency derived from air transport companies with low cost, especially in *ultra-peripheral regions* (*Canary Islands, Azores, Madeira Island*), characterized by isolation from the main EU market, the domestic market failure, often fragmented across many islands, which limits economies of scale, the underdevelopment of the labor market that offers few skilled workers, and the fragility of ecosystems.

There are also *indirect factors* affecting the level of economic development in EU, such as *demographic changes, as the aging of the population, the slowdown in population growth and significant migration of population out of rural areas* that threatening future growth of employment. Moreover, there is a widening trend of regional polarization, meaning that big cities/capitals attract the younger population with higher education level. In parallel, the region faces a number of social challenges arising from the *distorted nature of the skills* (labor market segmentation between high skills/high wages and low skills/low wages, high immigration) in the frame of the economy value chain is moving to the knowledge-based activities and while institutions with a traditional security is eroding.

Years before the 2004 EU enlargement were appreciated by the European Commission with stable or increasing differences within the MS and with improving the overall development disparities across national borders, reality captured by the commonly used phrase "*global convergence, local divergence*". In 2004 the Commission summarized in the *Report on economic and social cohesion* at that time: *at national level*, cohesion countries continue to catch-up in development; *at regional level in EU*, is diminishing disparities; *at the regional level within the MS*, disparities continue to grow[9].

According to *the Fourth Report on Economic and Social Cohesion in May 2007*, the main beneficiaries of cohesion policy in the period 1994-2006, Greece, Spain, Ireland and Portugal have experienced impressive economic growth as a group. The lagging regions, particularly in NMS, which were the main recipients of support under cohesion policy during 2000-2006, showed a faster growth and faster reduction of disparities in terms of GDP per capita compared with the rest of the EU between 1995 and 2004. Strong economic growth in regions with a low GDP per capita over the last decade has meant that, overall, EU regions are converging trends.

According to the latest data, there are very significant differences between the EU regions, shown in Table 3 as a hierarchy of 15 most developed regions and the 15 least developed in terms of GDP per capita (in PPS) in 2006. Most are poor regions of Central and Eastern European countries that have joined during the last two waves of enlargement (2004 and 2007). Highest level was recorded in the region of Inner London (UK), 336% of the EU-27, while the lowest is found in North East (RO) of only 25% of the EU-27. However, many poorer regions have recovered significantly in the first half of this decade.

Table 3. Regions with the highest/lowest level of GDP/capita (in PPS), year 2006 (EU-27=100)

Regions with the highest level of GDP/capita (in PPS)	GDP per capita
Inner London (UK)	336
Luxembourg (LU)	267
Région de Bruxelles-Capitale (BE)	233
Hamburg (DE)	200
Groningen (NL)	174
Île de France (FR)	170
Oberbayern (DE)	168
Wien (AT)	166
Stockholm (SE)	166
Berkshire, Buckinghamshire and Oxfordshire (UK)	164
Southern and Eastern (IE)	163
Praha (CZ)	162
Darmstadt (DE)	158
Bremen (DE)	157
Utrecht (NL)	156

Regions with the lowest level of GDP/capita (in PPS)	GDP per capita
Centru (RO)	38
Središnja i Istočna Hrvatska (HR)	37
Nord-Vest (RO)	36
Podkarpackie (PL)	36
Lubelskie (PL)	35
Sud-Est (RO)	33
Sud-Muntenia (RO)	32
Severoiztochen (BG)	32
Yugoiztochen (BG)	31
Sud-Vest Oltenia (RO)	30
The Former Yugoslav Republic of Macedonia	29
Yuzhen tsentralen (BG)	28
Severen tsentralen (BG)	27
Severozapaden (BG)	25
Nord-Est (RO)	25

Source: Krueger, A., *Statistics in focus. Narrowing spread in regional Gross Domestic Product*, Eurostat 75/2009

Despite progress in some MS/regions, absolute disparities remain, due to both the enlargement process and the territorial concentration of EU-27 GDP, lower in the traditional core of Europe but higher at the national level. Even some of the most developed regions begin to record growth rates very low or even negative.

4. Final remarks

Tension between nominal and real convergence processes is an issue especially fervent as the economic measures necessary to eliminate economic disparities sometimes disagree with those needed to achieve nominal convergence for obtaining the "admission ticket" to the euro area.

Sustainable convergence can be achieved only if we take into account the wider EU economy, context in which reducing disparities can take various forms. Lagging behind recovery process or improving and eliminating development disparities between MS and regions remains a subject with a particular significance for the economic, scientific and technological Union strategy.

In the long run, the real challenge for MS wanting to join the euro zone which must cope with is real convergence. It is natural that together with the EU 10+2 enlargements, removing trade and investment barriers and the free movement of labor to stimulate and enhance economic activity in these states.

However, there is no certainty of a quick takeover of the gaps, or in another word, less developed countries to have higher growth rates in the euro area overall, until the level of productivity and prices will not be substantially different.

Although most recent empirical research on economic convergence showed that there is and there cannot exist an alignment situation to real convergence for all countries or regions, the economic and social reality confirms the *process of dynamic group convergence*.

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Quality Management Impact upon Human Resources Development

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Abstract

The paper aims at dealing with the impact of the quality management on the development of the Human Resources- the only value-producing resource- as one of the fundamental requirements of the post-industrial society, as a process of getting to know the human beings, of their individual or group qualities, for their advanced development and for the good management of their creative potential.

The knowledge society promotes strong competition, grants a special place to the creation and the advanced enhancement of the human potential, both in terms of management and practice. From this perspective, HR quality management becomes an attractive item of high interest both for the employers and for the employees, especially for the accurate delineation of the success in relation to the failure, of the efficiency as related to the inefficiency of a human being's actions, for the management of the quality potential and of each employee's value.

Key words: Quality Management, development of Human Resources, Knowledge Society.

J.E.L. classification: M12

Knowledge of the assembly consisting of notions, ideas about world—objects or things, phenomena, processes, events—accumulated by society in time, determined, in certain moments, fundamental changes in society. Structured into procedures or theories specific to human activity types, diffused throughout world, knowledge accumulated have produced—in certain historical moments, changes in the structure of society types, as well as in the life of human individuals. The fact that industrial revolution (occurring in the beginning of 17th

century) is the phenomenon which comprised the entire mankind, moment overcome through the appearance of idea, knowledge regarding post-industrial society [10] as a new cultural type, with a dense civilization, borderless, with a record-time communication, comprising space and time for inter-communication is significant. Information revolution is fundamental for such society, which starts with accumulating a volume of unprecedented knowledge. The fact that information revolution is at the same time revolution of knowledge, developing the new society type—knowledge society within which, Daniel Bell [2] shows the main resource which generates the new type of social revolution became knowledge. Knowledge gained in this process make specialist place—the "one who knows", became essential within a knowledge based society.

Knowledge is a complex bio-psycho-social process, is a relation between the knower and the object in relation (subjected to knowledge) with direct effects in getting knowledge allowing objective world information assimilating and reconstructing by the subject [7]. As a multi-dimensional process it is incorporated into organization technologies, rules and procedures, culturally imprinted under the form of rational perceptions, values histories and convictions, materialized into abilities, expertise and aptitudes or conceptual and attitudinal cognitive comprehension specific to human groups or collectivities.

In such a context, human resources management makes its content fit, mainly pursuing efficient administration of the most precious and active resource belonging to whatever organization—people—who, individually or in group participate in attaining their own or organization own objectives. This makes possible that in practice organization management should be oriented towards company inside, to the

competitive advantage source, respectively in people's capacity, and their knowledge. Future will confirm opinion according to which to gather, organize and utilize knowledge in a performing way will become sources of competition advantage since success is based on knowledge and creates new knowledge.

In knowledge based society, variable *knowledge of organization employees* will become dominant in relation with material actives, with financial resources, actually representing competitiveness secret. Thus, knowledge management in a company supposes catching, applying and generalizing value gained from creativity, expertise and performing expert experience of employees.

Present civilization, Alvin Toffler [10] holds constructs another step, another fundamental existence on other grounds and with other structures, tightly centralized and standardized, that bring about on life plan intellectual activities as well, the ones based on knowledge, obtained through specific informative way. In order to be operational, each organization needs instruments, capacities, energies, funds, material values, however they become viable only if they are known and evaluated by man, resource without which organization does not accomplish its mission. In their socio-professional structures in an organization are, therefore active factors that which individually and collectively contribute to accomplishing its objectives.

At least from this perspective, human resources management, as a dimension of organization management, is grounded on human factor quality principle—the one which assures company success. Human resources management directs its steps towards man, towards developing some efficient practices of improving training as well as for employee promoting, it settles down its policies in the field of qualitative development of human resources and the way employees perceive organization preoccupations for its own development. The dominance of this activity consists of employee forming and training in performing qualitative achievement of organization activity and its inner structures, of the forms and modalities by which personnel is motivated to participate in accomplishing its purpose in the total given parameters.

Human resource management is only one dimension of total quality management and comprises processes for directing and controlling organization as regards human resources in organization quality for identifying and administering those activity types necessary for achieving organization quality objective and policy in this field, organization purposes and responsibilities which, implemented through proper modalities give new values to human resource quality and implicitly to organization itself. I think that to determine quality performing activity of employees, the only who substantiate to human resource in an organization remains fundamental: what employees do for their own overcoming, process through which performing accomplishment of organization objectives are assured, therefore what they also do for organization: the way they prepare themselves, achieve performance, respectively the quality of their own becoming, their own activity. I notice that the way to a new human resource quality supposes competitiveness, intra-organization competition and not only, that is individual should be in a permanent competition with his own self and with team or organization partners. Human resource quality supposes the consciousness of one's own participation to self development, to highly efficient and performing activities such as the elaboration of action strategy from individual able to place him to superior value levels in the act of working. Human resource quality is therefore given by (remarkable) professional, relational and acting capacity of employees, determined knowledge and practices gained in an acting process, activities with different degrees of difficulty and that offer a higher profit and which, finally allow solving more or less difficult problems, according to pre-established standards.

End of 20th century realities and beginning of third millennium bring about a new conception about society and its organization structures, conception grounded on the problems of post-industrial society [10] whose content is given by "excessive organization, by an "intelligent organization", "knowledge based organization" [4], organization structures whose existential structure is becoming knowledge, intellectual dominant which

gives contents to entire existence, human society and activity.. For the period we are passing, abilities, engagement spirit, creativeness, and increased efficiency/performance - become essential elements of human individual's activity at intra- and inter-organizational level able to differentiate each structure contribution under conditions of knowledge-based economy [6]. Human resources, this time, make difference between company success or failure, therefore of human individual integrated in activities settled down by organization

So, under conditions of knowledge-based society and economy, organization management and within it career management should incorporate in their contents both organization and employee interests and preoccupations as the only value creating source. This process brings to attention general aspects of organization functioning, a phenomenon which is accomplished with identifying what is common in human individual activity within dynamic and flexible career. Post-industrial world becoming, accentuated by IT&C, by ample knowledge processes whose finals are given by knowledge made possible the production of unprecedented changes of the forms of human actions, in labor structuring, especially in its globalization and also in appearance of digital work with effects in modifying people's working and living styles. Tele-activities, tele-working, tele-socialization etc. develop as forms of modern labor of digital economy based on knowledge and intelligence Thus, all these impose a new approach of human resource, of man organization integrated, an approach in which man's and his activities qualities should come first. Irrespective the form it is achieved, occasional, at home, quasi-mobile, with random timetable or totally mobile—supposes large scale of work mobility, it is a complex process which supposes establishing and promoting of a special *status-role* between employer and employee since tele-labor is negotiated under its all scientific, technologic, social, financial etc. tele-labor does not lower employee's statute, on the contrary, it enforces and develops it, manifesting into a qualitative functional flexibility, because it is his voluntary choice to act in certain exigency and quality

parameters [8]. The work new content is given by thinking and creation, knowledge and intelligence, objectified in knowledge, information and abilities, a phenomenon which fundamentally changes employer-employee relationship whose dominant is cooperation, and also labor market within which employing policy will be intellectual expertise on project.

Post-industrial realities of informative knowledge-based society changes problems of quality of human resource management need, of performing, value career. Career choice and orientation become much more complicated processes and career course guiding and developing should pursue more carefully assurance ever optimal concordance between general and specific training peculiarities included into position.

Research we carried out was oriented to investigating training and developing process of personnel in some organizations in the county of Iasi, Romania, by deciphering employee training and developing peculiarities, starting from hypothesis that if a company subjects represent value creating source, this will assure qualitative development of its personnel through judiciously organizing training, preparation and development of its own employees. Target population come from 95 companies with large activity-research- development sphere and high-tech, industry, agriculture, pisciculture, construction, services, trade, tourism and consists of 406 subjects of whom 125 managers of various levels, formed in technique, law and economics and 291 persons with large occupational beach from about all activity fields and a preparation proper to positions.

For achieving new quality in personnel performing preparing and development, information collected in research work reflects directions of human resource assurance, respectively, activity and task concentration on positions (aspect underlined by most subjects within sample), qualitative work organization able to performingly engage personnel in its total personality structures, to highly evaluate subjects capacities, knowledge and abilities (92% of subjects) of learning and improving their own preparation (84%), creating decent working conditions—physical action environment, motivation, creative psycho-social climate,

transparent personnel policies corresponding to individual and organization objectives (98%).

Concordant with these aspects is information obtained as regards main activities for career organization administration, as dominants for determining and accomplishing organization human resource quality, activities from which profession and given profession categories careful and profound knowledge are detached as human individual testing and employing measure aiming at uncovering human individual knowledge, ability, behaviour ability in relation with position standards (88%), promoting differentiated management according to employees development degree, to their age, knowledge and experience aiming at determining socio-professional identity with the entire charge of knowledge and behaviour, for more adequate but qualitative engagement in the acquired role-status (92%), considering that profession life is dynamic, innovative, situation when employee regards organization which must pursue his becoming in a stability-transition relationship, and according to working place change frequency, offering him support for his own formation and improvement through gaining new information, knowledge, abilities according to the new work content given by knowledge society realities (80%)

Realities detached from research also bring about other aspects of organization management for obtaining new values in human resource qualitative development, above all for evaluating employees contribution to their own formation and development in career self-administering, a process characterized, mainly, by existing availabilities in employees in this respect: over 98% of persons forming general research sample (406 subjects) are preoccupied by existing possibilities in organization for their own socio-professional development under performing conditions, preoccupied with developing their capacities, expertise, their future roles as well as opportunities of performing affirmation, image of self construction through relating to others, complex self-knowing . Self-estimation process becomes both a challenge and a real introspecting modality, self-analysis and comparing his own activity outcome, of organization self-development of

human individual, a phenomenon promoted by 82% of research subjects; Forming his own abilities in consensus with quality and performance standards established is both a human resource quality management to be found in 85% of the persons investigated and which has as a support self-knowing, respectively, what they can do with their own career development. Organization preoccupation for determining needs and opportunities of career individual development, respectively, planning need of each employee, an aspect which remains a desire for 78% of sample components, but must start with self-knowing and self-estimation process and completed with exploring opportunities created within organization as well as outside it as a result of as rich and correct informing about profession world and imposed quality criteria.

Therefore, employee formation remains fundamental condition for achieving an organization performing quality and it implies career management value whose content is given by both organization and individual management. The process pursues company objectives, tasks, and needs inter-conditioning, harmonization with employee's ones as an active, creative economic agent within inter-dependence of internal-external factors intra and inter-organization, processes amplified by knowledge-based economy in a competitive dynamics of professions that increase the needs of performing quality of human individual, of rapid organization integration.

My research bring to attention, beyond expressed desires, the preoccupations of investigated business milieu in the field of human resource quality, mainly through activities accomplished regarding personnel formation, improvement and development. Thus, out of 85 companies that form the research sample only 24 (28.2%) have elaborated strategies, policies and programs of personnel training and qualitative development, in conditions in which only 48% of companies declare themselves satisfied with their employees' value.

It is worth remarking that out of the 24 organizations that have elaborated training programs, in which 96 subjects took part (57.5%), of whom 52(63.4% are managers. And 44 (52.4%) production workers, 5

companies (20.8%) pursued strategies after career stages, comprising 10 (12.2%) managers and 21 (25%) production workers.

Inter-conditioning strategy type use with company type which have elaborated training programs, 37.5% of them utilized strategies after response of organizers which 96 (57.8%) subjects of whom 52 (63.4% are managers and 44 (52.4%) production workers, 5 companies (20.8%) pursued strategies after career stages, comprising 10 (12.2%) managers and 21 (25%) production workers, aspects synthesized in graphic.

Detaching from research these aspects regarding employees' participation in programs of knowledge and ability development through training reflects both companies and employees preoccupations in this direction which, corroborated with desires expressed give in fact the state of facts in the milieu investigated. Company as well as participant structures in strategy structures confirm the care given to performing training of human resource. 37.5% companies utilize strategies according to organizers' responds, 41.7% strategies according to financing possibilities and 20.8% according to career stages. Correlating these dimensions with employees' participation for training, improving and their qualitative development attest the consciousness becoming degree like also employees' participation, be they managers or production workers (total 406 subjects of the sample) in programs of development in profession: only 40.9% participated through strategies enumerated in programs of qualitative development, of whom 65.6% are managers and 29.9% workers, 36.7% used self-preparing modalities and 62.3% participate in organization settled programs. The situation is totally uncorresponding if we relate these realities to the whole sample (406 subjects) 25.9% of total sample of training programs in career organized by company, 15.0% self/managed their self training and 50.0% did not participate to any professional training form, this in conditions of knowledge based society.

Information obtained in research of problems of managerial preoccupations with human resource qualitative development in some organizations from Iasi, Romania business milieu reflect existing state of facts in a field which measures human resource

quality, therefore organization value, reality characterized by very small number of companies that practice training and qualitative development programs of labour force (29.2%) small groups of participants in training programs (40.9% of which one third self-managed their training (36.7%, only 18.7% of participants in training programs utilized strategies according to career stages. Reality confirms the fact that organization management involvement in human resource qualitative development is episodic and only to overcome critical situations making knowing employees' qualities, personality features, knowledge, abilities in view of applying proper treatment in order to obtain from them qualitative accomplishment of organization and individual objectives, modelling in this way both company and its personnel opportunities in conditions of flexibility in the long run, reaching qualitative parameters in a successful career.

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Mentality and Paradigmatic Shifts Needed for Building a Global Quality Culture in Formal Education

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Abstract

Quality culture encompasses a more implicit consensus on what quality is and how it should be maintained and promoted. Nonetheless, this paper is based on the conviction that quality culture can be consciously promoted. The procedure of promotion described here after is based on the agreement of common goals from which indicators of success and quality measures are derived. By a conscious promotion of a common quality culture in international cooperation, potential failure of the partnership can be diminished because contradictions with existing quality cultures at partner institutions are avoided and the partnership is firmly based on common goals as the focus of cooperation.

Therefore a common quality culture or, more broadly, a global quality culture may emerge if the mentality of confrontation is abandoned. The single suitable rule is the cooperation. Applying this rule each step towards a global quality culture should be taken cautiously. There is need of an entire process based on intercultural dialogue. The agents of each culture should interact until the harmonization of their values, beliefs, standards etc. As a result, a new culture will take form which is not a mere sum of the former ones.

Key words: quality culture, global intelligence, formal education

J.E.L. classification: B15, B52, I25.

1. Introduction

At national and regional levels the education is important for its promises for future economic growth and development. Even the neo-institutional theories depart from the human intrinsic cognitive systems

and follow all the way to the same end point: economic performance.

This is not the only way, but it is one of the most sophisticated economic demonstrations for the role played by education in the contemporary world.

2. The call for mentality and paradigmatic shifts

Yet there is a growing awareness that we all are lost if continue to follow the economic way. Some global approaches to world education change the direction toward a global intelligence. That is: “the ability to understand, respond to, and work toward what is in the best interest of and will benefit all human beings and all other life on our planet. This kind of responsive understanding and action can only emerge from continuing intercultural research, dialogue, negotiation, and mutual cooperation; in other words, it is interactive, and no single national or supranational instance or authority can predetermine its outcome. Thus, global intelligence, or intercultural responsive understanding and action, is what contemporary nonlinear science calls an emergent phenomenon, involving lifelong learning processes”. (Spariosu, 2005, p.3)

How can global intelligence be acquired?

It involves remapping traditional knowledge, accumulated and transmitted by various educational disciplines, and finally dropping out the disciplinary mentality. The global intelligence presupposes a holistic mode of thinking, a trans-disciplinary or integrative one, and also new kinds of knowledge from an intercultural perspective.

Yet, a global mode of thinking will emerge from “local” knowledge with its own historicity. Knowledge is always bound to a specific time and place, to a specific culture or system of values and beliefs or, indeed, to

a specific lifestyle. A global approach attempts to identify the cultural specificities of knowledge, explore commonalities and differences among them, and negotiate, if need be, among such specificities. It also presupposes that, in the process of exploration of cultural commonalities and differences in the way in which we acquire and utilize knowledge, new kinds of cross-cultural knowledge emerge through intercultural research, dialogue, and cooperation, and new kinds of integrative cognitive and learning processes become possible. (Spariosu, 2005, p.8)

Then there is a need for designing educational models to foster the kind of local-global learning environments and intercultural, intellectual climate that are needed for sustainable human development in the next few decades.

The current educational system privileges imitation students, not creative, critical, and analytic professionals with a broad and disciplinary free understanding of society at large. The core challenge for educational institutions is to turn away from conventional lecturing to learning situations based on the search for solutions to real-life, open-ended problems. (Denzin et al., 2003, p.134)

Innovative education practices for sustainable human development covering all three types of education (formal, informal, and non-formal) must be encouraged. These practices will be configured to provide a good spread of activities focussing on all three pillars of sustainable development: environmental, economic and social. Their innovative character should come from mission and objectives assumed, the delivery method of educational services and the institutional frameworks.

There is a large scope for systematic and trans-national educational reform to change the current situation of powerful constellation of forces through cooperative and innovative practices.

Paradoxically, the ongoing economic determinism of development process can be counterproductive. All the demonstrations of the economic development theories formalized or not, are very interesting intellectual exercises that unfortunately bring just little long termed benefices for human beings. Even more these benefices are not shared equally and equitable to all the people

of the world. It is high time for return to natural and simple things. People always had the inclinations to struggle for survive or to cooperate for surviving. The economic institution – market is probably the most populated field of battle throughout history. Are we prepared to imagine a world in which competition is totally replaced by cooperation? And yet we wonder the project of global economy undertake only the disappearance of many types of frontiers? In market terms this means that finally we'll have a larger battle field.

This is the call for mentality and paradigmatic shifts. It should be abandoned the mentality of confrontation and look for other ways of organizing human relations, as well as our cognitive and learning processes. The shift will take place gradually, much impeded by the tendency of path dependence. This shift enhances a learning process that changes the national cultural filter and prepares the emergence of a global culture. Once such conditions installed, it will enable proliferate of global intelligence. From the paradigmatic perspective, in our opinion the neo-institutional approaches still find a place in this landscape of scientific inquire based on mutually, intercultural cooperation. A new set of economic, social and politic institutions should be crafted to guide all of our future interactions on this planet. This new rules of game borne from cooperative actions, but not confrontational selection process will naturally lead ourselves to the achievement of the final goal – that of the sustainability of human development.

3. Toward a quality culture in formal education

Within the economic, social and ecological axes of human sustainable development, quality has a significant importance and represents a challenge since quality assurance in formal education has more and more come to the fore in recent years.

Quality is a multi-faceted concept, difficult to render operational in educational terms. In general, there are a number of quality concepts as regards formal education programmes. All of these are seen as relevant and competing. In fact, there is a strong belief that a 'one-fits-all' concept of quality is not desirable. Instead, differentiation is

much welcome in view of differences of needs and in order to match a broad spectrum of individual and economic demands.

Among the quality concepts of formal education are – just to mention only the most common ones here –, according to broadly accepted typology: quality as (a) perfection or consistency, which is linked to notion of reliability and to conformity through compliance with set standards; (b) the exceptional or excellence, which bears an element of elitism; (c) fitness for purpose, often linked to the need to address to a required reference point; (d) value for money, which is sometimes linked to the notion of value for time invested, both of which relate more closely than other definitions of quality to the quality concept of – partly rational and partly emotional – customer satisfaction; (e) transformation, considering the individual gain accrued in the course of a learning experience.

Positive definition of quality approaches are necessarily paralleled by negating or abandoning others. Here the slogans ‘from input factors to learning outcomes defined in terms of competences’ and, which is partly related when seen from the viewpoint of process and approach, ‘from teaching to learning’ and ‘student-centred learning’ come to mind. Despite profound and serious difficulties in defining the content of learning outcomes and relevant competences, in validating them, in making them operational, in installing fit-for-purpose learning devices and environments, and in measuring their accomplishment, the shift to learning outcomes and to student-centred learning rather than focussing on input and teacher perspectives has been one of the key mantras in the quality debate. However, there is still no denying of the relevance of input factors, such as qualification and numbers of staff, of equipment, or of student intake. So in practice, from case to case, there seems to be considerable ambivalence between rhetoric and traditional reality in defining and measuring quality features.

The likely key to consolidating all these approaches is that all factors need to be linked in a methodically correct manner. This is done by not taking input factors as isolated starting points for developing and judging quality. Instead, input factors should rather be seen as elements to be considered

incidentally when addressing the question as to whether or not the envisaged educational purposes could, in terms of underpinning both at the level of concept and of its subsequent implementation, feasibly be accomplished.

It clearly results that quality cannot be solely evaluated by calculating quantitative indicators, such as: the number of students per member in the teaching staff, educational spaces etc. Other specific indicators are even more important: the professional and methodological competence of the teaching staff, the cultural, ethical and social accountability of education, student satisfaction. Consequently, a quality education depends, to a large extent, by the synergic harmonization of three elements: institutional capacity, educational efficiency and quality management.

To this end, a functional emerging educational system should capitalize on the following aspects:

- educational goals, curricula, teacher competence and the efficiency of educational practices;
- educational spaces, equipment, libraries and reading rooms;
- performance criteria, standards and indicators, internal and external evaluation pertaining to such standards and causes of dysfunction;
- the amount of financial resources.

The success in setting up a “quality culture” is influenced by objective and subjective factors, by national and global trends. Some countries have set the trend and the others need to follow in their footsteps. This is about the assertion that the majority of countries have understood the expectations of the minority of leading countries in the world economic hierarchy. Each of them is just a piece in a puzzle called the Global Economy, which needs to adjust to fit in. Very much like a diligent student who learnt his/her lesson well, the governments set priority action plans which will directly impact upon the future development of the national education system.

How can such plans be accomplished? How can we achieve a global quality culture? The necessary steps are easy to set, hard to achieve and impossible to quantify, as tangible results become visible in many years. Firstly, one should improve the quality

assurance system at pre-school, primary, secondary and tertiary levels, by assisting schools to improve their management and supply relevant jobs for the labour market. Secondly, improving teaching competences and the competences of the people involved in the educational system by supporting them in their life-long learning process. Thirdly, one needs to extend the life-long learning framework by assisting the agents/suppliers of life learning education to reach the standards of quality management assurance. Fourthly, young researchers should be encouraged to develop their competence by increasing their doctoral and post-doctoral educational opportunities. This enumeration can continue indefinitely. It will be interesting to note, however, whether such desires, expectations and actions pertaining to a "quality culture" will ever take effect in a national culture. In retrospect, forthcoming generations will easily solve this problem.

For the time being, the majority of countries are currently importing patterns and solutions created by developed countries. Although quality assurance activities have not had a long tradition worldwide, some countries or groups of countries have obtained worthwhile results. Therefore, the mission lies in promoting "compatible quality assurance systems" meant to render national education internationally recognized. In more concrete terms, we need to set in motion a mechanism meant to ensure that educational establishments observe national and international quality assurance standards. To this end, quality assurance strategies mirror the ability of an educational supplier to be accountable to internal clients (pupils, students, teaching staff) and external agents (employers, society) and ensure that standards are met. This quality assurance becomes an important factor in the invisible competition between nations in terms of culture and education.

Consequently, judging by the promise of progress it delivers, we consider that the implementation of a quality assurance system is necessary, yet far from being accessible, due to certain specificities: the school is not a factory, students are not goods/commodities, there are multiple clients (students, parents, employers, the society) and so one cannot identify precisely all the elements of a manufacturing process. Despite such

specificities, quality management can be functional in education as well. The educational process can be improved, teaching efficiency can enhance and teacher/student satisfaction can increase. Quality management stands for a different way to organize and harmonize efforts so as to ensure that people fulfill their tasks enthusiastically and actively contribute to improving their techniques. It might look rather impossible, yet practice provides us with plenty success stories for this type of management. To increase the chances of success, one needs to observe a simple principle - the process should prevail over the product. Such management will capitalize on the learning process as such, rather than on the results evinced by tests and examinations. From this perspective, the human factor is in the foreground again, and we consider that the weak spot which management should address is individual attitude towards the educational process. We need to consider that both the student and the teacher act and interact under complex incentive structures. We need to identify those mechanisms to induce perceptions and values meant to ensure the quality of the teaching activity. Quality culture derives from this; it stands for cooperation and responsibility.

4. Conclusions

Educational discourse is replete with references to the process of building a quality culture inside the educational system. In particular, the issue of educational quality has become an area of great interest and concern due to the conviction that education plays a pivotal role in global economy sustainable development. In choosing to investigate continuity and change surrounding learning process, the questions rely on the contextual and evolving character of the process. The ideas elaborated in this chapter point to the fact that education is a "path dependence" phenomenon. Knowledge acquisition is underlain by perceptions derived from the process of collective learning across generations. The act of learning is a cumulative process subject to social and cultural filtration. The overall social approach to the benefits of expanding knowledge (in various stages of historical development) is the major source of long

term change. Likewise, educational improvements are dependent on the features of social institutions and the institutions are variables strictly influenced by the level of education. Hence social institutions are likely to become inertial to change. How can one overcome this obstacle? Economics can provide at least one solution: joining the efforts of researchers coming from different economic areas can lead to worthwhile progress with respect to unveiling the causes and mechanisms of change. Thus, progressing onto a continual ladder of discovery and learning, horizons will broaden, and the prevailing patterns of thinking and perception will become more flexible.

The distinctiveness between formal, non-formal and informal education determines a shift in focus. Learning is a culturally – filtered and cumulative process. Most reforms should be targeted at informal education. The pre-school, primary, secondary and tertiary levels of education form a complex edifice which needs to be built in gradual stages.

Meeting international quality assurance standards is not against this principle; on the contrary, it is quite compatible. It will make us aware that we are in competition with other participants/players worldwide and only quality players win. According to the guidelines developed by this paper, the authentic and enduring progress in the quality formal education is only triggered by reforms targeted at informal aspects pertaining to the national institutional paradigm. This is the unique way to create a real global quality culture: the continuity of national specific reforms and the gradual change towards “universal” values imposed by the winners of global competition.

The global quality culture is fully compatible with the global intelligence. One emerges as a result of the other. This is the supreme stage, but we haven’t reached that point yet. For the moment we could speak mainly about different national quality cultures and common quality cultures of joint educational programmes. Some steps are made toward the global quality culture, but in the light of neo-institutionalism, they are illusory because even the international standardization of education is just a formal initiative. Merging standards and processes

doubled by the promotion of intercultural enquiry especially through non-formal/informal education will conduct us to a global culture, in general, and a global educational culture, in particular.

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The Corporate Social Responsibility Theory in the Context of Globalization

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Abstract

Corporate social responsibility (CSR) is a contemporaneous research topic due to the impact on the companies concerning the aspect of the favourable image of the customers and of the local communities, and also concerning the increase of the economic and financial results, and the employees and the people from the area of influence of the company through the contribution to the realization of social, cultural and economic objectives.

The aim of this article is to analyze the following aspects: the notion of corporate social responsibility and its components, the present-day stage of knowledge, the general concept of finality of the company, the relationship between the corporate social responsibility and the equity theory and how much the social responsibility of the companies is considered by the system of management of the company.

Key words: corporate social responsibility, globalisation, managerial ethics, equity

J.E.L. classification: M14

1. Introduction

The phenomenon of globalisation, emphasised in the internationalisation of production and of commerce, leads to important changes in the corporate understanding and realisation of business strategies. First of all, we can notice the intensification of the international competition, each participant on the market trying to improve the quality of products and services offered in order to sell them in higher quantity, and with advantageous prices.

However, globalisation shows that the companies are not evaluated anymore nowadays exclusively on the basis of the quality of products and services offered, but also according to the contribution to the social life of the community to which they belong. As a result, it appeared the concept of corporate social responsibility (CSR), being in a continuous clarification and improvement process in what concerns the theoretical and practical content.

Developing its activity in a very diverse and exigent social environment (unionist, political, cultural, familial, religious, of associations, regional, etc.), in order to be responsible from a social point of view, a company needs to communicate and to have an honest and open dialogue with all its internal or external partners: stakeholders, employers, customers, providers, the community in which the company develops its activity, formed by the citizens of the areas of interest, the civil society, the local administration, the government, etc.

2. The state of knowledge concerning the corporate social responsibility

The speciality literature is not very rich in CSR analysis. The issue is approached in indirect contexts, as in the case of corporate economy school books, especially in French speciality literature. Thus, Jean-Pierre Lorriaux shows that in the past (in general, the first half of the 20th century), the company emphasised its economic function [3]. Its rule of action was the following: „to follow efficiently and loyally the economic finality and the social finality will be reached by overgrowth”.

Thus, the economic finalities were on the first level (especially assets operators' satisfaction), and the social finalities can be

realized only if there is an increase of the economic indicators of results, beyond the intended values. A new phenomenon has appeared in the last decades, the fact that the company cannot be in harmony with its environment if it does not intend to reach a social-human finality, following explicitly objectives of social progress, which are the result of the intervention of the public powers, employees, unions, consumer associations, mass-media, citizens, nongovernmental organisations, etc.

As the speciality literature mentions, the conceptual bases of the corporate social responsibilities were founded by Andrew Carnegie, at a great extent by his 1899 essay entitled "The Gospel of Wealth". Carnegie emphasised two principles: the charity principle, and responsible administration principle (stewardship principle). According to the first principle, people who became rich through their businesses have the obligation to support the less fortunate members of society. The second principle states the fact that the rich companies and individuals should use their money as trustful administrators for the rest of the community, multiplying the social wealth by cautious investments.

Another approach of social responsibility is realised by prof. dr. eng. Liviu Marian regarding the relationship between this concept and managerial ethics [4]. Social responsibility is defined in correlation with notions of ethics, deontology, morale, needs, then he emphasises the historical issues in the evolution of social responsibility and managerial ethics, the categories of social responsibility, the costs and benefits of social responsibility, the evaluation of social responsibility, the methods of improvement of social responsibility and managerial ethics. The social responsibility as seen through the perspective of managerial ethics "states the managers' obligation to choose and to apply the actions which contribute to the individual well being, in consensus with the interest of the society and of the organisation they are leading".

In Romania we can notice a relatively detailed approach of the corporate social responsibility in a work appeared in the year 2005 [5]. Some of the aspects analysed are the following: the presentation of different opinions concerning CSR, the association of

CSR to a source of profit, the history of the term, the description of the main components and characteristics, CSR and the culture of the organisation, elements and instruments of CSR evaluation, case studies concerning CSR in Romania, etc. Here is the CSR definition given by the European Union: „a concept by which a company voluntarily integrates the preoccupations towards social and environmental issues in business operations and in its interaction with interested partners". The following CSR integrated elements were identified: mission, vision and values, business ethics, management and responsibility, economic development of communities, involvement of communities, environment, human rights, market practices, and policies at the work places.

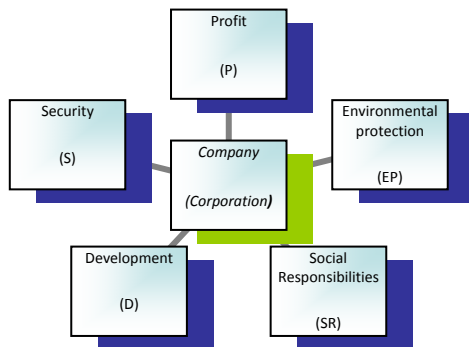
We must stress the fact that corporate social responsibility is a much larger concept in relationship with corporate philanthropic activities, or with the donations and help offered at different communitarian activities. A study realised by the consultancy company Braun & Partners Romania in the area of Bulgaria, Poland, Romania and Hungary shows that Romania is on the last place in what concerns the corporate social responsibility in human resources with a percentage of 6%, the hierarchy being as follows: Hungary (17%), Poland (15%), Bulgaria (7%), Romania (6%) [7]. 25 companies with the highest income were chosen from each country. In what concerns the companies, it was proven that they did not have specialists in social responsibility. The same, the study emphasised the weak performances in social responsibility, showing that the companies that integrated CSR fundamental rules and principles in their system of values and business strategy had greater chances to survive the present-day crisis.

3. The fundamental finalities of the enterprise (organisation, company or corporation)

In the science of economy and the enterprise administration, as well as in the science of management, the company or enterprise is considered to have four fundamental finalities: profit, security, development and social responsibilities [1,3].

Taking into account the present economic and social demands, we add yet another important finality of a company or corporation, namely: the environmental protection, so that we can say that the firm or corporation has five fundamental finalities, as it is presented in figure nr. 1.

Figure 1 The fundamental finalities of the company



The concept of finality of a company means the reason of its existence, the objectives or goals for which it functions [2]. Another definition shows that the finality of an organization means the system of values which the finality itself establishes, and from this point of view, any organization seeks to complete its finality or finalities.

A much wider formulation is the following: the essential, first class finality of any company is the accumulation of wealth together with its desires and with those of the society in which it develops its activity. This interpretation combines in a way two of the five essential finalities, namely the profit and the social responsibilities. Consequently, the company's finality has a philosophical-political character, and it is an element of permanence of the system of values.

In what concerns the company, there are two possible meanings of the finality. On one hand, it seeks to realise only its own finalities, or, on the other hand, the finalities which are insured by the economic system. These two meanings are applied to different companies in the market economy (private business or public companies).

Generally, the finality is qualitative, but at a certain point a company can aim towards the realisation of each of the five finalities in the order of priority established by the management system.

The profit (P). This represents one of the companies' essential finalities in the market economy, because through it they intend to realize certain benefits, or a profit, i.e. to be profitable. In the company's finality the profit itself must be considered a necessity, a must.

Security or survival (S). The firm or company is an economic "cell" developing its activity among other competitive "cells", fighting to live and to survive. The companies' security, as a characteristic of the finality, means therefore survival in a strong competitive environment, stability, security of profit and avoiding the bankruptcy.

Development or growth (D). This finality consists mainly in the creation of new products, the modernization of the existing ones, the elaboration of new ways of production, and the modernization of the existing ones. Development is not limited only to production; it also includes the possibilities of use from which the consumer can benefit, even modifying the product, the distribution circuits, the selling methods etc., all this requiring sales promotion. The same, the development of a company can also be done through a systematic policy of concentration and diversity. The most important element for the growth of a company is developing its capacity of production and selling, which is possible only with expenses for investments.

Environmental protection (EP). The environment is formed of two categories: the natural environment and the surrounding environment. The natural environment includes a group of elements which can be analysed, described, measured and studied using the instruments of physics, chemistry and biology. This group is heterogeneous, including plants, animals, soil, subsoil, climate, landscape etc., forming a complex system inside which the life of human beings unwinds, along with all its characteristics. The surrounding environment has a wider area of influence, including both the natural environment and the environment transformed by people, artificial or anthropomorphic, clothing, food, means of transportation etc., and also residues, wastes and remains from the substances resulted from production and consumption processes.

The concept of ecological management has been developed during the past decades, also called green management, referring to the environment administration, which should be a preoccupation of both economic agents, and public administration, of some national or international institutions, and also of some pressure groups.

Social responsibilities of the company or corporation (SR). These responsibilities must be analysed from two different angles, namely: according to the personnel of the company or of the corporation, and also according to the society as a whole. The personnel of the company, actively participating in reaching the established objectives, is expecting it to satisfy some of their social needs, like: accumulating an adequate and safe income, sponsoring certain social actions, improving life and work conditions, offering some aids etc.

Also, the company has certain social responsibilities towards the local communities where it is located, like: participating in building some local social objectives, services development, sponsoring some actions and activities etc. Realizing these responsibilities has an important role in forming a favourable image among the company's clients.

If we consider the five finalities, the company has the possibility to choose one or several directions of action from the 120 possible strategic combinations, given by the permutation of the five finalities, i.e.: the number of strategies = $N! = 1 \cdot 2 \cdot 3 \cdot 4 \cdot 5 = 120$. In these 120 strategic combinations, each of the five finalities appears by a number of times determined in the first place, the second, the third, the fourth, and the fifth, as it follows: 1. P, S, D, EP, SR; 2. S, P, D, EP, SR; and so on.

4. Corporate social responsibilities and the theory of equity

Nowadays, a pretty well established theory has been developed concerning the concept of equity and the practical ways of materialisation in companies and in society as a whole through their management system. Thus, Jean-Marie Peretti's book entitled "Les clés de l'équité dans l'entreprise" is to be noted, book which appeared in Édition d'Organisations, in 2004. We present some

ideas from this work in order to show the connection between the theory and the application of equity and CSR.

The term equity appears very often in political and managerial speeches. The investigations show that the solicitation of equity is very strong at present times, and the managerial speech often makes reference to it. The dimensions of equity are largely approached and the demand of equity is necessary from a political, social and economic point of view. In an economic context where the inequity risks are numerous, developing some equity managerial and economic measures is absolutely necessary in order to build, keep and reinstall trust [6].

Today, the problem of equity is omnipresent in society. The citizens expect the state to introduce and favour equity everywhere: equity between the employees of private companies and the civil servants, equity between the different ages, equity between the managing personnel and the rest of the employees, equity in the contribution which forms the national income, equity in Europe etc. Consequently, it is necessary to have a higher demand concerning equity in management and building a more equitable society and company. Making precise rules in the equity management and applying them is more and more imposing. The employees openly express a great equity attention in what concerns the incomes, the formation, the promotion, the evaluation and mobility, identifying equity as a justice based on the contribution of each one to the labour and income.

The theory of equity is used in order to explain the individual and collective behaviours at work and in society, thus contributing to the explanation and clarification under a social and economic aspect of the numerous problems in the field of human resources and management at micro-economic and macro-economic level.

The equity can be internal and external. The internal equity consists in the fact that the employees compare themselves to other employees of the company, which will result in equity or inequity. The external equity appears when the employees compare themselves to persons outside the company who do the same work, thus leading also to a state of equity or inequity.

5. The management system of the company and corporate social responsibilities

The corporate social responsibility (SR) welcomes the theory and practice of equity because it implies that the companies' responsibilities towards the society are much more important compared to the responsibility of maximizing its economic value which goes back to the owners or stakeholders.

We must emphasise the reality that the managers of the companies are not receptive enough to the demands of social responsibility. They are preoccupied, as mentioned above, with the maximisation of the dividends of the company's stakeholders. They explain this attitude by stating that the social responsibility is costly for the company and they are not willing to use part of the company's profit in order to act according to the requirements of social responsibility.

The theory of equity presented in the previous paragraph does not mean equalitarianism. It only involves equitable differences in the payment by guaranteeing each employee a worthy evaluation of their contribution. Also, it involves policies and actions which meet the expectancies of equity and of corporate social responsibilities requirements.

6. Conclusions

From a theoretical point of view, we can say that there are at present enough elements in order to get a larger image of CSR. However, CSR should not be separated from the other four fundamental finalities of the company: profit, security or safety, development and environmental protection. These are the very reasons from which CSR was presented in this work as a distinct component of the fundamental finalities of the organisation.

On the other hand, CSR should be considered through its correlations with managerial ethics and equity of responsibilities and advantages of any nature.

The same, a point of view almost unanimous is that CSR should be included in the business strategy of the companies, as it results from the 120 sets of possible strategies. Consequently, it should be provided in plans and programs, and thus it should be evaluated and measured accordingly.

In a continuously changing world, in which economic crises and of other nature periodically appear, people wish a greater involvement of the companies in solving social issues in order to overtake their different needs and difficulties determined by troubles from the social-economic environment.

7. Acknowledgements

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Performance, Efficiency and Efficacy – Approach for an Economy Based on Knowledge

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Abstract

Performance is a very contemporary concept, which in the specialists' opinion has two components: efficacy and efficiency. Consequently, the knowledge society approach of performance generates the result of the knowledge revolution. The value that could be generated by knowledge depends on this performance. The present work has the intention to present several specific aspects concerning the concepts of performance and managerial performance, and their classification in a society of knowledge and information, called knowledge based economy, or knowledge society.

Key words: knowledge society, performance, and managerial performance:

J.E.L. classification: M19

1. Introduction

At present time, **the knowledge society** is a concept which took shape in the best known universities, research and consulting centres from the developed countries, where a series of economy and management specialists are involved, with the conviction that people are rapidly moving toward a new type of economy. With no second thoughts, specialists consider that this new type of economy can be called “economy based on knowledge”. Its main characteristic consists in “taking on the science and technology top realisations, and by utilisation, their transformation in a competitive advantage”.

In this context, the **economy based on knowledge** is the result of the knowledge revolution. The revolution should produce first in the mind of the receivers of knowledge, **performance** on which the value that can be generated by that knowledge

depends. In a company based on creativity, possessing by the employees of a big volume of **knowledge** is essential for obtaining the **performance**.

In order to accumulate this knowledge along their entire activity, employees who wish to be **performant** and creative should appeal to three sources of **knowledge: their own, attracted, and bought**. Most of the Romanian specialists mistake the knowledge of the company with the one of the person who accumulated it, not taking into account the knowledge accumulated by the company during the years of activity.

The knowledge specific to each employee is at the origin of the competitive advantage of the company based on creativity;

The attracted knowledge (the attracted sources) which enriches and multiplies the employees' knowledge are the Internet, web-sites, electronic libraries, scientific reunions, fairs, exhibitions, etc., sources that cost little and are easy to access. In the Western countries, there are special structures in the companies dealing with attracting knowledge.

The bought knowledge is that for which certain persons are willing to pay in order to access. This is especially sought by people with a high level of training, and it refers to:

- speciality studies, certain computer programs, projects, etc.;
- sending the employees once or twice a year to training courses with the costs supported by the company;
- training courses for the workers, work exchanges with similar companies, with the purpose to increase the workers' volume of technological knowledge, with effect in the increase of work productivity;
- for the specialists from the intellectual elite of the company: studies for master's degree, doctor's degree, post-doctor's

degrees, research topics with international participation, scientific communications, national and international congresses, etc.

Performance has two components: **efficacy**, representing "*the ability to establish proper objectives and their realisation*" and **efficiency**, term used since the ancient times, because it represents "*the ability to use at the best the resources available for the realisation of the objectives.*" [1].

The economic efficiency was defined along the time more and more specifically for the application field. Efficiency is approached as a maximisation of the outcomes of an economic activity (Adam Smith, 1732/1790). Economic efficiency is a characteristic of productive or unproductive activity, of consumed/utilised resources and products, of assuring useful effects in a certain quantity, structure and quality by the reasonable use of the existent resources.

The reasonable use of the resources can be assured in two ways: *the allocation of material, human and capital resources* in an optimal structure or by the *management and technology used* (Petre Jica, 1989).

Gheorghiu (2004) presents several types of efficiency, depending on its reference to a certain field: technical, economic, social, cultural, administrative efficiency, etc. The use of the standard economic value to measure both the efforts and the effects is a distinctive element for the economic efficiency as compared to other fields of activity, aiming thus the minimisation of the resources which correspond to the unit of useful effect.

The economic efficiency is a measure of realisation of an intended objective. Being regarded under double aspect, quantitatively and qualitatively, the economic efficiency is the ratio between the features of the economic phenomenon under analysis, expressed by one of the two forms: *the direct form* – as the ratio between *effects*, i.e. income, and *effort*, expressed by circulation expenses, and *the indirect form* – the ratio between the effort and the effect [2].

In his work, the writer Nicolae Lisandru emphasises that there are two fundamental functions of the efficiency: *the optimal efficiency function* of each unit and *the social function of providing* the population

accordingly with the necessary products and services. Consequently, the efficiency of the activity of an organisation can be followed and evaluated from two points of view: "*from the consumers' point of view, which is the social efficiency, and from the organisation point of view, which is the economic efficiency itself, calculated as a ratio between the expenses of live and material work and the outcomes obtained as a result of the sales.*" [3]

After consulting the literature, we can say that social efficiency "is aiming, as *central objective, the maximisation of the social satisfaction, i.e. the satisfaction of social needs by comparing the system of indicators of the quality of life with the system of indicators of social effort.*" [2]

In what concerns the economic efficiency, we can say that it comes as a component closely related to the social efficiency, due to the fact that it is hard to imagine an impeccable service for the consumers without a high level of economic efficiency of the organisation, determined by the functionality and management corresponding to the activity developed by the organisation. As a result, the economic efficiency of the activities of the organisations implies obtaining a maximum profit in the context of the minimisation of costs and expenses. Therefore, the economic efficiency appears as a ratio between the expenses which should be made for a good development of the activity of the organisation, and the income obtained from selling the products and services offered by the organisation.

The manager's performance is related to the level of the abilities and the psychological and physiological group motivation at a certain moment in the human being. *Information, thinking and innovation* are three attributes in the differentiation process of a company. The economist Myrdal Gunnar said in Rome Club: "*The use of the mathematical equations and of a huge calculator where to register the alternatives of some policies abstractly conceived by "a model of global simulation can impress, but it has no scientific validity"*". In this situation, the key word is *to learn together* (the manager and the group he is leading).

In the literature, we understand by **the efficiency of the economic activity** "*the ratio between the economic effect realised*

and the outcomes obtained by an economic agent, or the ratio between the outcomes and the effort." [4]

The effort is measured by the consumption of economic resources necessary for the development of the activity in an organisation, and the outcomes by the volume of the profit obtained from sales, and we can also consider in addition other qualitative effects of the economic activity (the increase of work productivity, the decrease of the relative level of the circulation expenses, promotion of technical progress).

The economic efficiency also means *"obtaining useful economic and social effects with reasonable expenses, savings in what concerns the technical, material, working and financial resources. Its determination is based on a systematic approach, due to the interdependence between the economic processes, between companies and collaborating branches."* [6]

2. Managers' performances and astral colours from their aura

Before being appointed, managers are evaluated by the specialists in all the aspects, according to more or less real criteria. Nobody uses in the managers' selection the criterion of the colours in their aura, aspect emphasising the best the cognitive, intelligence, psychic, mental and health aspects. The term "astral" is less used. Beyond the physical plane, also called the third dimension, there is another plane, more subtle, over the physical plane, known as *astral plane*. Most of the people have a latent perception of the astral plane, but there are exceptions from this rule, and they are the clairvoyant. The colours from the human aura, produced by emotional and mental states, belong to the astral plane and are called *"astral colours"* and they are perceived by the senses belonging to the astral plane, being invisible from the physical one.

If colours can be seen in the managers' astral aura, their significance is as follows:

- *red* is the phase corresponding to the mental activity, manifesting in body vitality, health, creativity, optimism. It is also manifested in different shades;

- *blue* is the spiritual, psychic side with dominant inclination towards high ideals, altruism, veneration, devotion for a cause;
- *yellow* is the mental, intellectual phase of the managers' activity, necessary in taking strategic decisions which influence the future of the company, reason, logic, thinking processes, synthesis;
- *white* is the pure spirit, the managers' positive pole, which should be found in all their activities. It is made of all the spectrum colours, being considered a neutral colour;
- *black* is the negative pole of the being, the negation of the spirit itself. The presence of this colour in the managers' aura makes them not corresponding for this position, their activity having a destructive character.

The personal aura strongly influences other persons with whom the managers have a relationship, and they can therefore influence indirectly their business partners. From this reason, in their way towards perfection, the managers should develop their personal aura in order to obtain the necessary qualities to realise the objectives of the company, and even to neutralise the negative ones that are blocking their progress.

The managers can realise this phenomenon in two ways:

- to develop in their aura the most powerful vibrations and colours stimulating progress and creation by keeping the mental images in their minds, by repeating their wishes and the objectives;
- the additional effect of the mental images of the colour of the aura corresponding to the ideas and feelings they wish to develop.

In other words, as the physical capacity develops through movement and use, the mind develops also by its use. The thoughts maintained by the manager (or by a person) affect the people around, attracting them in the harmony of their thoughts, enriching their auras with elements from their own auras. This explains some statements like "I have been influenced by X." This ability can be favourable to the managers in business negotiation processes, developing themselves a strong personality, becoming positive and attractive persons.

Each person is a reality of the manifested thoughts. Managers should be willing to manifest and to develop the desired objectives, and to restrain the negative mental characteristics. A thought generates another thought which we use in order to create other more powerful thoughts, essential method in the decisional process of the managers based on the relationship between the colours of their auras and the mental evolutionary corresponding states.

The managers' method of improvement using the astral colours in their auras consists in the formation of a mental image of the colours they desire, after which they project their vibration in the aura through a personal effort of will, removing the uncertainty and fear. The idea and the presence of the desired colour should be retained mentally as long as possible, and the habit to represent the image and the vibration of the colour will create itself. This is the way that managers could create an aura leading them to success.

Once the managers constructed an aura to assure them success in life and in business, this aura should be protected from the outer negative influences, i.e. to become immune to the psychic, mental, physical, spiritual, negative influences, and the ones coming from the external environment. This protection is realised by enriching the **performant** aura with colour and vital magnetism, capable to reject the external malignant influences as the use of drugs, alcohol, tobacco, coffee, or the gambling.

Powerful managers should have in their aura vibrations of mental protection, represented by the astral colours orange, yellow, and other similar colours. These colours offer mental illumination to the managers, making them receptive and with great power of judgement, essential quality in choosing to make a decision from several possible alternatives. The interaction with other auras will stop at the protecting aura, gliding along, and there will be no influence. Around the **performant managers'** body a golden aura or a halo will dominate, which will be as a protecting helmet against the business partners' assail. The emotional side has a protective aura, too, which is of great importance, if we take into consideration the fact that many of the actions of our lives are under the impulse of our emotions, and less through reason. The protective emotional

colour is blue. The blue coloured aura would be like a protecting shield for the managers.

3. The psycho-professional profile of the performant managers

The managers' leading position should be doubled by the effort to reshape themselves, to structure their personality, attitude and behaviour according to a certain psycho-professional profile. In order to have a brilliant professional career, satisfaction and social recognition, managers should fulfil the following conditions:

- to permanently learn, to study in order to maintain the access to the technical and scientific progress, to be convinced that the chance for success awaits the bright minds;
- to know one or two languages of international circulation, to be able to work on the computer, to have a drivers' licence, to know how to use modern telecommunication systems;
- to keep the professional activity on the first place, to arrive on time, to be tidy, to have the ability of an intense rhythm of work;
- to be good negotiators, to be calm, to master the situations, to be sociable and open to human relationships;
- to appreciate the value of time, to be impeccably dressed, always adapted to the moment;
- to have the strength and the moral force to overtake the failures.

There are also other demands for a manager to be successful, but beyond the professional competence which is so necessary, the socio-human quality has a special value. Without these qualities, the managers' success and also the success of their decisions are not possible. *Let us remember: there is no substitute for character, brains could be bought, but not the characters. Managers, respect people's dignity!* People, no matter the sex, age, professions and training feel the strong need to be respected and valued, and treated as personalities in themselves. The deepest principle of the human nature is the wish to be respected. Any of the managers' evaluations and decisions concerning an employee creates a reaction of satisfaction or disappointment. The reproachful speech can bend the employees, but not the victory, in

what concerns their convictions. The manager, before making a decision, should seriously meditate regarding frightened, stressed, humiliated people, with low self-esteem. But attention: managers, do not torture your employees, do not miscall them, do not use nicknames! Communication should be in a civilised, serious and positive language.

4. Conclusions

Performance and managerial performance are two different concepts, but in a close relationship, which could influence one another in a society based on knowledge. We must take into account the fact that managers have great powers in their organisations, and by their decisions they influence human destinies and success on the market, and as a result – the performance. Only a performant management, with professional managers, is capable to managerial performances, i.e. to generate economic, financial and social performances. *And not to forget, as a famous saying states: „success is a trip, and not a destination.”*

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The Evolution of the Purchasing Power in Corelation with the Prices

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Abstract

The most important criterion used in Romania to assess the buying power is the average wage, also an accurate indicator of the general evolution of the state's economy. The economic crisis and the overall decrease of earned salaries, for both private and public sectors, deeply affects the way the consumption costs for Romanian families evolve. After two decades of economic reform, Romania is still among the last countries in the European Union, regarding the quality of life and the access of people to goods and services necessary for normal standards of living in modern societies.

Key words: purchasing power, inflation, salary, consumer price.

J.E.L. classification: E21

1. Introduction

The purchasing power reflects on the number of products or services that can be bought with a monetary unit. When the level of the income of the population stays constant and the prices raises, the purchasing power decreases.

The purchasing power stays constant if the income multiplies with the index of inflation. The purchasing power can be showed through the report between the index of the income of the average monthly net salary and the index of the consumer price.

In january 2007, consumers from Romania had the lowest purchasing power from EU, although in Romania it was not registered the lowest minimum salary in the economy from EU. While in Bulgaria the minimum salary in the economy was 92 € in Romania this was 114 € a month. The causes of this phenomenon comes from the fact that in

Romania, GDP (Gross Domestic Product – PIB) for the year 1990 was equal with the year 2004, while the level of the income in 1990 was the same only in the year 2006.

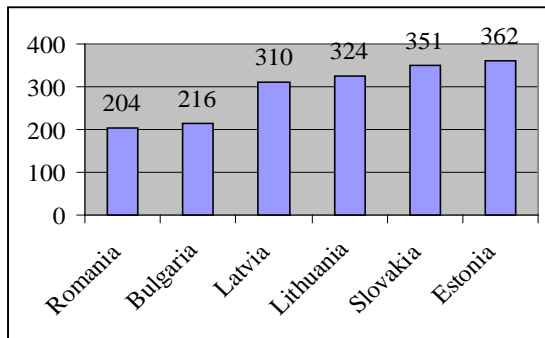
After the year 1999, the difference between the real income of the salary and the real average medium pension increased. In january 2005, the report salaries / prices was 86,7%, and in november 2006 was 97%. Only in december 2006, after 16 years of transition in Romania the purchasing power came back at the level of october 1990 (when the liberalization of prices and hyperinflation started).

After the change of the political regime, people didn't stand anymore in crowded quenes in order to buy the basic food. A year or two later, the national economy was affected by recession, after the fact that in 1990 the purchasing power increased with 10 % than in 1989. Even for satisfying the minimum decent expenditure (consum), the money of the most of the population was not too sufficient.

2. Analysis correlation between Romania and other countries in the European Union

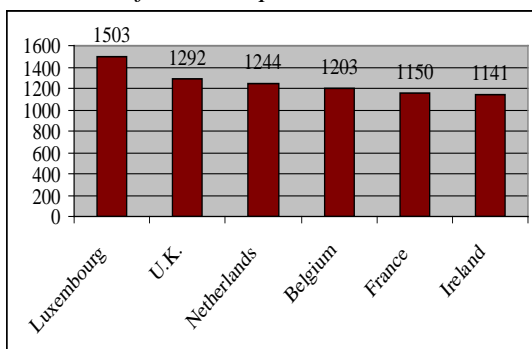
A period of a relative recovery of the purchasing power was registered only in 2007, when this increased with 16 % in comparis on with 1989. In april 2008, the increase of the purchasing power had reached 31,5%. In these conditions Romania had the lowest rate regarding the purchasing power from EU – 204 points, followed by Bulgaria with 216 points, Latvia - 310 points, Lithuania – 324 points, Slovakia – 351 points, Estonia – 362 points. The highest purchasing power from EU is and it was in countries like Luxembourg, UK, the Netherlands, Belgium, France or Ireland.

Table 1 The lowest purchasing power from European Union



Source – Eurostat, 2008

Table 2 The highest purchasing power from European Union



Source – Eurostat, 2008

The years when the purchasing power of the income of the medium net salary in the economy had values more below the year 1990 were: 1993 – 1994, over 42 % , but also 1997 – 2002, over 40 %. If in 2004 (when the inflation was calm) the medium net salary in the economy was of 1974,5 times higher than the one in January 1990, the prices increased 237,8 times. In 2004 the medium gross salary was about 800 lei, than 2950 in 1989, and the purchasing power was 83 % in 1990.

In EU, the purchasing power is also defined in correlation with the minimum salary in the economy. In EU there are major differences regarding the minimum salary in the economy. The value of the employees that had the minimum salary is: 16,8 % in France, 16% in Bulgaria, 12% in Latvia, 0,3% in Lithuania and 9,7 % in Romania.

In Romania, the purchasing power of the minimum salary had the tendency to decrease between 1990 – 2008, reaching the minimum level between 1999 – 2000, when the real minimum salary represented a quarter of the real minimum salary for the year 1990. From 1994

until 2002, with the exception of the years 1999 and 2000, the purchasing power of the minimum salary was about one third from the year 1990.

The inflation in Romania registered two top moments - in 1993 (the inflation rate – 256,1 %) and 1997 (the inflation rate – 154,8 %). Between 1990 – 1995 the inflation rate had three figures, but after that until 2005 it had many figures. After 1990, the inflation caused a show decrease of the purchasing power of the estate allocation for children.

The periods of time when the allocation for children had the lowest level was between 1992 – 1996 and 1999 – 2008, the lowest rate of the purchasing power was registered in 2000 (2,6 % for the allocation of the first born child and 37,1 % for the allocation of the second child).

The purchasing power of the pension of the farmer was in the communist period, in the transition period and even in the present, much lower than the average pension of social insurance. Only in 2004, the situation of the farmers in agriculture started to improve.

In 2007, the purchasing power of a pension in agriculture was higher than the level of the year 1990 with 39,5 %, and in 2008 with 56,4 %.

All of these explain why in 2007, according to a study of the World Bank , only 30% of the romanians people believed that their economic situation improved after 1989, while 40% of them believed that the communist period was much better for the economy, the living standard, the political situation and the level of the income.

Thus, for the population with medium and minimum income, which come from the social service, from agriculture or from the recession salaries given by social services, the necessity to satisfy the needs of goods and basic products generated big existential tensions, especially between 1992 – 1995 and 1997 – 2007.

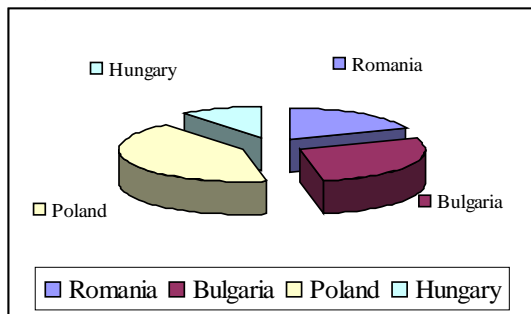
The Households Wealth and Debit Monitor of Romania made by CEE relates that the net financial resources of each Romanian raised to the sum of 407 € , which means at a national level almost 8 billion € or 7 % from GDP. These resources are active in cash, bank deposits, life insurances, investments in mutual and pensions funds and stock. In comparison with the financial

resources of each bulgarian, for example (909 € 34% from the bulgarian GDP per capita) or of each hungarian (3227 € 38% from the hungarian GDP per capita) and each polish (3156 € 45% from the Polish GDP per capita), the romanian person is, by far, the poorest european.

In 2007, the bank deposits of the population were about 900 € per inhabitant in Romania, 1300 € per inhabitant in Bulgaria, 2000 € per inhabitant in Poland and 2500 € per inhabitant in Hungary.

Thus, a bulgarian saved 40 % more than a Romanian, in the conditions when Bulgaria had a GDP per capita with 25 % lower than in Romania.

Tabel 3 Bank deposits in 2007 in about four countries in the European Union



Source – Eurostat, 2008

3. Conclusions

After 1990 a lot of Romanians took huge risks and had difficulties, they went to work abroad to earn more money.

According to the World Bank, the money sent by romanians from abroad took Romania on the eight place in the top of the countries which had money from the population that works abroad (about 9 billions dollars in 2008, almost one third more than in 2007).

This money represented 3 - 5% from the GDP of Romania in the last 3 – 4 years having a big contribution to the economic increase and the wealth of the population.

But this money caused the explosion of the local expenditure, having a huge pressure on prices from all the economic areas and, especially, in the real estate area (the increased demand – the increase of the prices) and in the exchange of foreign currency.

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„Value” in Economic Theory and Practice

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Abstract

The recording gauge used in the provision of economic information to conduct various analyses and comparisons is “value”. This concept has been used in the economic and social theory and practice and has existed in human reason since the beginning of mankind. The studies regarding the shaping of value in different economic contexts have been the subject of many articles and publications; each research having its particularities in terms of approach and enunciated conclusions. The material finality of studying value is the addition of value – the fundamental goal of national, multi-national and international companies that not only economists are trying to exploit to the fullest. It is only the result of the complex management of all aspects belonging to an entity, which must combine the use of the set of resources in an economic, efficient and effective manner in order to achieve the desired performances and results.

Key words: value, value paradigms, value analysis.

J.E.L. classification: M 40.

1. Introduction

The addition of value begins since the selection, choosing and evaluation stage of the strategies adopted by the management of the entities based on value. Therefore, increasing value isn't just about the obtained results and performances, but is also about relying on the study of the close and harmonious connection between the parts and elements that have contributed to their achievement, monitoring carefully the effects, as well as the generating causes of the effects. The benefits of the value-based management may be dissected as follows: the continuous maximization of creating value,

improving the company's transparency, facilitating communication with investors and analysts, harmonizing the interests of the managers with the interests of the shareholders, preventing the underestimation of the actions, establishing clear priorities for management, improving the decision-making process through the judicious planning of the allotted resources, encouraging investments that create value, offering support in complex problems that have high risks, setting targets for reward. In contrast, the main “disadvantages” of value-based organization, management and administration are: in most cases, it requires a change in organizational structure, the difficulty of using value-measuring instruments because of their high cost and excessive detailing of the issue, which may lead to overlooking the essence of the problem; the risk of including the wrong elements in formulas may lead to the presentation of a loss of value and, last but not least, it requires string support from the administration boards [1].

2. Research methodology and motivation

Generally speaking, the research methodology is a set of procedures, methods and techniques used in scientific research.

Researching means answering a question or seeking an answer. It isn't just studying. The study is a preliminary stage and is indispensable to research, but not more than that. This is the essential part of research – the problem or question that the study shows, enriches and tries to solve or answer – that it is the centre of what has to be done and if the reason exists, eventually a whole will exist too [2].

The importance of studying this subject is based on the fact that adding value and scientific research have become one of the main and essential tools used by most countries of the world to ensure sovereignty,

independence and economic, social and cultural progress. A tributary of these ideas, Edward A. Murphy stated: "To steal ideas from a person is plagiarism; to steal from many is research"[3].

By looking at the concept of "value" in different economic situations, the objective of the paper is to analyse the notion in various terminological constructions, such as: the paradigms of value, the market value, fair value, recoverable value, customs value, etc. The working procedure consisted of identifying the area of study, choosing the research subject, collecting data and information from literature, from the economic activity of the entities and from available data bases - search.ebscohost.com, www.emeraldinsight.com.

3. The conceptual spectre of value

According to the Romanian Explanatory Dictionary, value is the attribute of things, facts, ideas and phenomena to meet the social needs and ideals generated by them; the sum of qualities that give price to an object, a human being, a phenomenon, etc.; importance, meaning, price, merit, precious, expensive, of value; valuable, deserving, with authority.

In economic theory and practice, value represents the monetary expression of a product or service [4].

The first economists, such as Adam Smith and David Ricardo, considered that the value of a good or product depends of the amount of labour needed to produce it, while more contemporary economists believe that the product's utility for the consumer determines its value. Economists today accept that both factors, demand and supply, are important in determining the value of a product, by establishing the market value of that product.

4. Paradigms of value

The value theory holds a central spot in economics due to the controversies around the value-generating factor.

Because of the polemics regarding the determination of value and of its social and political implications, the stance on value has generated genuine economic schools and currents of thought. In this sense, D. Ricardo believed the issues of value were the key of

deciphering the whole economic mechanism, stating: "If I could overcome the obstacles in the way of giving a clear insight into the origin and law of relative or exchangeable value I should have gained half of battle" [5].

The intuition of exchange value has emerged since ancient times during the period of Xenofon and Aristotel who noticed the two attributes of a good (value and use value). The mercantilism theory, which saw the source of value and wealth growth only in the area of commerce, were soon eliminated from economic science by physiocrats, who believed value is an expression of utility and rarity and saw nature as a creator of wealth and additional value. Referring to value, Condillac, a physiocrat, stated: "Value is not an attribute of matter, but represents our sense of its usefulness and this utility is relative to our need. It grows or diminishes according as our need expands or contracts".

The objective theory of value considers work as a homogeneous area, common to all goods, which allows measuring and comparing this value, on which the exchange is conducted. A. Smith said "the real price of everything, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it". Therefore, work is the real measure of the exchange value of all things. This theory is known as the labour theory of value, being founded by A. Smith and D. Ricardo, and subsequently taken over by K. Marx. Actual labour is what creates the use value of goods, and abstract labour seen as a mere consumption of physical and intellectual energy determines the actual value, the measure of value being, in the opinion of Karl Marx, the socially necessary labour time. The other production factors (capital, past labour and nature) get involved indirectly in the process of obtaining value through work (alive), the single factor that creates value.

The limits of the objective theory of value are reflected in the generalization of the role of labour in obtaining value and consumer exclusion. This aspect was noticed by the founders of the subjective theory of value, through the contribution of the three neoclassical schools of thought: Vienna, Laussane, Cambrigde. The priority of the new theory is to explain the balance price by turning to the concept of marginal utility. Value has a purely individual and subjective

determination, being created by the appreciation of each consumer of the last consumed quantity of a good, which implicitly involves the goods' degree of scarcity.

The specificity of the objective theory of value is to acknowledge the three main production process factors – labour, nature and capital – and especially introducing the consumer next to the producer into the mechanism of determining value and giving him equal rights.

Trying to reconcile the two theories was attempted by the leaders of the schools in Lausanne and Cambridge, particularly by A. Marshall, who promoted the symmetric theory of value. Based on this theory, the price of goods, as an expression of their value, is determined by the simultaneous influence of demand and supply. Marginal utility and the price paid to acquire a good are important for the consumer, while the factors' consumption and the obtained incomes, therefore the efficiency of his activity, are important for the producer.

The contribution of Romanian economists is obvious during the process of elucidating the value, especially the contribution of professor Paul Bran, who brings to attention the concept of entropic value in the paper "The Economics of Value", the process of obtaining value being, in the opinion of the author, a process of entropy, changing the natural, social and economic potential and finding the necessary inputs only partially in the new product. Values are a result specific to entropic transformations in which the production processes, the consumption process, the processes specific for the environment and for social life are participating.

Regardless of the meaning of paradigms of value, its social acknowledgement is found in the price of the good. Comparing it with the effort made to obtain the product represents the essence of economic efficiency; this is why the attention that managers must pay to the process of obtaining value is essential, knowing that "a good value isn't random", as L.W. Crumm, the author of "Value Engineering", noted.

5. The inflexional forms of "value"

"Value" is found in the construction of a wide range of concepts used frequently in economic theory and practice. Among these, we will focus on the following terminologies:

- Book value: represents the value at which an assets is recognized in the balance sheet after deducting the accumulated depreciation to date, as well as the losses accumulated through depreciation (IAS 16 "Tangible assets"). Romanian regulations define net book value as the value at which an asset is recorded in the balance sheet after deducting total depreciation. It may be noted that national regulations use a concept to refer to the assets presented in the balance sheet, and International Accounting Standards use a different concept. Therefore, we use the concepts of gross book value (the recording value of the frozen assets, either at the time of entry or the re-evaluated value) and net book value (the recording value minus the calculated depreciation and constituted provisions).

- Fair value – recent global events have determined the need to increase the importance of the information written in financial statements. Therefore, there is more emphasis on the benefits of using fair value, which is "independent, credible, consistent and well founded" [6].

Fair value is a generic term, a desideratum, just like providing an accurate picture is the general accounting objective. It isn't an assessment criterion included in the accounting conceptual framework, nor a certain type of value, it is a pure accounting concept that reflects the economic reality of an entity in terms of its assets.

Fair value is defined as being the amount at which an asset may be exchanged or a debt settled between informed parties, of their own free will, during a transaction in which the price is determined objectively [7].

The most important merit of current economic rules is that, in the future, the role of accounting in supplying information in daily transactions will be considerably bigger.

For example, S.C. Alfa S.R.L. decides at the end of the year 2008 to conduct a revaluation on the basis of an evaluation made by an authorized evaluator for a land that was calculated at a fair value of

100.800,00 lei, resulting a revaluation value of 79.533,56 lei. At the end of 2009, due to prices lower by 20% for real estate caused by the economic crisis and due to compliance with regulations that stipulate that "revaluation should be conducted with sufficient regularity, so that the book value is not substantially different from the value determined by using the fair value at the date of the balance sheet" (OMPF 1752/2005), the entity should conduct another revaluation and the statement at 31.12.2009 would be summarized as follows:

Table 1. calculus statement for land

Record value	Net book value	Fair value	Revaluation difference
21.266,44	21.266,44	100.800,0 (31.12.2008)	79.533,56 increase
Results an increase of the asset's value, which will be highlighted in the account 105 „Revaluation reserves”			
100.800,00	100.800,00	80.640,00 (31.12.2009)	-20.160,0 reduction
Results a reduction in the asset's value, which will be highlighted in the account 105 „Revaluation reserves”			

(Source: the pre-working of the real-information given by the financial situations of the company.)

Revaluation, due to lower market prices in 2009, has lead to a negative influence on the balance sheet's frozen assets and equity, which ensured an accurate picture.

- The production value, called also production cost, represents the entry value - book value of the fixed assets produced by the entity, which consists of the acquisition cost of the raw and consumed materials, other direct expenses and the share of indirect expenses rationally related to the production of assets. Romanian entities that apply the International Accounting Standards must exclude the selling expenses from the production cost and acknowledge them as expenses of the period.

For example, to achieve a new manufacturing recipe, S.C. Alfa S.R.L. made the following expenses: materials 800 lei, labour 400 lei, electricity 50 lei, water 10 lei. After completing the research, we find the company complied with the conditions for the recipe to be considered an invention:

☞ receipt of the manufacturing recipe (work statement or delivery bill):

„Development = „Revenue from 1260 lei
costs” the production
of intangible assets”

☞ moving the manufacturing recipe in the category of patents (transfer note):

„Concessions, = „Development 1260 lei
patents, licences,” costs”
brands and other similar
rights and values”

- *Market value:* represents the current price (rate) of financial securities, which are transacted on the stock market, or the value at which an economic good may be sold on the free market at a market price.

6. Conclusions and research perspectives

The concepts that are built around the notion of value are far more numerous, but this paper addressed only a few of them in order to show a number of economic contexts in which this concept is extremely important. This paper may the prospect of studying the manner in which the entity may create or add value. One of the concepts that give rise to several controversies is fair value. Even before 2007, the measurement of fair value had changed dramatically. We should also mention about fair value that it is more than a conventional measuring technique for its supporters, because there is an intolerable inconsistency of the mixture of measurement systems. Fair value is not in itself a unique measurement methodology, but it includes a variety of approaches for the estimation of an output value. In terms of utility, fair value represents in accounting a new basis for real production, which, as may be noted, is based on the economic and financial culture.

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Consumer Behaviour in Time of Economic Crisis

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Abstract

Given the ongoing changes occurring in the Romanian economy and the world as it is natural to modify consumer behavior. Those who suffer most from the crisis are those who do not want to change, to adapt.. Consumers are able to handle this difficult economic environment with a low salary, manage to buy from stores so that to get money until the next salary, made themselves certain things without being forced to buy them from stores. The disappearance of alternative forms of credit has hit consumer behavior VAT increase to 24% share is huge for a small economy and a depleted population, representing an extremely difficult factor to bear 25% lower wages brought to reorganize priorities and the default behavior of consumers.

Key words: consumer behavior, market strategies

J.E.L. classification: D12

Those who suffer most from the crisis are those who do not want to change, to adapt. And that has nothing to do with age.

Exchange rate stability, place of work are factors that determine a state of optimism, the hope that it will be better.

One important thing this year for companies is to remain grounded in market realities and macro level "close to customers and employees maintain. "

The stake will be the amount from any product. Consumers are more careful about what they buy. Must every manufacturer (brand) to earn a place in the consumer wallet.

Consumer behavior has been called into involution, marking a return to universal products as a result of buyers trying to find effective and affordable solutions in the context of a budget significantly reduced compared with 2007-2008.

We are talking about a dynamic and mature market, which includes products of first necessity, with a frequency of purchase, thus, quite high. The diversity category was sustained in recent years by launching more and more specialized products that benefit and diverse forms of use, which take place or come in addition to universal products.

Last year, the market has seen a decline in sales compared to same period in 2009. The phenomenon was due to the changes that have occurred in consumer behavior that have become more cautious in choosing the products look so price weighs heavily in the balance. The VAT increase to 24% of the state collected more money, but lost on the other hand, because tax evasion has increased, and living standards have fallen even more.

We add however, that the end of the year in the fourth quarter, the situation has improved and the market is back on an upward trend.

The offer was comparable to that in 2010, launching a lower rate, but with gratuitousness. These sales were made both by traditional communication media, and in stores. There is no disagreement when it comes to nominating the most effective marketing tool - promotional packages. Most often they relied on price promotions, free promotions because of financial difficulties during this period was found to be much more effective this type of marketing. The client is looking for added value or addition product, and both make it back and buy.

In any case, the use of promotions as a tool to boost sales has immediate results which are expressed according to manufacturers, in increments of 20-30% during that campaign.

Predicting the role it will play promotions in 2011, we can say that their number remains high, especially because all manufacturers are focused on building this shelf.

A particular problem was, the choice of shops near the house, or visit the supermarket? Lately finds a slight increase in sales of small and medium-sized shops. What fuels their sales?

There are a number of trends for the consumer contributing to increase in value the convenience sector, such as:

- increasing the number of households with one person;
- demographic factors;
- women's empowerment. Career women, but at the same time are wives or mothers, are among a segment of buyers who emphasized the need to purchase solutions in the vicinity of the house;
- missing meals. Studies show that more than a quarter of buyers (27%) did not eat breakfast, 19% more than in 2004, and the convenience sector will only benefit from this trend;
- lack of daily nutrition plan for a growing number of buyers.

Studying the profile of buyers from convenience stores, it was found that they acquire a wide range of products from basic to find gifts for special occasions or postal service. The ability to buy products from sites that can be reached on foot is what draws us to convenience stores.

Shopping completing basic products are obviously the main opportunity to visit, among buyers, mentioned by about 43% of those surveyed. One in six (17%) have also stated that in order to go refuel with fruit and vegetables. Respondents with higher household who took part in focus groups said they preferred way to purchase it just because it provides an additional degree of freshness. Therefore attention and managers of such stores has turned lately to modernize and streamline the supply chain.

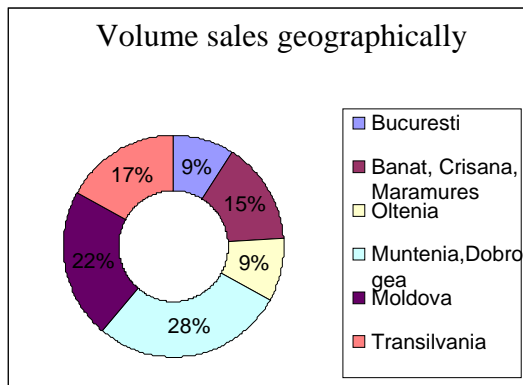
In addition, assortment of the product was adapted to the needs of the communities in which they belong, moving away from standardized product offerings.

Following the purchasing behavior of consumers if the basis for food, specialized manufacturers say they have not thought about long-term usefulness of the product but were oriented to the detriment of small packets to the big weights. Exception is made where the item was on promotion, and then the acquisition price was justified by the reduced package. "People do not store quite as much as they used, because trying to spend less on shopping in one store visit. Thus, rather they buy small weights - 75 g envelopes - than the average, 250 g and 500g " Customers who have always shown an intensive ("heavy users") have remained loyal to favorite brands, and those who have an average consumer or small are more price-oriented promotions and therefore more unfaithful brands.

In the case of cubes - the basis for food, consumers have preferred packages with more units, one possible explanation being given by the product consistency component prepared foods, but especially the proportion of the unit cube. A special case in selling cubes - base stands for foods in traditional commerce. Marketing cubes, pieces remain important because of the low prices traditional commerce.

According to producers, over 90% of buyers are women with families, responsible for household food supply and who frequently use to cook a wide range of food. In terms of sales achieved, the most popular variety is the spice of universal category, due to extensive possibilities for use. Price promotions influence the purchase decision on the shelves. In addition, a series of intervening factors such as kinds of food, quantity, for a specific brand preference and price. Sales are equally influenced by the quality and price and supply in the background of the shelf and visual impact. For cubes, taste and preference for a brand influences purchasing decisions, but the segment is sensitive to promotional offers. Processed data provided by GfK Romania on sales volume category spices - the basis for food depending on the area of origin of consumer shows the following distribution:

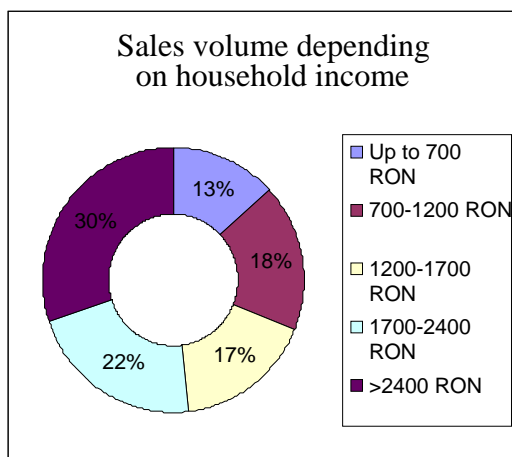
Figure 1. Sales volume of spices geographically



Source: GfK Romania

The same study shows an increase in the consumption of more natural, organic and bio. The health care products containing preservatives as lower stands at the consumer level category.

Figure 2. Volume sales of natural products based on household income



Source: GfK Romania

What do the data GfK Romania spices consumer behavior in 2010 compared with 2009: In 2010 compared to 2009, household expenditure on food base category have increased significantly by about 9%, influenced mainly by the higher price paid. During this period there were no significant changes in buying behavior (approximately the same number of buyer households continue to make acquisitions in this category, on average once every two months).

Market database for foods is dominated by three manufacturers (Unilever, Nestle, Podravka), they cover more than three quarters of market value in the market despite the presence of a large number of buyers.

Delikat is the brand that attracts the largest number of households buyer. Romania households still prefer the version powdered spices (covering about three quarters of market value), the growing segment from 2009.

Contrary to patterns observed for the purchase of other consumer goods, traditional trade deal still an important part of the expenditure category. At the same time gaining ground in modern trade against the trend of traditional through to hypermarkets and discount stores, compared to the level registered in 2009. In the period January to December 2010, the share of modern retail in this category, as value was 49%. Traditional retail has dominated most of the sales in value, with a share of 51%.

Muntenia & Dobrogea is the region most households with the highest consumption of spices (representing 26% of the total and is responsible for the acquisition of 28% by volume). Also, those living in rural areas buy nearly half of the volume group. Great retailers in Romania have recorded catastrophic sales in first two months of 2011, amid rising prices and declining purchasing power of customers. Decrease in salaries, pensions and refusal of the 13th month were the main factors that have been added and others such as increasing fuel prices, which are found in transportation costs, practically in all prices and rising food prices internationally.

Unfortunately, the rack prices are leading more consumers to not reach out to those products.

Currently, the best selling products are very cheap, the sales, especially food. If fuel prices continue to rise, we feel all the effects, be it producers, distributors, customers. If we will have a rise of gas prices, freight rates, they will all come true in a carousel that will lead to further price increases.

According to the National Institute of Statistics, food prices raised in February 2011 with 8.83% and 7.27% non-food.

The food, the biggest price increases were recorded in the two months of 2011 to 10.34% potatoes (with 16.99% in the first two months of the year) for vegetables and tinned vegetables was recorded an increase of 7.98%. A significant increase was recorded in February and fresh fruit, which grows by 4.1% last month and 6.93% in first two months of 2011.

And bread significantly influenced inflation after prices grows by 2.3% to 2.9% in February and the beginning of the year. In food products, most were more expensive tobacco and cigarettes (1.44%). In contrast, price declines were noted in eggs, which were cheaper in February by 2.21%, cars and spare parts (-0.12%) or air transport (-0.39%).

Fuel price increased by 2.26% earlier this year. Further increases are expected due to fuel tensions in the world related to conflicts in North Africa.

If companies will increase salaries with inflation, people's purchasing power will decrease, which will negatively affect consumption. Moreover, because of inflation and rising costs for food or other goods, the

ability to save a portion of the population will decline.

Conclusions

Inflation, that charge "parse" as some economists call it, will strongly affect the purchasing power of Romanians in the next period, given that revenues will not be indexed by the rate of price increase. Economists warn that the biggest inflationary pressures coming from food and fuel prices.

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Why the Tourist Chose the Romanian Coast

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Abstract

The tourism potential is a key component of tourism, and a prerequisite of tourism development. Romanian seaside has always been an attraction for all ages and social categories. The main form of tourism is health tourism which is preferred by foreign tourists. In the last years, because invested in one resort, Mamaia, due to increasingly low levels of living of a large proportion of the population who prefer to come on the Romanian coast chose other destinations. The consumer's tourism has diversified their wishes. Looking at the prices offered by other tour operators, as well as possibilities for leisure, they headed by the Bulgarian coast, Turkey and Greece in particular.

Key words: tourism, Romanian seaside tourism offer.

J.E.L. classification: M20

Black Sea coastal area, known in the country and the world, has always attracted tourists, because he always has something to offer and maybe meet some of the motivations of people interested in tourism business: attractive landscapes, still unspoiled traditions, crafts and craftsmen, historical and cultural relics, diversity and quality dining, recreational opportunities, hunting, fishing, water sports etc..

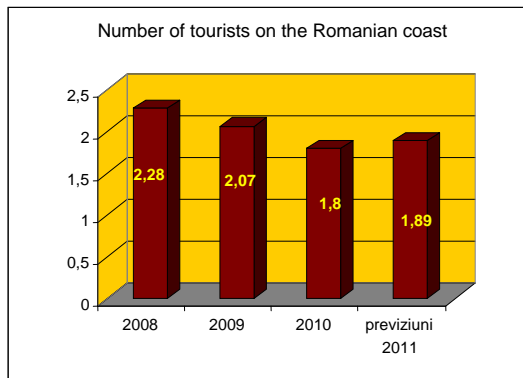
Place and role of the Black Sea coastal area, is increasingly important with the development of rural tourism as an alternative to raising the living standards of inhabitants of these lands. From this perspective, the tourism potential of a territory can be defined in a general way, through all the elements that act as tourist attractions and facilities which are suitable for a visit and receive passengers. Tourism, more than any other

area of activity is dependent on the environment which is "the raw material", the purpose and scope of activity and development of tourism, which is its support frame, the carrier of its resources.

Romanian seaside is the most exploited tourist area of Romania. Romanian Black Sea coast stretches 245 km and is composed of Delta and coastal lakes, which amounts to a total length of 163 km and the beaches stretching over 82 km. Each year about one million tourists come to visit the Romanian coast. The sea in its action eroded and made the shore to pull up or by turning bays in estuaries and lagoons, or by abrasion of the right promoters. Cliffs, which represent two thirds of the length of coastline, have heights ranging between 20 and 40 m.

Considered a pearl of Romanian coast, is located on the cord of sand separating the sea salt waters of Lake Siutghiol freshwater. Mamaia beach is the largest Romanian seaside beach, with a length of 10 km - the hotel "Park" to "Pirate's Inn" - and a width varying between 100 and 200 m and 50-100 m from north to south. Tourism in Romania focuses on natural landscapes and its rich history, having also an important contribution to the economy. In 2006, domestic and international tourism has secured 4.8% of PIB and around half a million jobs (5.8% of total employment). After trade, tourism is the second important sector in the services sector. Romania's economic sectors, tourism is dynamic and ongoing rapid growth and is also characterized by a large potential for expansion. After *World Travel and Tourism Council* estimates, Romania ranked in the top four countries are experiencing rapid development of tourism, with annual growth of tourist potential of 8% from 2007 to 2016. Number of tourists raise from 4.8 million in 2002 to 6.6 million in 2004. Also in 2005, the Romanian tourism has attracted investment of 400 million Euros.

Figure 1. The number of tourists accommodated in Romanian seaside resorts



Source: NATA

In 2010, the Romanian coast attracted 1.8 million tourists, 15% fewer than in 2009. This was reflected in operators' revenues, which fell by 25%, according to NATA. The decrease in revenues was higher than the number of tourists that prices fell last year. Most popular were special offers at low prices. The number of Romanian tourists who preferred foreign destinations has remained constant this year compared to 2009, but earnings fell travel agencies. The most requested foreign destinations for the summer season this year were Bulgaria, Turkey and Greece, and amid substantial price reductions, the number of tourists who went to Antalya has doubled.

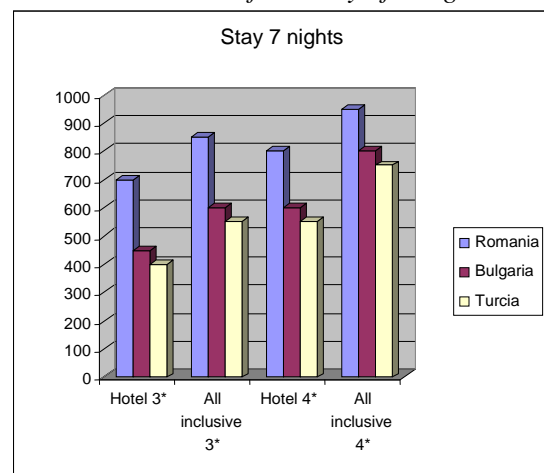
Romanian seaside, however, has not had the same performance as our neighbors. "While the weekends of high season (July 20 to August 20) stations were packed, the occupancy rate has been 50% during the week. Throughout the season, the Black Sea hotels were occupied for more than 60% ", according to NATA. One problem was that because of budgetary restrictions, the state has not passed any special offer launched by the agency. Regarding the number of foreign tourists preferred to spend his holiday on the Romanian coast grew by over 30% from 3,000 to about 4,000 people. Romanian tourists preferred the 2-3 star hotels and paid, on average, for a stay of five nights, between 500 and 800 lei in peak season.

For 2011, representatives of the NATA estimates that prices will stagnate or even to decline by 10% in the intermediate season (June 15-July 15 and August 15-September 1). This year, the Romanian seaside hoteliers offer several new services are included in

packages, such as the ability to pay for five nights accommodation to get seven, free access to swimming pool and lounge by the pool and on beach, free for children baby land, free accommodation for children younger than 12 years. According to the National Statistics Institute, the first 10 months of 2010, both arrivals and overnight stays in tourist reception with functions of accommodation were recorded decreases of 2.1%, respectively, of 8.6% over the same period last year.

A continuing problem of the Romanian seaside is that prices charged by the Romanian seaside hoteliers are higher than those in the resorts of Turkey and to a level close to those of people in Bulgaria, while the possibilities of fun and quality of beaches is lower.

Figure 2 Variation of the price accommodation for a stay of 7 nights



Source: NATA

In Romania

Comparing prices in high season packages that include lodging in a double room, so for two, but do not include transportation. Thus, in Mamaia, a stay of seven nights in three star hotel with half board, cost 650-750 Euros / double room. If you chose all-inclusive, it will reach 3000-3500 lei for a double room on seven nights.

Prices increased in 4-star hotels. It comes to 800 Euros per room, half board. All-inclusive version costs 3,800 lei / room, approximately 900 Euros for a stay of a week.

In Bulgaria

In Golden Sands, two people will pay for seven nights half board accommodation in 4 star hotel between 550 and 700 euros, while for all-inclusive price reaches 700-900 EUR. Prices are lower for the three-star hotels. For a stay of seven nights, half board, the price is 400-500 euro / double room, while for an all-inclusive packages to reach the 550-650 euro / double room / night.

In Turkey

And in the resort of Marmaris in Turkey are lower than the prices on the Romanian coast. In the case of a three-star hotel, a stay of seven nights half board reaches 380-450 EUR / double room. Those who opt for all-inclusive will pay 450-600 Euros for two people.

In the case of four-star hotels, prices will be the alternative of 500-650 Euros 700-850 Euros for half board and all-inclusive. Price differences are explained by the fact that Turkey has more resorts, and so competition is higher. There are many types of accommodations. On the other hand, in Romania 80% of the seaside tourist flow is ensured by the Romans, who will not go away from home.

And contributions on salaries, paid by Romanian hoteliers are higher than those paid by the Bulgarians. Then, because the price of utilities, food is more expensive in Romania than in Bulgaria or Turkey. Another factor influencing the differences between the three countries analyzed is the length of the tourist season as the Romans begin to blame the season after 15 June, when school holidays begin.

Remain uncovered when the season ends, even if hotels are open for Romanian and foreign tourists are not coming because they are not open terraces, shops, etc.. In an attempt to counteract the negative effects of the crisis were felt in the budgets of each novel have appeared in recent years all sorts of programs and attractive offers in terms of price.

Because 2010 brought dramatic declines in revenue Romans, many of them waiting for all programs and a week Black Sea, which makes NATA representatives to see in these initiatives a success.

Regarding the program 'Coast for all', it is the fourth year running. We compared prices at the new prices on all coasts and our neighbors are the lowest. The program is open to all, on the principle of first come first served basis. It is a program designed to stimulate circulation Romanian seaside, with no selection criteria.

There are open days holiday program in 15 to 31 August. After the needle passes the peak period, July 15 to August 15 tourists can pay to stay five nights and six, or pay 6 nights and stay 7 or 8. There are hotels even known. This year more than ever are special and diversified types of offers, which is a good thing in the hope that tourism will revive and so we could talk out of the crisis of this sector of activity.

Realizing SWOT analysis of tourism on the Romanian coast have emerged following elements:

Strengths:

- the natural attachment development of tourism activities
- high accommodation capacity, which is in full expansion
- tradition in tourist activities
- potential high health spa
- geographical position favorable to the development of new tourism products
- qualified and experienced human resources in tourism

Weaknesses:

- Insufficient parking places, in relation to the number of tourists during the summer;
- Lack of permanent tourist products
- lack of adequate infrastructure development of cruise tourism;
- Lack of a common long-term strategy for tourism investments and sustainable development of this sector blackened
- Promotional material available and fewer and fewer poor quality.

Opportunities:

- position at the confluence of three major geopolitical zones, creates the premises revaluation high tourist potential.
 - The possibility of developing new projects to develop the whole area interested
- Threats:

- lower interest for Romanian tourists travel products autonomous
- erosion of the beaches of carrying long can affect tourism development activities in this area.

The size and diversity of its elements, their value and originality, potential for tourism is the main motivation for tourist traffic. The correct evaluation of its components, assessing opportunities for their effective realization requires the establishment of a national and adequate categorical outline a coherent strategy to enable the development of tourism. Tourist attraction is the fundamental reason and the initial momentum of the movement to a

specific tourist destination. A zone or an area has interest to the extent that has elements of attraction which can lead to development of tourism activity.

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Net Present Value Criterion - Important Factor in Validating the Efficiency of an Investment

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Abstract

The net present value has been and will remain one of the main criteria for selecting an efficient criterion. Financial theory has not referred to another more reliable criterion use selecting investment projects, rather than the maximization of net present value.

In general, the net present value means the surplus value resulting from the operation of an investment. This surplus (expressed in absolute terms) is the consequence of a comparison between the estimated effects generated by the analyzed investment and the effects that are judged to be obtained on behalf of investment alternatives.

The added profitability that will result from selecting and promoting investment projects superior to the investment on the money market, will lead to the increase of the company's value. The contribution of each investment project, to this additional value of the enterprise, is the net present value.

Key words: investment project, net present value, interest, investment money

J.E.L classification: D53, E22, G11

1. Introduction

Before investing one leu in any venture, one must know what will come out of every leu invested. While we take an investment decision, it is necessary to learn how to compute net present values, in order to obtain support for prudent investment decisions.

The net present value (NPV) is defined as the present values of cash flows less the amount invested and this updated if necessary. Net present value, as the name suggests, is nothing but a series of cash flows

emitted during the entire investment, expressed in present value.

Net present value takes into account both the positive and negative cash flows, meaning that it takes into account the investment made and the income generated.

NPV represents, increasingly more, a key criterion in dividing the investment projects. Thus, if through updating procedures it can update all expenses, revenues, future profit and compare them; this practically means applying the NPV rule.

As an evaluation method that takes into account the two sides of the investment activity, respectively the costs and benefits brought, the NPV makes a comparison between the cash flow released during the lifetime of a project (total and updated to time reference) and the investment effort (total, current value) involved in carrying it.

2. Body of the paper

Net present value (NPV) is one of the best financial instruments to establish the value of an investment project.

NPV criterion involves choosing from a series of investment projects, the one that has a maximum net present value. However, there are times when a project with a negative NPV is accepted because it constitutes a necessary premise for another project with a significant NPV.

From a financial standpoint, the investment represents the decision through which an actual certain amount is changed with future superior revenues with a certain level of probability.

In terms of monetary flows, the investment can be seen from four angles:

a) as one initial expense and one collection at the end of the period in which the investment takes place;

b) as a multiple expense, during the execution of the investment objective, and one collection, finally;

c) as one initial expense and multiple collections, during the execution;

d) as a multiple expense and multiple collections, during the execution.

NPV criterion is particularly important in any assessment of an investment. The major advantage of this method is that once the future cash flows are estimated and knowing, of course, the initial investment expense, calculations are very easy to be done. It is a quick and efficient method.

The net present value (NPV) of the project indicates the expected impact on the company's value, and the projects with a positive NPV are expected to increase this value. Thus, the rules regarding the decisions to be taken based on the NPV specify that all independent projects with a positive NPV should be accepted. If NPV is higher than zero, the project is acceptable because the revenues are sufficient to obtain a profit and to return the initial invested capital, before the end of the life of the investment. If NPV equals zero, the equilibrium is achieved at the end of life and the investment is much less attractive.

NPV is determined as the difference between the present value of the operation and the future resale of the investment (V_0), on the one hand, and the invested capital (I_0) on the other side. The net present value of the investment is calculated as the sum of future cash flows and discounted at the market interest rate $NPV = V_0 - I_0$. [8]

NPV criterion starts from the assumption, mentioned above, of an unsaturated money market: capitals (I) can be at any time reinvested on the money market, at the market interest rate (k), in order to obtain future cash flows (CF_t): [8]

a) for one year:

$$I_0 \cdot (1+k) \leq CF_1 + VR_1 \quad (1)$$

or

b) for $t = 1,2,3,\dots,n$ years:

$$I_0 \cdot (1+k)^n \leq \sum_{t=1}^n CF_t \cdot (1+k)^{n-t} + VR_n \quad (2)$$

From where:

a) for one year:

$$I_0 \leq \frac{CF_1 + VR_1}{1+k} \quad (3)$$

b) for $t = 1,2,3,\dots,n$ years:

$$I_0 \leq \sum_{t=1}^n \frac{CF_t}{(1+k)^t} + \frac{VR_n}{(1+k)^n} \quad (4)$$

where:

I_0 - initial investment expenses;

$\sum_{t=1}^n \frac{CF_t}{(1+k)^t} + \frac{VR_n}{(1+k)^n}$ - present value of future cash flows.

As the present cash flows (V_0) go higher than the invested capital, the investment project will be more efficient. [2]

NPV is calculated as the present value of the cash inflows minus the present value of cash outflows. This relationship is expressed by the formula:

$$\begin{aligned} VAN &= \sum_{i=1}^n \frac{CF_i}{(1+d)^i} = \\ &= CF_0 + \frac{CF_1}{(1+k)^1} + \frac{CF_2}{(1+k)^2} + \dots + \frac{CF_n}{(1+k)^n} \end{aligned} \quad (5)$$

where:

CF_i - net value of cash flows from year i ;

CF_0 - initial investment;

d - discounted rate;

n - number of years.

In the case of credited investments, NPV has to be higher than interest paid (interest which is usually recorded in operating expenses and not in the investments). To establish NPV at time zero we use the formula:[10]

$$VAN_0 = \sum_{t=1}^n CF_t \cdot (1+K)^{-t} - I_0 \quad (6)$$

where:

I_0 - discounted net investment at time 0.

At this moment there are carried out only the initial expenses (I_0), the investment begins to generate CF after starting the operation (considering the project period does not exceed 1 year). This criterion assumes that the annual cash flows (CF_t) are constantly reinvested in the financial market at the level of the discounted rate (K) which is unrealistic. [10]

If the discounted rate (K) varies from one period to another, VAN_0 becomes:

$$VAN_0 = -I_0 + \frac{CF_1}{(1+K_1)} + \frac{CF_2}{(1+K_1) \cdot (1+K_2)} + \frac{CF_3}{(1+K_1) \cdot (1+K_2) \cdot (1+K_3)} + \dots \quad (7)$$

It can be noted that a high discounted rate determines a lower NPV. Choosing the discounting rate is crucial for the reliability of the study.

To illustrate this we assume that a commercial company has resources to invest in an amount of 1.000.000 lei. It has to select from three projects by using the NPV criterion the best investment option.

The characteristics of the investment projects are in the following table:

project	Investment value CF ₀	Cash flows generated by the investment project – thousands lei				
		1	2	3	4	5
A	750	300	275	250	375	312,5
B	1.000	387,5	312,5	437,5	375	350
C	625	150	300	250	325	262,5

For all the projects, the discounted rate which corresponding to the growth option of the company is 12%.

It will be determined the NPV for all three investment projects.

We use the synthetic general formula of computing the net present value:

$$VAN = \sum_{i=1}^n \frac{CF_i}{(1+d)^i} - CF_0 \quad (8)$$

►Project A

We determine the discounting factors:

- year 1: $\frac{1}{1+12\%} = \frac{1}{1,12} = 0,8929$ (9)

- year 2: $\frac{1}{(1+12\%)^2} = \frac{1}{1,12^2} = 0,7972$ (10)

- year 3: $\frac{1}{(1+12\%)^3} = \frac{1}{1,12^3} = 0,7118$ (11)

- year 4: $\frac{1}{(1+12\%)^4} = \frac{1}{1,12^4} = 0,6355$ (12)

- year 5: $\frac{1}{(1+12\%)^5} = \frac{1}{1,12^5} = 0,5674$ (13)

We determine the discounted values:

- year 1: $300 \cdot 0,8929 = 267,87$ (14)

- year 2: $275 \cdot 0,7972 = 219,23$ (15)

- year 3: $250 \cdot 0,7118 = 177,95$ (16)

- year 4: $375 \cdot 0,6355 = 238,3125$ (17)

- year 5: $312,5 \cdot 0,5674 = 177,3125$ (18)

$$VAN = \left(\frac{267,87 + 219,23 + 177,95 + 238,3125 + 177,3125}{(1+12\%)^1 + (1+12\%)^2 + (1+12\%)^3 + (1+12\%)^4 + (1+12\%)^5} \right) - 750 = 1.080,675 - 750 = 331 \text{ thousands lei}$$

or

$$VAN = \sum_{i=1}^5 \frac{CF_i}{(1+d)^i} - CF_0 =$$

$$\left[\frac{300}{(1+12)^1} + \frac{275}{(1+12)^2} + \frac{250}{(1+12)^3} + \frac{375}{(1+12)^4} + \frac{312,5}{(1+12)^5} \right] - 750 =$$

$$\left[\frac{300}{1,12} + \frac{275}{1,2544} + \frac{250}{1,4049} + \frac{375}{1,5735} + \frac{312,5}{1,7623} \right] - 750 = 1080,681 - 750 = 331 \text{ thousands lei}$$

►Project B

We determine the discounting factors:

- year 1: $\frac{1}{1+12\%} = \frac{1}{1,12} = 0,8929$ (21)

- year 2: $\frac{1}{(1+12\%)^2} = \frac{1}{1,12^2} = 0,7972$ (22)

- year 3: $\frac{1}{(1+12\%)^3} = \frac{1}{1,12^3} = 0,7118$ (23)

- year 4: $\frac{1}{(1+12\%)^4} = \frac{1}{1,12^4} = 0,6355$ (24)

- year 5: $\frac{1}{(1+12\%)^5} = \frac{1}{1,12^5} = 0,5674$ (25)

We determine the discounted values:

- year 1: $387,5 \cdot 0,8929 = 346$ (26)

- year 2: $312,5 \cdot 0,7972 = 249,125$ (27)

- year 3: $437,5 \cdot 0,7118 = 311,4125$ (28)

- year 4: $375 \cdot 0,6355 = 238,3125$ (29)

- year 5: $350 \cdot 0,5674 = 198,59$ (30)

$$VAN = \left(\begin{array}{l} 346 + 249,125 + \\ + 311,4125 + \\ + 238,3125 + 198,59 \end{array} \right) - 1.000 = \quad (31)$$

$$= 1.343,44 - 1.000 =$$

$$= 343,44 \text{ thousands lei}$$

or

$$VAN = \sum_{i=1}^5 \frac{CF_i}{(1+d)^i} - CF_0 =$$

$$\left[\begin{array}{l} \frac{387,5}{(1+12)^1} + \frac{312,5}{(1+12)^2} + \\ + \frac{437,5}{(1+12)^3} + \\ + \frac{375}{(1+12)^4} + \frac{350}{(1+12)^5} \end{array} \right] - 1.000 =$$

$$\left[\begin{array}{l} \frac{387,5}{1,12} + \frac{312,5}{1,2544} + \\ + \frac{437,5}{1,4049} + \\ + \frac{375}{1,5735} + \frac{350}{1,7623} \end{array} \right] - 1.000 = \quad (32)$$

$$= 1.343,44 - 1.000 =$$

$$= 343,44 \text{ thousands lei}$$

►Project C

We determine the discounting factors:

- year 1: $\frac{1}{1+12\%} = \frac{1}{1,12} = 0,8929 \quad (33)$

- year 2: $\frac{1}{(1+12\%)^2} = \frac{1}{1,12^2} = 0,7972 \quad (34)$

- year 3: $\frac{1}{(1+12\%)^3} = \frac{1}{1,12^3} = 0,7118 \quad (35)$

- year 4: $\frac{1}{(1+12\%)^4} = \frac{1}{1,12^4} = 0,6355 \quad (36)$

- year 5: $\frac{1}{(1+12\%)^5} = \frac{1}{1,12^5} = 0,5674 \quad (37)$

We determine the discounted values:

- year 1: $150 \cdot 0,8929 = 133,935 \quad (38)$

- year 2: $300 \cdot 0,7972 = 239,16 \quad (39)$

- year 3: $250 \cdot 0,7118 = 177,95 \quad (40)$

- year 4: $325 \cdot 0,6355 = 206,5375 \quad (41)$

- year 5: $262,5 \cdot 0,5674 = 148,9425 \quad (42)$

$$VAN = \left(\begin{array}{l} 133,935 + 239,16 + 177,95 + \\ + 206,5375 + 148,9425 \end{array} \right) - 625 = \quad (43)$$

$$= 906,525 - 625 =$$

$$= 281,525 \text{ thousands lei}$$

or

$$VAN = \sum_{i=1}^5 \frac{CF_i}{(1+d)^i} - CF_0 =$$

$$\left[\begin{array}{l} \frac{150}{(1+12)^1} + \frac{300}{(1+12)^2} + \\ + \frac{250}{(1+12)^3} + \\ + \frac{325}{(1+12)^4} + \frac{262,5}{(1+12)^5} \end{array} \right] - 625 =$$

$$\left[\begin{array}{l} \frac{150}{1,12} + \frac{300}{1,2544} + \\ + \frac{250}{1,4049} + \\ + \frac{325}{1,5735} + \frac{262,5}{1,7623} \end{array} \right] - 625 = \quad (44)$$

$$= 906,525 - 625 =$$

$$= 281,525 \text{ thousands lei}$$

Although each of the investment projects recorded a positive net present value, the company will have to opt for project B because it generates the maximum net present value.

If the company has as an objective the profit maximization, the projects should be undertaken only if their NPV is higher than the opportunity cost.

An investment analysis requires the definition of input data and key variables behind the cash flow structure, which involves understanding the changes that result from decisions, regardless of the accounting methodology, tax adjusted and integrated into the economic life. The economic analysis of the investment decisions should be based on differentiation of income and expenditures, in the form of flows caused by the decision, and not of changes due to accounting policies. [6]

3. Conclusions

- Net present value recognizes the time value of money principle; it allows comparing the investment effort from the present time, respectively the opening of the project that is a value to date with an investment effect, respectively future cash flows discounted at a rate that expresses the opportunity cost of the invested amounts.
- Net present value allows the decision maker to pursue investment throughout its life cycle and does not provide only a picture at a time, as the accounting methods do.
- Net present value evaluates the investment as the shareholders do, given the importance of opportunity costs of invested capital.
- Net present value captures all cash flows in a single rate and lends itself to computer modeling, allowing for sensitivity analysis.
- Net present value respects the adding value principle, an important rule which allows the analysis of investment packages and even of the entire company.

To justify an investment, the NPV has to be positive and higher than the compounded interest, received from the capital market. As the NPV increases more, the project becomes more profitable, and if NPV is negative, CF does not allow rebuilding the initial allocated funds and the project should be rejected.

The main measures of the investments are designed to take into account the temporal scope of cash inflows and outflows related to the investment, in relation to the economic attractiveness and compared to the expectations regarding the profitability. Creating added value for the shareholders through a higher profitability than the cost of capital is the key criterion of investment analysis, net present value and the internal rate of return being able to be used in testing analytically this result. [6]

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A Hybrid Architecture For Context-Aware Systems

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Abstract

Today applications give us complex services in behalf of the user no matter of location, time or hardware infrastructure. There is a growing realization that computer systems will need to be increasingly sensitive to their context. That is, the application can decide what to do, based not only on the explicitly presented input, but also on the context, and its result can affect not only the explicit output, but also the context. This paper describes the need for an extensible context framework with embedded features. A hybrid (symbolic/connectionist) architecture is proposed. It consists of a multitude of agents having both a symbolic and a connectionist part. The symbolic part represents some knowledge structure, while the connectionist part represents its relevance to the current context. The performance of the system emerges as a result of the work and interaction of the currently active agents, where the set of active agents is not predefined for a specific task but is dynamic and reflects the specific context.

Key words: context-aware systems, computer systems architecture, software agents.

J.E.L.classification: C8, C89

1. Introduction

The progress in hardware and software technologies permits to develop more intelligent applications at macroscopic level.

Moreover the complexity of industrial applications demands such kind of onset. The need of integrating the researching made in the computers and control field is obvious.

The computation is made at a high level of abstraction, almost human and the architecture that specifies the underlying

infrastructure is very important.

In this context the paper presents an architecture that combines both advantages given by the distributed autonomous architectures and centralized architectures in a generic control system.

The system is based on blackboard model and uses agent technology in a distributed environment.

Today applications give us complex services in behalf of the user no matter of location, time or hardware infrastructure. There is a growing realization that computer systems will need to be increasingly sensitive to their context. Traditionally, hardware and software were conceptualized as input/output systems: systems that took input, explicitly given to them by a human, and acted upon that input alone to produce an explicit output. Now, smart computers, intelligent agent software will have to operate on data that are not explicitly given to them, data that they observe or gather for themselves. These operations may be dependent on time, place, weather, user preferences, or the history of interaction. In other words, context. Laptops, Notebooks, PDAs, smart phones and other devices have already freed us from the workstations and desktops. Large scale experimental computing “clouds” and “grids” have provided service to an extraordinary number of computer users. The accent is on “giving the right thing at the right moment”. For this the context is important. That is, the application can decide what to do, based not only on the explicitly presented input, but also on the context, and its result can affect not only the explicit output, but also the context. Any given context may include information about the physical world (location, movement, temperature, pressure, device characteristics, and so on) and about the logical world surrounding the service consumer. Even historical information about any of these aspects might be included. Context can be considered to be everything

that affects the computation except the explicit input and output.

This paper describes the need for an extensible context framework with embedded features. A hybrid (symbolic/connectionist) architecture is proposed. It consists of a multitude of agents having both a symbolic and a connectionist part. The symbolic part represents some knowledge structure, while the connectionist part represents its relevance to the current context. The performance of the system emerges as a result of the work and interaction of the currently active agents, where the set of active agents is not predefined for a specific task but is dynamic and reflects the specific context. So particular symbolic operations and data structures may be supported or suppressed depending on the particular activation pattern of the connectionist parts which represent the context-dependent relevance of the operations and structures. In this way a context-sensitive computation emerges.

The paper has four sections: Introduction, Related work, A context-aware architecture, and Conclusions. The first section presents context sensitive systems and their characteristics. Related work section summarises context architecture research which has been published before. The context-aware architecture section includes technical description of structure of context architecture and possible applications. Finally, Conclusions section presents technical capabilities of the architecture.

2. Related work

Context control is necessary in all applications. Applications are complex, platform independent and intelligent. To manage complex applications a modular approach is needed and an important aspect is the architecture of the applications. The modular applications are loosely coupled or autonomous. It is obvious that each component has to self control its behavior. The intelligent behavior refers also to self control without an explicit action of the user. So, context-aware characteristic is implied.

To be platform independent, applications don't manage directly their resources or they specify the needed resources using a universal standard.

Context-aware systems are able to adapt their operations to the current context without explicit user intervention. The context-aware feature is needed in today systems that have pervasive (ubiquitous) characteristics. The goal of researchers is to create a system that is pervasively embedded in the environment, without any explicit resource management, completely connected, intuitive, portable, and constantly available. Context aware systems are suited in all today applications.

Although new technologies are emerging, the most crucial objective is not, necessarily, to develop new technologies, but on finding ways to integrate existing technologies with existing infrastructures and give user best tools on an existing context. For example Carnegie Mellon University's Human Computer Interaction Institute (HCII) is working on a research in their Project Aura, whose stated goal is "to provide each user with an invisible halo of computing and information services that persists regardless of location." The Massachusetts Institute of Technology (MIT) has a project called Oxygen. MIT named their project after that substance because they envision a future of ubiquitous computing devices as freely available and easily accessible as oxygen is today.

In the literature there were several surveys on context-aware system architectures and for us the most significant ones are the following: Beldauf et al. [1] proposed a survey of a good number of architectures and Moeiz Miraoui et al. give us an excellent survey of context-aware systems in pervasive computing environment [2].

The Active Badge project [3] developed by Olivetti Research Ltd. aims to built a system for phone calls delivery according to the called person's localization. The architecture is layered and has four layers: the network controller which supervises the operation of the sensor network, the information presentation which is responsible for data management and control of localization information, the data processing which selects the interesting information at the time of localization variation, the user interface to display the textual information about badges variation position. Another example is The Xerox project ParcTab [4] with a material infrastructure that enhances the development of applications aware to

localization context (person location, surrounding devices, nearby people, etc.). The stick-e-notes project [5] is a framework to support the development of context-aware application where localization is the basic component of context. In this system the main component is a personal digital assistant (PDA) connected to a localization sensor. The idea behind the stick-e-notes comes from stick notes used to remind user about something (or to briefly describe something). These architectures are dependent on hardware. The CASS tool [6], CORTEX framework, Biegel et al. [7], context toolkit [8], Hydrogen [8], CoBrA [9] are layered architectures for context-aware systems that support the development of context-aware applications in an intelligent space. Most of the architectures make distinction between context sensing processes from its use. This permits an abstraction of low level sensing details and increases the extensibility and reusability of architecture components. Most of these architectures are layered and composed of the following components:

- sensor (physical sensing of contextual information),
- interpretation: transformation of information into a more significant and useful information,
- reasoning: (not present in all architecture) deduces and predicts new contextual information,
- storage and management: basic operation in managing contextual information (add, remove, research, update, etc.)
- adaptation: adaptation of provided services according to the current context.

3. The context-aware architecture

A context-aware environment has some specific characteristics. Context-aware system has to perceive contextual information. Software architecture must hide the complexity of the devices by providing a higher level of abstraction which makes it independent of the devices and enhances the reusability of architecture components.

Context aware systems have to adapt to the current context without an explicit intervention from the user and for this is have to have proactive devices. This requires that

devices embed a reasoning mechanism in order to take initiatives for a correct adaptation. For this the devices must be autonomous, independent from each other and easily connected.

A context-aware system has to be flexible and used in different environments. So that devices can be added or removed dynamically without affecting the entire operation of the global system (hardware extensibility).

Context-aware architecture should provide reusable components in order to ease their integration and reduce development effort. To have an extensible and reusable software architecture a higher level of abstraction is needed.

To be proactive an interpretation module and a reasoning mechanism is needed.

Software architecture must hide the complexity of the physical devices by providing a higher level of abstraction which makes it independent of physical devices and enhances the reusability of architecture components.

A context-aware system is composed of proactive devices that adapt to the current context without an explicit intervention from the user. This requires that devices embed a reasoning mechanism in order to take initiatives for a correct adaptation.

The architecture have to make an abstraction of contextual information in order to be hardware independent.

The necessary components of the architecture, for each type of context, are:

- devices equipped with sensors to perceive context variation and send them to the server without local processing;
- a database to store the data;
- a module for context interpretation to obtain a higher level of abstraction;
- a module for reasoning that give the proactive and self control characteristic.

Extending the existing architectures, the architecture has to have two interfaces:

- Sensor of events perceived by sensors (sensor or consumer);
- Event emission to adapt to the current context (actuator or producer).

The communication uses the mechanism based on events which are established dynamically during the system operation.

Architecture dominates mechanism [10], i.e. global design determinates global capabilities such as perception, planning, goal management and action. The lowest level modules simply gather sensor information from a data acquisition card (sensory processing) and implement simple single-loop feedback control algorithms in response to the evaluation of the problem or command coming from higher levels. They may also maintain a model of the physical subsystem they are controlling (a world modelling structure that contains more detail but at a smaller scale than the higher modules). Higher level modules may incorporate long-term planning and evaluation in the behaviour generation and value judgment operations. A significant concern with complex systems is the communication between modules. Communications set the infrastructure for intelligent and complex designs. Since high-level commands are decomposed throughout the levels, it is necessary for higher modules to pass commands to lower modules so that tasks can be carried out. Furthermore, for system modelling purposes, long-term planning, and fault detection, it is necessary for lower modules to be able to communicate status information to those at the higher level.

Context-aware is characterized by event-driven operations: system activities are driven largely by interrupts coming from sensors that are bound to specific functions, which transform the sensor signal into a series of signals to the control devices. Often context-aware systems, and their data management subsystems, must be highly available, because they control real-world processes. The key performance requirement is guaranteed maximum response time under peak load at least for the functions of high priority—otherwise something might crash or explode or expire. Therefore, context-aware systems—and the real-time databases underlying them—must be able to do deadline scheduling. In a typical context-aware system incorporating a real-time database, each device detects the values of some attributes of the real world and makes them available to the database. In turn the database provides the information needed by various system transactions to perform their functions.

Designing a control algorithm based only on isolated conventional control methods will not suffice to achieve autonomous or even proper operation of a large control system that needs to perform many complex tasks in real time. For such control systems it may be difficult or even impossible to develop an analytical model that describes the overall operation. For many years researchers have been trying to develop a systematic approach for design and implementation of these types of control systems. The usual approach for overcoming the complexity is to break down the problem to smaller and easier to solve sub-problems (and conventional control approaches are sometimes quite useful for these). The resulting control algorithms often use a "hybrid" or coordinated combination of control methods and address the control of both the continuous and discrete-event components of the plant. This has led to the introduction of several functional architectures that integrate a variety of methods to try to achieve autonomous operation. In general, these architectures have a hierarchical structure and provide coordination of the physically distributed subsystems to achieve system-wide goals.

Challenging practical issues surround the implementation of complex real-time control systems. One example is the development of communications between multiple, separately operated subsystems whose behaviour may be interdependent. Moreover, different subsystems may be running on different and incompatible platforms making the problem even more difficult. It is desirable to develop a control algorithm which is system independent, so that it can be operated on different computer hardware and software.

The other possible solution is the use of blackboard architecture. A blackboard provides all agents with a common area in which they can exchange information, data and knowledge. Agents initiate communication by writing their information towards the blackboard and all other agents can always access the blackboard to see if new information has arrived. No direct information exchange between agents takes place in the blackboard system. Every agent solves its own problem based on information from sensors and the blackboard.

The design of a multi-agent system requires flexible autonomy. Meaning that agents will be required to work autonomously, but will often be influenced by others. A central control system will not be used, as an autonomous system with central control in a dynamic environment is rather difficult to realise and decentralised control systems seem to be more robust. Furthermore, global optimisation is a relative subject in a changing environment and robustness is of equal importance. To get a balance between performance and complexity a hierarchical architecture based on semi-autonomous agents seems to be the solution. Each layer has its own optimisation view and may help solve conflicts of lower level agents.

The proposed architecture is based on a structured approach, which allows the designer to apprehend the complexity of great systems using a modular and hierarchical specification. The design of the structuring model proceeds from the subdivision of the physical process into groups forming an n-ary tree. A node is an entity. In the same level, entities are grouped within a parent entity of superior level, forming a parent-children relationship. Entities can communicate only with their parent entity or use the services given to them by their children entities. This tree structuring has a lot of benefices for entity access and data. Once the hierarchical architecture is defined, the structuring model is resumed in a top down way, to analyze, specify and describe the content of each entity. This structuring highlights the whole knowledge (data, processing, control, storing, etc.) concerning the functioning of each entity as well as its interaction with the other entities. The architecture of the control/monitoring system is organized in hierarchical entities. Each entity corresponds to a well defined subset of the system which controls and monitors at a given abstraction level. Essentially, the blackboard model provides a high-level abstraction of knowledge and solution techniques for dynamic control and allows use of the knowledge for opportunistic and incremental problem solving. Any change in the solution state, generated by an event, either due to generation of additional information or

modification of existing information is immediately recorded in the blackboard. The controller notes this change and takes necessary actions by invoking an appropriate knowledge source.

The multi-agent approach allows a set of agents to cooperate between themselves in order to resolve a problem. Hence, each agent can execute one or more tasks. To achieve these tasks, an agent must be autonomous. This approach is particularly adapted to manage complex systems by favouring the clarity and the consistency without neglecting the modularity and hierarchy. A multi-agent system is a group of agents, which co-operate to solve a problem that cannot be efficiently cleared up on an individual basis. The definition of each control/monitoring entity will be done in such a way that it will be sufficiently autonomous and have enough expertise to carry out its task(s). An entity (agent) will be able to communicate with the other entities to share some knowledge, to ask services or to inform about its plans or decisions

4. Conclusion

Context awareness is an important feature of today software applications. In this paper were presented relevant context-aware architectures. Most architectures are layered which allows the separation of context acquisition and context use in order to increase the level of context abstraction and hide the physical sensing complexity. This enhances both reusability and extensibility of the system. In order to offer proactive systems, architectures embed a reasoning system to ease adaptation task. The proposed architecture it is not specific to an application domain (localization systems, human-computer interaction, etc.) and require additional effort for their adaptation. Architectural design of context-aware systems needs more efforts in order to provide an appropriate architecture that suits more general system requirements.

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Regional Development Policy in European Union

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Abstract

The regional development policy is one of the most important policies and one of the most complex in the EU, as its status is derived from its goal of reducing the economic and social gaps existing between different regions of Europe and it influences different domains that are important for their development, such as economic growth and small and medium enterprises (SME) sector, transports, agriculture, urban development, environmental preservation, employment and professional training, education, gender equality.

Designed as a solidarity policy at European level, the regional policy is basically based on financial solidarity, namely on redistributing some parts of the Community budget made up of the contributions of the Member States to the less prosperous regions and social groups (between 2000-2006, the due amount is approximately one third of the EU budget).

Key words: regional policy, sustainable development, financial instruments, European cooperation, regional competitiveness

J.E.L. classification: Q01, R11

1. Introduction

The regional development policy is highly instrumental and through its solidarity funds it contributes to other sector policy financing – agricultural policy, social policy, environmental preservation policy. In addition to this, the regional policy is correlated with the expansion policy of the EU, by creating special funds of pre-accession such as PHARE (a support fund for the economic reconstruction), ISPA (a tool

for structural policies which anticipates the Cohesion Fund) and SAPARD (a special programs for agriculture) which are accessible for the countries applying for accession and support their transition to the EU organizational structure and standards. The complexity of the regional development policy is also underlined by the manner in which it integrates three of the EU main goals: economic and social cohesion, the expansion of the subsidies principle and sustainable development.

2. Regional policy of the European Union

Not only that the economic and social cohesion is to be found at the structural funds objectives level, but its importance is also reflected by the creation of an homonym fund (the Cohesion Fund) which supports the acceleration of the convergence process and the reaching of a medium level development of the EU, of four less developed Member States: Spain, Portugal, Greece and Ireland. The subsidies principle [1] – which represents the high degree of involvement from the Member States in the development and implementation of the Community policies - is also to be found at other policies level. In the present context, this principle is applicable in every state's financing negotiation for the solidarity funds (according to the national and regional priorities) and in their responsibility as to the implementation, monitoring and evaluation of the commonly agreed programs. The strategy of sustainable development represents a priority of the European solidarity programs, by particularly emphasizing the environmental protection and by developing adequate measures. This strategy is not just European but also global and it is promoted worldwide through various

international agreements, thus underlining the complexity of the regional development policy and the internal coherence of the communitarian objectives.

Considering its enlargement, the regional development policy applies to several fields of activity, and leads to the implication of many institutional participants in its design and implementation. [1] The European Commission is directly responsible for the preparation and implementation of the EU's regional development policy. Its role is to initiate and complete new specific legislative acts and to ensure that the adopted measures will be implemented by the Member States. The Directorate-General for Regional Policy is the main responsible department for the assistance measures regarding the economic and social department of the European regions, based on the articles 158 and 160 of the EU Treaty. The Directorate-General for Regional Policy is supported in its activities by other directorates general involved in the implementation of the regional policy, such as The Directorate-General for Agriculture, The Directorate-General for Fisheries, The Directorate-General for Education and Culture, The Directorate-General for Environmental Affairs and The Directorate-General for Employment and Social Affairs. Currently, The Directorate-General for Regional Policy manages 3 funds: FEDR, the Cohesion Fund and ISPA. [2]

The European Parliament is involved in decision-making for the Community regional development policy, through its Committee for Regional Policy, Transport and Tourism. Also, this committee exerts control over the implemented tools in order to achieve the objective of economic and social cohesion and implicitly over the national economic policies, the Community policies and actions in order to achieve the objective of an internal market, and over the Structural Funds, the Cohesion Fund and the European Investment Bank. The Council of the EU is the equivalent of a council of ministers at the European level and it gathers several times per year in order to coordinate the economic policies of the Member States. The Committee of the Regions is a consulting-authority for the problems concerning the economic and social cohesion, Trans-European infrastructure networks, healthcare,

education, culture, employment, social issues, environmental affairs, professional training and transport, being the newest European institution (established in 1991, under the Maastricht Treaty, came into force in 1993). The Committee of the Regions is composed of representatives of regional and local governments and it reflects the politic, geographical and local/regional balance of every Member State.

The European Investment Bank is the financing institution of EU policies and it has two tasks, as an institutional participant in the regional development policy and as a financing and implementation authority. The Bank grants loans and guarantees, at a small interest, to all Member States, financing projects in all the economic sectors, supporting through its actions the regional development policy at the Community level, the structural funds objectives and of other financial instruments in EU.

While the economic progress took place in less developed regions on medium term, the difference between the rich and the poor remained as concerning as ever, this situation calling for a considerable period of time in order to be solved. Despite this improvement, the unemployment is still an urgent issue.

Although an important progress of infrastructure has been achieved, some imbalances still exist in some areas: technological research and development, access to training and information, educational opportunities, environmental quality. The Structural Funds and the Cohesion Fund have helped in reducing the disparities and have created conditions for the economic growth. The Regional Policy contributions can be hardly depicted in statistical terms. The Community initiatives, the involved parties' partnerships, the emphasis on environmental preservation and equal chances, the cooperation, the improved communication due to the new technologies, the experience exchanges and the experience of new development approaches - they all represent premises for the progress of less prosperous regions and for their potential exploitation.

3. The European Union Financial Instruments – Background

The principles of regional development policy were drawn at the European level, starting with 1957, under *the Treaty of Rome*, when 6 signatory countries (Belgium, France, Western Germany, Italy, Luxembourg and Netherlands) established the necessity to reduce the existing differences between different regions and to support the less favoured ones, with the aim to achieve a solid and unitary Community economy.

This necessity was addressed in 1958, when *the European Social Fund* (ESF) was established as the main instrument of the Community social policy, being centred on the improvement of the labour market functionality in different countries and on the re-integration of the unemployed on the labour market. [2]

In 1962 *the European Orientation and Agricultural Guarantee Fund* (EOAGF) was established, with the aim to finance the common agricultural policy, to support the rural regions development and to improve the agricultural structures.

In 1975 the third fund was set up – The European Regional Development Fund (ERDF) with the task to redistribute some of the budgetary contributions of the Member States to the poorer regions of the Community, in order to support their economic development. Thus, ERDF redistributes the Community budget for productive investments (in order to create and safeguard sustainable jobs) and for infrastructure investments.

An important moment for the regional development policy evolution was the *Single European Act* (SEA), in 1986, which emphasized the concept of economic cohesion – that is to remove the existing economic differences between different regions – and created the premises for a specific policy of economic and social cohesion with the aim to facilitate the access to the single European market for the Southern Europe countries.

In February 1988, the Council of Europe in Brussels expands the solidarity funds operation represented by the previously

mentioned funds and currently known as *Structural Funds*- and it significantly increases their allotments to the Community budget. Thus, the importance of these instruments is the reduction of the regional disparities at the Community level.

In setting the regional policy, the PHARE programme, established in 1989, was a novelty designed to support Poland and Hungary (recently emerged from the communist regime) in their national economies reconstruction effort. Its revising, in 2000, was designed to support the regional development of the countries applying for accession.

With the ratification of the *Treaty of the European Union* in 1993, the issue regarding the economic and social cohesion is again set on the Community agenda and becomes one of the main objectives for the EU, alongside with the economic and monetary union and the single European market. It also leads to the creation of a new fund – *The Cohesion Fund*, which has the aim to support the projects of the environmental preservation and transport infrastructure areas in the less developed Member States (Spain, Portugal, Greece and Ireland). [2]

In 1994, a new structural fund is set up, the fourth one – *Financial Instrument for Fisheries Guidance* (FIFG), established by grouping all the Community instruments regarding fisheries that existed at that moment. FIFG was created to facilitate the Northern enlargement of the EU, with the adherence of Finland and Sweden in 1995. In the same year, *the Committee of the Regions* becomes active – a consulting-authority established under the Treaty of Maastricht with the aim to participate in the decision-making process and to support the European Commission in its regional development sector activities.

The Treaty of Amsterdam (1997) acknowledges the importance of the economic and social cohesion policy and of the reduction of differences between various European region living standards, thus emphasizing the necessity of corroborated actions in reducing the unemployment.

The reform of the structural funds takes the same direction that began in 1999 following the Berlin Summit, in which new rules of functioning were established. The

reform has the aim of increasing the Community assistance focus through these funds, alongside with their administrative simplification and decentralization. The reform brought a novelty with the complementation of the PHARE programme with other two instruments for the pre-accession – ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture & Rural Development), which promote the economic and social development of the countries applying for accession from the Central and Eastern Europe.

A new solidarity instrument was established in 2002, subsequent to the major flooding in the Central Europe, *The European Union Solidarity Fund* with the aim to intervene in the major natural disasters that have serious repercussion over the living conditions in the affected regions, over the environment and their economies.

4. The financial instruments of the regional policy

Between 2007 and 2013 one third of the EU budget (approximately 840 billion EUR) will be allocated to the cohesion policy, which will be financed by three financial instruments:

1. *European Regional Development Fund (ERDF)* – aimed to reduce the disparities between different regions of the EU. It is the most important structural fund in terms of resources, granting financial aids to poorer regions, thus being an instrument of correction for the regional disparities. The principles of fund allocation are: to focus on objectives and regions (in order to maximize the effects), the partnership between the European Commission, the Member States of EU and local and regional authorities (in order to plan and to implement the structural intervention), to plan the intervention and the extra contribution of the Community (which must not replace the national one). ERDF must participate in the increase of economic and social cohesion and in the regional disparities reduction, by supporting the structural development and adjustment of the regional economies, including the conversion of regions of industrial decline and of the

poorer regions, to the cross-border, transnational and inter-region cooperation.

For this purpose, ERDF will support the Community priorities, particularly the increasing competitiveness and innovation, the creation of jobs on long term and the sustainable development.

2. *European Social Fund (ESF)* – the main instrument of the social policy of the European Union. Its aim is to finance the training and professional reconversion actions and the creation of jobs. ESF must participate in achieving the Community priorities concerning the economic and social cohesion, in ensuring a high degree of employment and many and better workplaces, by improving the job prospects. This will have to support the national policies regarding a complete employment degree, the quality ensurance and labour productivity and to promote social integration, by ensuring access of unfavoured categories to the labour market and by reducing the national and regional disparities.

3. *The Cohesion Fund* – contributes to the strengthening of social and economic cohesion of the Community, in order to promote a sustainable development. It finances projects in the following areas: environmental, such as renewable energy sources that lead to sustainable development; Trans-European networks, particularly projects of European interest.

The cohesion policy is financed by the EU budget with 3 structural instruments: European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund (CF). These three financial instruments finance the following objectives[3]:

A. *The first objective. The convergence objective.*

It focuses on the NUTS II regions, having a GDP (gross domestic product)/capita smaller than 75% of the Community average. The financial allocation for this objective has increased to approximately 81,54%, 251,163 billion EUR of the cohesion policy allocation. Other eligible participants are the Member States that have a GDP (gross domestic product)/capita of less than 90% of the Community average. This objective aims to accelerate the economic development of the less developed regions by investing in

infrastructure, in people, innovation and in knowledge society and environmental preservation.

B. The second objective. The regional competitiveness and employment.

The regions that benefit from the financing for this objective are those which are not eligible to receive funds for the convergence objective. This objective is financed solely by the structural funds, such as ERDF and ESF. The financial allocation is of 15.95% of the cohesion policy budget and it sums up 49.127 billion EUR for the financial period between 2007 and 2013. The actions that can be financed for this objective are those concerning the development of the competitive regions, the employment by anticipating the economic and social shifts, by raising and improving the quality of investment in people, innovation and by promoting the informational society .[3]

C. The third objective. European territorial cooperation

This objective's aim is to increase the cooperation between regions at three levels: inter-region cooperation – to encourage the experience exchanges between the EU regions, cross-border cooperation – common programmes developed in the border regions and trans-national cooperation. The financial allocation for this objective is of 7,75 billion EUR, representing 2.52% of the cohesion policy funds and is totally financed by the ERDF.

For the financial period between 2007 and 2013, the policy frame will be closely related to the achievement of the objectives on the Lisbon Agenda and on the Goteborg Agenda.

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Impact of Globalization on Business

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Abstract

The 90s' represented the first decade through which worldwide national companies started to form a global vision. Still, the present is characterised by the tightening of the global competition. The more the companies fail to adopt the international view, the more increased is the risk of having them excluded from the emerging markets of Western and Eastern Europe, of Far –East Orient or of other world's regions.

Nowadays, the countries, forming the European common market, have abolished the barriers which blocked the free movement of goods, services, cash and people, by regulating certain activities, by the privatization of state-owned companies and by the adoption of common commercial practices. In the same time, new profitable opportunities have arisen in Eastern Europe, the countries from this region sustaining significant exertions in their transition from a planned-centralised economy to a market economy.

Key words: international business, multinational firms, export, foreign markets.

J.E.L. classification: F23, M16

1. Introduction

Although the interest of firms to access and compete in foreign markets is high, the risks are also high, this being due to external debt, unstable political regimes and governments, foreign exchange issues, government-imposed conditions on market access of foreign firms , bureaucracy, tariffs and other trade barriers, corruption, piracy technology and high production cost Although the interest of firms to access and compete in foreign markets is high, the risks

are also high, this being due to external debt, unstable political regimes and governments, foreign exchange issues, government-imposed conditions on market access of foreign firms , bureaucracy, tariffs and other trade barriers, corruption, piracy technology and high production cost.

A first conclusion that could have drawn from those presented is that whether they stay home or that are expanding abroad, companies are doomed. I infer from this that the only chance we have corporations doing business in the global industry is internationalizing operations they run.

When marketing gets extension activities in the international sphere, so when the country goes beyond the product was produced, and she receives the product policy of internationalization footprint, being necessary to adapt them to specific operating conditions in foreign markets.

Many of the fundamental principles of marketing management have been applied to the domestic market will be relevant in an international juncture. The process of identifying market opportunities, selecting strategies, implementation of selected strategies and performance monitoring involves similar principles to those applied domestically.

The main challenge for a company that wants to expand into other markets is to adapt marketing strategies that have worked on the domestic market to the needs of foreign markets, details of which can be completely different to what was known before.

2. The process of internationalization of business

To better understand the climate in which the multinational or transnational companies expand in the international environment is an analysis of the process of internationalization

of business, identifying its main influence of macro-and microeconomic factors. The postwar trend in international affairs have experienced three distinct periods:

Glorious period of thirty years (1945-1974), marked by economic recovery of the belligerent countries, backed by a strong commitment to foreign, mainly U.S., the global diffusion of consumer goods and soft drinks, cigarettes and automobiles. Most of these products come from multinational and transnational companies.

Oil shock period (1973/1974 – 1983/1984) the world's countries have realized the significance of economic uncertainty caused by soaring prices of raw materials, mainly those of oil, stimulating exports to offset bills ever higher required international suppliers of material resources.

Strategic searches Period (90's - 2000), which marks a redefinition of the economic relationships between states, with amplitude determined by global processes, such as those in Central and Eastern European transition to market economy and the deepening of integration within the Union European and its outer areas (such as North and Central America, South East Asia and the Pacific). Prospects for economic development triggered by the integration processes and redefining the conditions of action of various foreign markets in particular and the general world market for the end of the second millennium. [3]

World diminishes as speed increases communication, transport and termination of financial operations. Products made in any country are in great demand in other countries. In fact, many companies are operating internationally for decade's best. Today, however, global competition intensifies visible. Domestic firms that have not ever thought about the emergence of foreign competitors, they suddenly find themselves on their coast. Newspapers inform Japanese victories on the U.S. firms in areas such as production of household electronic goods, motorcycles, copy machines, cameras and watches, on massive imports of Japanese cars, German, Swedish and Korean market U.S., and of loss of markets for textiles and footwear imports from countries in the Third World. Even if some want to eliminate foreign competition through legislation, makes only lasting

protectionism has increased defense costs and inefficient domestic firms. To successfully cope with competition, the best would be for firms to improve their products in countries of origin and to expand business in foreign markets. [2]

3. Risks of multinational firms in foreign markets penetration

Although companies are forced to enter and operate in foreign markets, but the risks of this approach are high. There are many hazards, such as changing borders, unstable governments, currency, corruption and theft of technology. For this reason, it would conclude that all firms are doomed to destruction, whether they operate on their countries, whether they extend their business abroad.

A. High degree of external indebtedness. Many countries have accumulated huge foreign debt, having difficulty even paying interest only. These include Brazil, Poland and Mexico.

B. Unstable governments. In many countries, highly leveraged, high inflation and high unemployment rate have contributed to increased political instability, foreign firms seeing is threatened with expropriation, nationalization and limiting the repatriation of profits. To keep under control these risks, many companies resort fee, the political risk assessment reports.

C. Currency issues. The high degree of economic leverage and political instability lowers the value of a country's currency. Foreign firms that wish to make payments in hard currency, with the possibility of repatriation of profits, but there are many countries where these things can not be achieved.

D. Bureaucracy and market entry conditions imposed by the foreign state. Governments tend to subject foreign firms to a very strict regulatory regime. For example, regulations may require that the joint ventures, equity participation majority belong to the local partner, the firms that hire large numbers of locals and to transfer knowledge and technology, or may impose limits on profit repatriation.

E. Customs duties and other trade barriers. Often, states levy higher import duties, in order to protect their own sectors.

They also use a series of invisible trade barriers such as deliberately delaying the release of important permits the imposition of making costly changes to important products, verifying the performance of the slow passage through customs formalities for imported goods.

F. Corruption. To cooperate, officials in some countries have bribed, because award contracts to the tendered which has the highest bribe, not the one who came up with the lowest price.

G. Stealing technology. A firm has production capacity abroad is often problems because of their foreign managers learn how products are manufactured and then leave the company, making them compete openly or clandestinely. This happens in areas such as engineering industry, electronic industry, chemical and pharmaceutical industries.

H. The high cost of adapting products and marketing communication. A firm that is expanding abroad should carefully study each market to know better economic situation, laws, political and cultural environment of each country and to adapt products to consumer preferences Del. communications. Otherwise, it could be many and serious mistakes.

I. Changing borders. For the first time since 1945, many international borders tend to change. National boundaries are very important for marketing, because the forming and shaping their economic behavior. For marketers, the move could mean changing borders objectives.

However, the only option that is global companies from the sectors is to develop an international scale.

A global industry is an industry in which competitors' strategic positions on key national or geographic markets depend on their overall position in the global marketplace. [4]

A global company is a company operating in at least two countries and turn benefits from R & D, manufacturing, logistics, marketing and financial management, the cost advantages and reputation are not out of reach of its competitors in those countries

Global firms are planning, conduct and coordinate activities worldwide. To loosen and products on the world market, a firm need not be large. Small and medium enterprises can serve market niches, as do

many companies in Scandinavia and the Benelux countries.

Before taking a decision on expansion of operations abroad, the firm must weigh a number of risks: she could not know the preferences of foreign consumers and provide products uncompetitive, unattractive; it is possible that the company does not know the business culture of that country or do not know how to deal with local; it is possible to underestimate foreign regulations and have to bear unforeseen expenses; may find that the company lacks managers with international experience; it is possible to change the target country trade legislation, or to devalue the currency to have a revolution and to proceed with the expropriation of foreigners.

Because of conflicting risks and benefits, in many cases firms do not act on an international scale until something happens that does not inspire confidence in such an approach. Sometimes, the company exports its products to be requested by someone else: a domestic exporter, importer, or another foreign state. Other times, production capacity is surplus, and the company must find new markets for its products.

When deciding to go abroad, the company must define its policy objectives and international marketing. The question is: what will be the ratio between the volume of sales made abroad and the total volume of sales? When the companies adventures across the border, most businesses start with a small volume of sales. Some did not develop foreign market operations, considering them a small part of their overall activity. Others make plans broader view that foreign affairs will be reached eventually, at least as important as domestic markets activities.

The company must choose between entering the market or just a greater number of national markets. In general, it makes sense to operate in a smaller number of countries if the degree of involvement and penetration in each market is sufficiently large. A firm should enter a smaller number of markets where: cost control and market entry are high, costs of adaptation and communication products are great and the size and population and income growth are higher in countries initially chosen; dominant foreign firms may raise serious obstacles to market entry.

The firm also must determine the type of countries considered for expanding operations. The attractiveness of a country is determined by the size of the domestic product, geographic factors, income and population size, political climate and other factors. Exporter may have predilection for certain groups of countries or parts of the world. It is recommended that firms focus on exports to the "triad markets - the U.S., Western Europe and Japan - because they hold the largest share of international trade as a whole. [1]

If short-term profits are more likely to be higher in the three regions mentioned in the long run it can have disastrous effects for the world economy. Those markets are thriving, but mature: firms need to show more creativity to find any growth opportunities in the markets concerned. However, unmet needs of developing countries represent a huge opportunity for companies expanding. In those countries there is a huge demand for food, clothing, housing, household electronic devices, appliances and other goods. If the purchasing power of consumers in the third world will not be determined, in one way or another, to grow significantly, industrialized countries are still faced with excess production capacity and a slower pace of economic growth. In addition, developing economies will face an excessive consumer demand, which will not be able to satisfy. Many market leaders rush to reach markets in former communist Eastern Europe and the last bastions of communism, such as China and Vietnam, where there is a great need for technology and consumer goods of good quality.

In general, the candidate would initially be ranked according to three major criteria: market attractiveness, competitive advantage and risk. At first, specialists of the firm determine the market attractiveness of each country, based on indicators such as size's per capita GDP, the employment in the industry that serves the company, the volume of imports of such goods (such as those offered by the firm) and population growth. Then, they evaluate the competitive advantage that each of the countries surveyed it could provide the firm based on criteria such as past business ties, the ability to create those products with low cost and adaptability to company managers working style of those

countries. Finally, the experts assessed the risk level of each country, taking into account factors such as political stability, currency stability and profit repatriation regulations. Applying various indices, weighting and combining different values, draw a picture of the hierarchy of markets analyzed by the criteria above. Furthermore, specialists should conduct a financial analysis to see if the investment risk in each country concerned is justified to obtain sufficiently large gains.

4. Select how the market penetration of multinational firms

Having chosen a particular market, the company must determine how best to penetrate. Generic versions are: direct export indirect export licensing, creation of joint ventures and direct investment.

In order they are presented, each strategy involves an increasing degree of high involvement, risk control and profit potential.

Export processing occasionally requires a commitment from the company. This export activity from time to time, either on its own initiative or in response to spontaneous orders coming from abroad. *Exporting company actively* involved in expanding operations involve the sale of goods in a given market. In both cases, the company produces all goods in its country of origin, their adaptation to international markets is not compulsory. Exporting involves bringing in a minimum change product lines, organization, investment and business mission.

Export department or internal division. An export manager in charge of the actual sale of the commodity market and provide necessary assistance. Department can develop into a compartment by itself, making all export-related activities and operating as a profit center.

Foreign subsidiaries. It allows the manufacturer to be present on the domestic market and exert greater control of sales activity. Branch deals with the distribution and sale of goods, sometimes even with its storage and promotion. It also often serves as the hub of product presentation and customer service.

Representatives voyage export sales. Company can send abroad some sales agents to seek customers for its merchandise.

Foreign distributors or agents. To sell their products, the company can appeal to foreign distributors or agents, appointed on contract basis. It may give them an exclusive or limited right in that country. Whether one uses the strategy of indirect export to direct export or one of the best ways to initiate or expand export operations is the participation in an international trade show.

Licensing is a strategy that allows the manufacturer to easily penetrate foreign markets. It authorizes a foreign firm to use a manufacturing technique, a queen trade, patent, trade secret or other property of value in exchange for a fee or royalty. Thus, the licensor (the owner the right to license) with little risk penetrate foreign markets, and the licensee (the recipient the right to use) the choice of production experience with a product or known name, without having to take it from scratch. Coca Cola products on its worldwide bottling companies entering into contracts with, or rather license, franchise contracts. The company provides beneficiaries syrup concentrate and training services for the production, distribution and sale of products.

Licensing has, however, some possible disadvantages. Licensor exercised a lesser degree of control over the licensee unless and would have created their own production capacities. In addition, if the licensee is successful in his work, company profits do not benefit from it, and when the contract ends, it is possible to find the company that made them a competitor's hand. To avoid this, the licensor provides usually necessary to achieve certain product ingredients or components under exclusive patent (so carry Coca-Cola). But the best strategy is to dominate the licensor Chapter innovations, so that the licensee would always depend on him.

There are several licensing options. A company may enter into a management contract with the owners of a hotel, airport, hospital or other foreign organizations, administering it in exchange for a fee. In this case, the company no longer exports products, but services management. Contract management enables low risk entry in a foreign market, providing immediate gains.

This path is more attractive if the contracting company has an opportunity to buy some shares managed in a certain period. But there is no justification in any case, if the company can use its better management capabilities for other purposes or if they get higher profits by taking over the whole affair. The contract prevents the company management to compete with its customers.

Another method of entry is a contract manufacturing company that appeals to local producers in order to achieve its products. This method has a drawback, however: the firm exercise less control over the production process and the potential production losses. However, it gives the company the opportunity to start work quickly, with less risk and with the option to form a partnership or to buy the company after listing.

Finally, a firm may enter a foreign market by entering into a franchise agreement, which is actually a more complete form of licensing. In this case, the seller provides the beneficiary with a complete system, consisting of brand name and operating technique. Instead, the beneficiary is obliged to make investments and pay certain fees transferor. Companies like McDonald's and KFC widely used this method for penetrating foreign markets.

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The Marketing vs. R&D Dilemma in the Romanian Soft Drinks Industry and Implications on Consumer Health

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Abstract

The management literature and practice have flagged many times the barriers between research and development (R&D) and marketing activities. Although representing "different cultures", it is believed that if both functions collaborate well, then both technological and marketing powers would increase exponentially. Most of the Romanian soft drinks companies have a limited understanding of the new approach of integrating them, based on the strategic marketing as the key component, essential for the product development phase.

This study presents several cases of how soft drinks bottlers use alimentary additives which, if consumed in high quantities, could represent a threat to consumer health and also how some marketing disruptive techniques could artificially maximize the new products value and also hinder consumers understanding, knowledge and freedom of choice. Finally this paper proves that the relation between R&D and marketing in the food & drinks industry could be key to assuring the right balance between scientific research and value communication in order to improve consumers' health on the long term.

Key words: Food safety, Marketing, Additives, R&D, Consumer health

J.E.L classification: M21, M31, I10.

1. The landscape of the Romanian soft drinks market

Romanian soft drinks market takes the largest share of all commercial beverages, and continue to drive growth, being estimated at nearly 3,2 billion liters and 2,8 billion euros. In 2010 the top bottling companies were Coca-Cola, Romaqua, Pepsi and European Drinks, owning together more

than two thirds of the soft drinks market. [1] The competition is increasingly higher, as like as the marketing budgets, Coca Cola being the most important advertiser, having a yearly promotional budget of over 100 million euros.

During the last five years the Romanian consumers have been increasingly turning towards healthier consumption, helped by stronger purchasing power. [1] Consumers evolved from indulgency, pleasure seekers to dynamism, energy driven people and recently health and personal image builders. Therefore the market turned from carbonated drinks into still drinks and more recently to more sophisticated soft drinks like juices, ice-teas and energy drinks. The fastest growing categories in the last years were: ice tea, energy drinks, still drinks and packaged water. Producers adapted accordingly and today the marketing focus is on healthy, natural and dietetic products. But the producers need to balance the increasingly high consumers demands with the costs occurred. Consumers want fresh, tasty, healthy products at good shelf price and convenience. The result of the increasing consumer demands like brighter, sweeter, long lasting is the actual presence of over 1000 different additives that are widely introduced into non-alcoholic beverages to produce a desired effect, which is a largely accepted practice but not without controversy.

2. Collaboration issues between Marketing and R&D teams

A short and comprehensive expression of the marketing tasks would be that marketers are skilled in stimulating demand for their products. [2] But the demand management is just a small part of the activity of a marketing department. A broader view is that marketing department should lead the entire marketing

process in a company focused on value creation. This new approach is based on so called "value delivery sequence" which was improved by adding the strategic marketing component. This component includes value positioning process, which is essential for the following phase: product development. At this phase the collaboration between Marketing and R&D departments become crucial. Steps like: new product strategy, idea generation and screening, concept development and testing, product development, test marketing and commercialization [3] must be undertaken jointly by both departments.

To reveal the latest developments and trends regarding the actual marketing and R&D collaboration issues in Romania, a qualitative research was developed and implemented by the author. The research method was the extensive interview; the target group was the managerial staff selected from the top 10 Romanian soft drinks producers; each interview consisted in 15 closed questions, with complete system of choice and 5 additional specific questions, using a nonparametric type ordinal scale.

The study revealed that in Romania it is a common thinking that product strategy, marketing research and test and also commercialization are the exclusive tasks of the marketing department. Romanian researchers are very used to execute and have very limited implications in the products marketization. This lack of integration and knowledge exchange between these two functions create several shortcomings for the Romanian marketers. The most relevant are:

- A limited understanding of the chemical and biological phenomena and processes that happen during various stages like flavours manufacturing, additives preparation, bottling;
- A limited economical assessment of the use of alimentary additives;
- An underestimation of the long term impact of additives on consumer health.

The generally mission of the R&D department is to design safe and attractive products according to their company strategy. As a primary source for new technologies and knowledge, R&D department members have to manage the market trends, customer evolution, in the end the social function of technology.[4]

Overall, the majority of companies have a mix of internal and external technology sources. The sources from outside are most often:

- equipment suppliers (bottling lines);
- raw material suppliers (mainly concentrates and additives).

The most innovative companies like world giants Coca Cola or Pepsi possess their own concentrates based on proprietary recipes (e.g. Coca-Cola "secret formula"). But most of the Romanian soft drinks producers use external recipes for their drinks supplied by large fruit concentrate producers (e.g. Döhler Group). Therefore the main tasks of their R&D personnel are to adapt the recipes (if case) and to monitor the production process. The development of new recipes is less operational since the Romanian market is less developed than other EU markets in terms of consumption per capita and trends. Also new trends like ice tea, smoothies, flavoured water or aqua plus have been visible in Romania only long time after they were launched in United States and Western Europe.

This research revealed also that many Romanian soft drink bottlers have a very limited technological infrastructure, sometimes just an average laboratory which has to monitor the products quality and safety. These laboratories are placed near or in the production facilities, many times at a long distance from the company headquarter. They are usually under the direct supervision and hierarchical subordination of the production managers. Generally, these managers have as main responsibilities the overall management of the ongoing production operations including: inventory control, scheduling, documentation, equipment maintenance, calibration, shipping, and quality tracking and control. The production managers report directly to general managers or to the COOs (Chief Operating Officer), by case. Therefore the relations between Marketing and R&D teams can only be cross-departmental. Moreover, being assigned to the production function, the R&D activity becomes more operational, focused on daily monitoring and supervision of the technical processes rather than dedicated to innovation and new product development. The lack of communication and different priorities are the main obstacles

in the collaboration process between marketing and R&D in many companies from the Romanian soft drinks sector. This situation triggered a non innovative character of the Romanian soft drinks market, most of the leading products and marketing concepts being adaptations or replicas of the commercial hits from other EU countries or United States. Moreover, some sensitive and elaborated technical details regarding the flavours production and soft drinks bottling processes are known only by a very small number of employees (top managers) due to the recipes protection policies of the companies.

The research conclusions regarding the main shortcomings of the R&D staff are:

- R&D employees have a lack of vision and strategic approach, therefore many research activities could not be economical justified;

- There R&D experts underestimate their social and ethical role being unaware about their key position in the entire marketing process, including the responsibility of using healthy ingredients.

- Furthermore the lack of integration between R&D and marketing could affect company overall competitiveness and technological autonomy. If a soft drinks producer lost its R&D and marketing capabilities then it would become just a bottling facility.

3. The market regulations – are they effective?

The EU legal framework for usage and traceability of food additives is given by Regulation (EC) 1333/2008 of the European Parliament and the Council on Food Additives. Food additives must be safe when used, there must be a technological need for their use, and their use must not mislead the consumer and must be of benefit to the consumer. The advantages and benefits for consumers are managed in two ways:

- The agreement among The European Commission and the Member States Governments;

- The Commission may ask EFSA for scientific advice in relation to benefits.

Moreover, European Parliament and Council Directives 94/35/EC, 94/36/EC and 95/2/EC require each Member State to

monitor the consumption and usage of food additives. The European Commission is required to submit a report on this monitoring exercise to the European Parliament and Council.

Romania has adopted a series of laws in order to comply with the EU *acquis*. Labeling and food additives legislation were enacted before 2007 [5], [6], [7] and updated several times according to EC directives. Romanian Ministry of Health, through its Regional Public Health bodies has the responsibility to evaluate, supervise, implement and monitor the food additives policies in Romania [6]. These assumed responsibilities should include food market monitoring and food poisoning prevention. In order to track the additive usage the Ministry of Health should have adequate equipment for food content chemical analysis, very effective investigation system at national or at regional level and more important highly qualified experts in scientific risk assessment. Furthermore, the Ministry of Health should cooperate with other market control bodies, like the National Authority for Consumers Protection to better cover the territory and also share good investigation practices. So far there were only isolated initiatives to assess the risk of food additives in Romania and seems like the capacity to determine whether producers comply with the legislation in force is very limited in this case.

4. Consumers are caught in the middle

When making a purchasing decision, consumers use the information provided by producers, retailers, mass media, consumer organizations, etc. This information reaches consumers minds through various channels and in various ways. Promotional activities are more and more effective in changing the consumers' attitudes and purchasing preferences. Here will be presented two approaches used by soft drinks producers to artificially maximize their products value: *umbrella branding* and *disruptive labeling*.

The concept of *umbrella branding* consists in applying the name of a brand to a broad range of consumer goods. The goal is to spread positive elements of a brand's value over other products using transfer processes like semantic generalization. [8] This

marketing technique can bring more beverages subcategories under the same brand, like juices (100% fruit content), nectars (50 % fruit content) and still drink (4% fruit content). Therefore when the producer heavily promotes the juice line, emphasizing its natural and healthy character, promoting fruit benefits (tasty, healthy, etc.) the less qualitative subcategories (i.e. still drinks), marketed under the same name, take advantage and capitalize the superior image of the better product. [20] Still drinks, although being much cheaper but having the same name and some key visuals similar or very close to those of the juice products, are often perceived by consumers like natural, healthy soft drinks. The presence of the fruits on the label strengthens the perception that they are a beverage made from fresh fruits. In reality they are very often just artificial made products with a very low concentration of fruit juice (4%) and many additives. A broadly known example of umbrella branding is Cappy, owned by The Coca-Cola Co. In Romania are marketed the following variants:

a) *Cappy Premium* is a 100% juice, advertised as a healthy, natural product, obtained from squeezed fruits with no artificial colorants or preservatives; the aseptic packaging ensures shelf stability without the use of preservatives and/or refrigeration (juice definition: 100% pure fruit juice or vegetable juice with no added ingredients, except permitted minerals and vitamins) [1].

b) *Cappy Tempo* is a 4% juice based still drink, advertised as a tasty drink based on fruit juice at a convenient price; (still drink definition [1]: flavoured ready-to-drink, non-carbonated products, which may be fruit or non-fruit flavoured and have a juice content of 0-25%. Sugar, artificial flavouring and colouring may be added. Excludes non-carbonated tea-based products where juice content is less than 5% (included in iced/rtd tea drinks) and any still products making specific sports or energy performance-enhancing claims (included in sports drinks and energy drinks respectively);

c) *Cappy Tempo Light* is also a 4% fruit juice still drink, positioned as a diet soft drink (it has no sugar).

Table 1 Cappy soft drink variants and key chemical ingredients

	Cappy Premium Orange	Cappy Tempo Light Orange
Package	Carton, 1L	PET, 2L
Ingredients specified on the product label:	100% orange juice, pasteurized, no preservatives	4% orange juice E 211 (sodium benzoate) E 952 (sodium cyclamate) E 950 (acesulfame K) E951 (aspartame)
Shelf Price/item	5, 49 RON (1,3 EUR)	3,79 RON (0,9 EUR)
Shelf Price/liter	5,49 RON (1,3 EUR)	1,89 RON (0,45 EUR)

Source: Author made price survey.

Note: Price is only referential and was collected from five stores; it may differ from the average market price.

Both products are marketed under the same name, same logo and many similar visual identity elements. The *halo effect* is evident: some consumers may think that both above presented products are the same, but in different types of packages. Some more may think that Cappy Tempo is a natural drink, not as good as Cappy Premium, but still a healthy, natural product at a very good price. It is known that only few consumers will carefully read the label and will find out that Cappy Tempo (including his "Light" variant) is totally different than the Premium version, being a mainstream still drink with only 4% fruit juice and many additives: E 211 (sodium benzoate), E 952 (sodium cyclamate), E 950 (acesulfame K), E951 (aspartame)

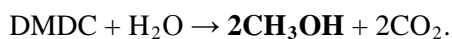
5. Disruptive labeling – a common practice

The main identified labeling issues are

1. The fruits emphasis on labels: almost all soft drinks claim a strong fruit presence by their fancy and colored packages on which various fruits are represented, although some of them contain not only a very small quantity of natural fruit juice (4%), but also various controversial additives. Romanian legislation allows the usage of fruit pictures / illustrations on product's label, package and

promotional materials if the respective fruit juice is among product's ingredients. No minimum level of juice is specified so far. Moreover, if the concentration of the fruit juice is at least 4%, the bottler must use the wording "orange juice" or lemon juice"[6].

2. The label content: the additives are often if not omitted then incompletely described. Romanian producers know about the increasingly awareness of Romanian public about the additives health issues and in several cases they use some legislation interpretations. The labeling regulations consider some substances as not being "ingredients" (e.g. technological auxiliary additives). Romanian legislation stipulates in HG 106/2002, which regulates labeling of the alimentary products, that only "ingredients" are to be mentioned on the aliment's label. Such a case is the additive E242, Dimethyl dicarbonate (also known as DMDC or Velcorine) which is used as a a microbial control agent in beverages including juices, flavored water beverages (carbonated and non-carbonated), still drinks and ice teas that contain low levels of juice or artificial or natural flavors. Once it has been added to beverages, it has the following chemical reaction:



Although it forms methanol, a known carcinogen and toxic compound [16], EU and US official scientific and regulatory bodies consider it safe for human consumption at a maximum level of 250mg/liter.

The usage of the technical or scientific additive's name (e.g. instead of E211, it is used "sodium benzoate"). Consumers are aware more about "E" substances and less about their technical names.

3. The labels do not mention the quantities of additives used in a product. Even though producers use the quantities approved by law, people usually consume a mix of alimentary products during a day. Therefore the quantum of the total daily intake of an additive is not possible to be known by a Romanian consumer. This is the case of the majority of the artificial sweeteners, colorants and preservatives used in the soft drinks industry. The lack of information about quantities of additives used in a product put the consumers' health at risk. Even if the Romanian consumers knew the

values of various ADIs they would not be able to determine how much to eat or drink from each type of alimentary product in order to avoid additives overdoses.

6. Conclusions and recommendations

1. There is an acute need to increase the synergy between marketing and R&D in both private and public sectors, to raise awareness of marketing and research teams who work in the beverages industry about their joint responsibility for the public health;

2. The Romanian and EU legislation should be further updated and improved by:

2.1. Aligning the maximum levels of additives allowed in Romania to the ADI levels adopted by other EU members that have higher scientific assessment capabilities of their effects on health (e.g. UK, Germany, Denmark, France);

2.2. Improving the Romanian labeling regulations by rising the minimum concentration of juice for the products traded under the name "with fruit juice"; also prohibit the use of fruit representations on the packages and promotional materials of soft drinks that have a juice content less than 25%;

2.3. Introducing the obligation for the soft drinks bottlers to mention on the package the quantities of each alimentary additive that exists in the composition of a product, using the nutrition labels model;

2.4. Preventing the disruptive effect of the *umbrella branding* techniques (*halo effect*) by adopting new audio-visual regulations in order to avoid misinterpretation of the promotional messages and confusions (e.g. the exposed case of natural juices and still drinks)

3. Romanian authorities need to strengthen the tracing and monitoring capabilities of the Ministry of Health to identify more efficiently the non conforming products present on the market, to prevent the infringement of the additive maximum admitted levels and assure the good implementation of the food safety policies;

4. The Romanian society need to have stronger non-governmental consumer protection organizations, able to assist The Ministry of Health to better monitor and control the additives presence in food and drinks;

5. All the responsible stakeholders should increase consumer awareness about the possible long terms effects of the alimentary additives and guide the children to consume healthier beverages (e.g. mineral water, fresh made juices, smoothies, etc.).

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Assets and Liabilities Management – Concept and Optimal Organization

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Abstract

Asset-liability management (ALM) is a term whose meaning has evolved. It is used in slightly different ways in different contexts. ALM was pioneered by financial institutions, but corporations now also apply ALM techniques.

In banking, asset and liability management is the practice of managing risks that arise due to mismatches between the assets and liabilities (debts and assets) of the bank. This can also be seen in insurance. Banks face several risks such as the liquidity risk, interest rate risk, credit risk and operational risk. Asset Liability management (ALM) is a strategic management tool to manage interest rate risk and liquidity risk faced by banks, other financial services companies and corporations.

ALM is defined as "the process of decision making to control risks of existence, stability and growth of a system through the dynamic balances of its assets and liabilities."

Key words: assets and liabilities management, banks, insurance companies

J.E.L. classification: D53; G1; G21; G22, G23, G24, G32

1. Introduction

The Asset and Liability Management Department is a creation that evolved out of banking and insurance history. The financial crisis of the 80s and 90s proved the importance of Risk Management in decision taking. During this period, frightened executive managers created or empowered Risk Management Departments. In the same period ALM teams were formed, bringing organisation and strategy into question.

At the beginning of the 90s, ALM teams in banks were usually integrated in Finance Departments or Risk Management Departments. In insurance Companies, ALM teams were considered initially to be insurance risk management teams.

Nowadays, ALM teams tend to be independent from Finance and Risk management teams.

In banks, the organization makes a distinction between risk management (RM), treasury and financial direction. The ALM position in the bank organization is often inside the Risk Management, sometimes inside the Treasury Department and sometimes inside the Budget Department.

Risk management looks after the risks and historically after the credit risk and the market risk included in trading books.

The treasury objective is often to monitor very short term liquidity risk and to reduce

bid/ask on interbank loans and the cost of deposits. The treasury has access to financial markets with the objective of a better volume/cost arbitrage. The treasury pilots the overall liquidity position.

Financial direction looks after accounting and budgeting.

The position of ALM in the organisation depends on the orientation decided upon by the bank's executive management: either more risk oriented, or more investment oriented.

In primitive organizations, ALM is a part of Risk Management and the treasury has the responsibility of investment.

In advanced organizations, ALM acts as a long term treasury responsible for long-term investments and for associated risks. In such a case, there is a need for an independent team to monitor the accuracy between reports and the position in reality.

In **insurance organizations**, ALM usually plays the risk management role. The Investment department plays the role of the Treasury Department.

In Investment funds, the role of ALM is divided between the fund managers (for investment), the financial directors (for strategy and marketing) and sometimes the risk management team.

In market equilibrium, ALM seeks to find the points of equilibrium between risk aversion (with preference for the present, for the fixed rate borrowing, etc) and the risk premium earned when taking positions.

ALM represents the banker, the insurer or the asset manager role in order to take a calculated risk for a premium in front of a market that is risk averse.

This is called „Transformation“:

- when lending using long fixed rates loans and accepting short floating rate deposits;
- when lending using long-term loans and accepting sight deposits
- when playing with long/short Equity
- when replacing long short-term insurance contracts

ALM role is assuming importance at a time of banking system concentration.

2. The objectives of ALM

ALM teams now have a set of responsibilities. The ALCO (the ALM Committee) is in charge of:

- short-term and long-term treasury activities (liquidity risk management)
- other ALM risks management: interest rate risk, optional risks, exchange rate risk, etc
- Funds Transfer Pricing modelling and ALM income computation
- conformity with local regulations and statutory obligations
- optimization of risks return and capital management

2.1. Liquidity Management

Liquidity Management is the first ALM objective:

- providing cash for all the business lines of the company, giving them full access to liquidity for every kind of liquidity need for each maturity in every country
- optimizing the short and long term funding costs, making the executive management secure about liquidity risk exposure
- optimizing the cost with a given rating target
- preparing liquidity contingency plans and being prepared for liquidity crisis

- monitoring liquidity (volume, cost, liquidity sources, etc)
- computing liquidity risk indicators (internal and regulatory indicators)
- providing to executive management centralized liquidity management and monitoring

2.2. Funds Transfer Pricing (FTP) and modelling

ALM teams are responsible for FTP implementation and control. The process has to be validated with the executive management and by the business lines. Executive management guarantees an identical approach for all the business lines. To implement FTPs the A/L manager will need precise financial information about the balance sheet products.

2.3. Capital and income management

a) ALM risk position

The definitions of the risk taking strategies is an essential part of the A/L manager's task. ALM should contribute to the profitability of the company:

- developing a contracyclic management to protect business lines against the cyclicity of the economy
- taking adequate risk positions

The business lines margins are protected against behavioural risks. ALM recuperates the financial risks and the volatility on the income due to those financial risks.

ALM will insure a centralized analysis and a centralized management of the financial risks. Income optimization is managed by ALM. This optimization requires a delegation of decisions.

b) ALM and budget

In the company's budget programme, ALM is essential for income prediction.

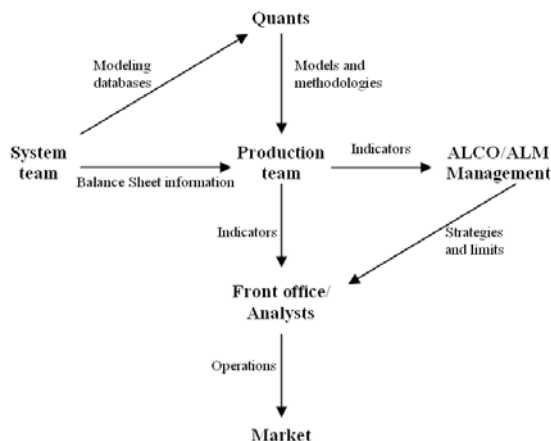
Nevertheless, ALM teams will not have also to concentrate on a 2-3 year budget horizon.

The risk supported by ALM teams is longer than could be expected.

Economic value management will take into account the long-term ALM investments in the budget environment.

The budget plan for business lines has to be in line with the ALM budget plan.

Figure 1. ALM Organization



3. ALCO: the ALM Committee

A risk-management committee in a bank or other lending institution that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure.

For example, the ALCO will have responsibility for setting limits on the arbitrage of borrowing in the short-term markets, while lending long-term instruments. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the bank's forecast and strategic balance-sheet allocations. The ALCO will generally report to the board of directors and will also have regulatory reporting responsibilities.

The ALM committee or ALCO is often the heart of the ALM organization.

There are different ALCOs, as in large companies many ALCOs exist:

- a central ALCO, which centralizes all the ALM information at the company level. All the other ALCOs report to the central ALCO and the head of Central ALM is present at all these other ALCOs.
- business lines ALCOs where the business lines specific ALM problems are studied in detail
- local ALCOs where the ALM problems of a specific country are studied in details (problems due to a different regulatory environment, to local treasury difficulties, etc)

ALCO Members

The ALM committee usually consists of:

- a member of the executive management of the company, sometimes the CEO (the Chief Executive Officer, who usually presides the ALCO as a chairman)
- the head of the ALM Department and the executive ALM members
- the head of Treasury Department
- the Chief Operating Officer
- the head of the Finance Department
- the heads of the major business lines (consumer banking, corporate banking etc) and the head of Marketing Department
- the head of the Risk Department and the Compliance director

The presence of the head of the Risk Management Department is necessary in order to establish a potential source of opposition. This opposition is necessary in order to validate the rules and the strategies proposed during the ALCO.

3.1. Frequency and rules

The ALCOs administrative rules should be known by everyone and be reviewed regularly. The ALCO takes place at least in a monthly basis or on a weekly basis depending on the situation of the company and on the need for intra monthly strategy management.

ALCO crisis committees can convene as soon as the executive management or the head of ALM requires it.

Reporting to the executive management and to the board should be done at least on an annual basis.

3.2. ALCOs role and agenda

The board of directors is naturally responsible for:

- financial risk management (including global interest rate risk, liquidity risk, exchange rate risk, etc, but excluding market risk) with delegation to the ALCO.
- credit risk management with delegation to the credit risk committee
- market risk management with delegation to the market risk committee

Audit teams and risk teams are usually responsible for consolidated risk reporting:

- economic risk
- credit risk
- market risk

- operational risk

ALCO will focus mainly on the financial risk management and in particular ALCO will look after procedures and after risk management policies. Also ALCO will verify that the ALM human resources are sufficient to perform all the ALM tasks.

Moreover, ALCO is the occasion to discuss business activity and its link with ALM topics.

The usual ALCO agenda is as following:

- presentation of the previous ALCO minutes
- commercial activity and development
- risk measurement, FTP rules validation and risk limit policy
- risk and income management and customer products pricing

a) The presentation of ALCO minutes

At the end of an ALCO, key points and action points should be highlighted in the ALCO minutes. These minutes should be sent promptly to the ALCO participants.

At the beginning of the next ALCO, the minutes are reread. The action points made in the last ALCO meeting should be reviewed in order to ensure their implementation.

b) Commercial activity and development

The marketing Department is responsible for product innovation and the pricing of existing products.

The head of this department is invited at ALCO to present activity and commercial development and in particular:

- the evolution of new contract production per customer type
- evolution of prepayments
- evolution of customer optional behaviours (closing rates etc)
- marketing campaigns
- overview of customer prices and competitor's prices

Moreover, the balance sheet should be presented. For instance in a bank, those figures should be presented as follows:

- for the loans: the average amounts, the figures, the average life, the average margin, the average rate, the average FTP and the proportion of fixed rate loans by year of production
- also for the loans: a reporting of the implicit/explicit options (repayments, prepayments, etc), the loan monthly new production and the fixed rate liquidity schedules;
- the same for deposits by year of production and by deposit type

- a reporting for all the funding instruments and for the possible future funding deals
- a reporting of the other elements of the balance sheet evolution, equity capital, provisions, bonds etc

Finally, the whole balance sheet should be presented at the ALCO: in terms of outstanding amounts and flows (past flows and future flows expected flows through marketing campaigns presentation).

3.3. Risk measurement, FTP rule validation and risk limit policy

After the presentation of the balance sheet in a historical and in a prospective way, it is time to present the balance sheet risks.

For every indicator, the A/L managers will present the hypotheses behind this computation. Moreover, the A/L manager will present the indicator variation and explain it through the computation of the indicator sensitivity.

3.3.1. FTP rules validation

Regular specific studies will help the ALCO to achieve FTP rule implementation and review. The proposed FTP rules modifications are presented during the ALCO (the ALCO is in charge of their validation).

3.3.2. Liquidity risk indicators

The ALCO will look after the classic liquidity indicators, the regulatory ones and the internal ones. The following indicators will be presented:

- liquidity gap: static and dynamic gap
- current funding composition and provisional evolution
- historical funding costs and prediction of the funding costs
- future liquidity needs
- credit lines reporting
- funding sources
- rating perspective
- loan to deposit ratio and other regulatory ratios
- liquidity contingency plan

3.4. Specificity of the Insurance ALCO

As an example, we present some points that should be highlighted during an insurance ALCO:

1. The flows should be presented in a adequate table:

- flows on the liability side by product (new contract in numbers and amounts by duration)
 - contract closing rates as a function of the contract seniority
 - marketing campaigns
 - flows on the asset side (realized hedging strategies: bonds, indexed bonds, equity and real estate)
 - derivative reporting
2. Benchmarking should be developed through competitor's campaigns presentation.

The committee should spend time on the presentation of the indicators, income sensitivity simulations (including stress scenarios) and hedging strategies definition.

4. Conclusion

Banks and other financial institutions are in the business of taking on risk, using their expertise in risk valuation to generate return. In many cases this activity involves using some very sophisticated instruments. The types of risk exposure taken on can be subtle and complex, reflecting not only the individual products themselves, but also interacting with external market factors.

Therefore when assessing risk exposure it is important to consider the bank's balance sheet at whole. The bank's ALM committee (ALCO) will take just this approach, managing the bank's asset and liabilities and being responsible for overseeing liquidity and market risk at the highest level.

Given the importance of banks in the world's economy, this responsibility is not a minor one. Liquidity, the ability of a bank to generate cash at short notice and low cost, is key to the smooth running of the financial system. Ineffective liquidity planning can have an impact far beyond the individual bank level. Similarly, market risk exposure, including yield curve risk and gap risk, requires careful management and reporting.

In managing these risks, no single measurement or ratio gives the complete picture. To assess liquidity risk we need to consider the entire balance sheet. Assessing and managing market risk is also a complex activity. The two risks frequently overlap, and the ALM discipline recognizes this by overseeing both risks concurrently. It is more of an art than a science, as the ALCO has to assess future market scenarios and their probability of occurring, and plan for each of these accordingly. As well as positioning for the bank to be in strong shape under any

eventuality, the ALCO will also need to allocate assets and liabilities in order to meet profit and return on equity (ROE) targets.

The tools and techniques available to the ALM practitioners are many and varied.

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Investment Decisions in the Romanian Pension Funds

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Abstract

The paper presents the needs of a reliable pension fund system as a consequence of the ageing of the population. The sustainability of the privately administrated pension funds is given by the administrators' investment decision. The pension fund participants would aim for a low contribution and expect for a prospective high return. At this point is the administrator's decision to invest the fund in a high return – high risk portfolio that would lead to a high volatility or in a moderate return portfolio with a manageable risk.

Key words: pension funds, decision theory, asset and liabilities management

J.E.L. classification: G23; G17; G11;

1. Introduction

The fact that the life expectancy is increasing year by year with the help of developments in medicine and improvements in lifestyle is well known and appreciated. But along with this individuals and governments have to find solutions for the longer retirement.

The British organization "Help the Aged" said that "today almost 1 in 10 people globally are over 60. By 2025 the figure will be 1 in 5."

According to the 2010 data published by the World Health Organization in 2008 the life expectancy at birth in Romania was 69,6 years for males and 77.1 years for females. While the life expectancy at the retirement age was 13,9 years for a male at the age of 65 and 21 years for a female at the age of 60.

For the European region the life expectancy at birth in 2008 was 70,9 for males and 78,6 for females while the life

expectancy for 65 years old male was 15,4 years and for a 60 years old female was 22,8 years.

The trend of the life expectancy is obviously increasing if we look at the historical data. Moreover it is forecasted that in 2030 in the European Union the life expectancy for females will increase to 85,3 years and for males will go up to 80 years. As expected, for Romania the forecast shows lower levels of life expectancy 82,2 years for women and 75,5 years for men.

Table 1

2008		
	life expectancy	
age	male	female
0	69,6	77,1
60	17,1	21
65	13,9	17
2000		
	life expectancy	
age	male	female
0	67,7	74,7
60	16,4	19,8
65	13,4	15,9
1990		
	life expectancy	
age	male	female
0	66,8	73,3
60	16,4	19,1
65	13,2	15,2

Source: the statistics database of the World Health Organization [4]

The forecast for 2030 is based on current situation of growth in the medicine innovation and health developments. But the limit of medicine and its impact on life expectancies cannot be quantified.

The unanticipated reduction in mortality rates was named longevity risk. The longevity risk impacts significantly the government, the individuals, the employers and the insurance/ pension industry. As a consequence "Insurers, governments and pension providers must act now to ensure that living longer remains a benefit to society, rather than a financial burden." said Christian Mumenthaler, Head of Life & Health Products, Swiss Re.[5]

2. Pension Benefits Alternatives

Solutions exist to offer protection at retirement and to overcome the longevity risk but influence the individuals and the pension companies in different ways.

There are two different pension plans offered by the pension/insurance industry. One is the defined benefit pension plan and the other one is the defined contribution pension plan. Defined-benefit plans promise to pay employees an income when they retire, typically at a level based on their length of service and salary, for the rest of their lives.

The defined contribution pension plans is a retirement plan in which a certain amount or percentage of money is set aside each year by a company or the individual for the benefit of the employee. It is clear from the beginning that in the case of defined benefit pension plans the risk is mainly held by the employer that provide the benefit or the insurance that offer the product while in the case of the defined contribution pension plans the risk is passed to the individual to estimate her/his needs for retirement income.

In Romania, at the moment, only the defined contribution pension plans exist. This might be explained through the fact that the life expectancy of the Romanian population is expected to have a steeper increase than the other more developed countries that encountered this phenomenon some decades ago.

Besides having well established private pension systems the more developed countries can benefit also from developed capital markets and more sophisticated financial instruments like the longevity swaps. "In longevity swaps, the insurance company gives investors a stream of payments. The investors, in return, commit to paying the insurer if the beneficiaries of the pensions or annuities covered by the swap live longer, on average, than originally

anticipated, thus making the income that they receive more than expected." (Mark Kolakowski, About.com Guide).

3. Short description of the Romanian Pension System

In the context of the ageing population a pension system to allow for the future increases in retired population was needed. As a result three Pension Pillars were created in the Romanian pension system. The Pillar I represents the pension provided by the governmental budget, these is a pay-as-you-go type of pension and was the only existing before the reform.

The Pillar II is a defined contribution scheme with private administration. This scheme is mandatory for persons less than 35 years old, optional until a maximum age of 45 years. The Pillar II participants have a contribution of 2% out of the monthly salary. This percent is expected to be increased gradually to reach 6% in the following years. In addition the Pillar II differs through the fact that the contributions are made in individual accounts which can be inherited if the owner dies before retirement.

Moreover Pillar III stands for optional privately administrated funds; these are defined benefits type of pensions.

At start there were 18 private funds operating for the over 4 million possible participants. But four of them had a portfolio of less than 2000 clients and decided to exit the pension industry. Their portfolios of clients were equally divided through the remaining 14 players that were in the market at the time. In February 2011 the CSSPP had on the list 9 pension administrators for the mandatory private pension contributions. The number of pension funds shrank from 2007 as a consequence of mergers and acquisitions in the market.

At the end of February 2011 the number of participants included in the private mandatory pension system were 5,2 million while the total asset under management in the market was 4.682 million RON.

The total asset under management increases on one hand as a consequence on the increasing number of participants and on the other hand as a result of the increase in contribution percentage. In 2011 the contribution the mandatory privately administrated pension was set to 3% of the gross salary.

The amount of asset under management is high and moreover the degree of reliability of the funds needs to be high since the benefits will start to be paid even 40 years from now and for an uncertain period of time due to the increasing life expectancy.

4. The Investment Decision

The pension funds represent long term investment as a result specific investment decisions are taken in order to maintain the sustainability of the fund.

The Assets and Liabilities Management starts to become more in focus for the pension funds as a consequence of the regulations, ageing of the population and increasing competition.[3]

The participant to a pension fund would aim for as high as possible return for her/his investment. This means that with a minimum contribution the pension fund administrator should obtain an expected pension payment.

The participant contributes to a fund that is accumulated and invested in diverse instruments like governmental bonds, corporate bonds and equities. The investment instruments have different degrees of risk and consequently different returns. The highest return would be provided by the risky investments which also lead to volatility in returns. The volatility of the investment portfolio is not positively seen by neither the administrator of the pension fund and the regulator of the pension fund market. The Romanian pension fund market regulator is CSSPP (Comisia de Supraveghere a Sistemului de Pensii Private). "The mission of this state supervisory body is: to protect the interests of those affiliated to the Pension System, by assuring an efficient functioning of this system and to authorize and supervise the activities carried out in the Pension System." (<http://www.csspp.ro/misiune>). [6]

To better inform the participant the regulator imposed that the pension funds that operates in Romania should describe their risk appetite and adhere to one of the three risk positions: low risk, medium risk and high risk. At the moment (March 2011) are 9 administrators of mandatory pensions in Romania, 8 are medium risk and 1 was positioned as high risk. There is no low risk fund. The one fund that was positioned in the high risk class had one of the top performances in terms of returns but not the

best one as expected from the risky investments. This shows a sometimes inefficient assets and liabilities management.(see Fig.1)

Fig.1. The returns of the mandatory pension funds in February 2011

Risk level	Private Pension Fund Pillar 2	Return February 2011
Medium	Fondul de Pensii Administrat Privat VITAL	11.1365%
	Fondul de Pensii Administrat Privat AZT VIITORUL TĂU	15.1155%
	Fondul de Pensii Administrat Privat BRD	12.4965%
	Fondul de Pensii Administrat Privat BCR	14.1767%
	Fondul de Pensii Administrat Privat ING	15.5138%
	Fondul de Pensii Administrat Privat EUREKO	13.8491%
	Fondul de Pensii Administrat Privat ALICO	14.4503%
	Fondul de Pensii Administrat Privat PENSIA VIVA	13.1051%
High	Fondul de Pensii Administrat Privat ARIPI	15.1372%

Source: <http://www.csspp.ro/rate-de-rentabilitate/pilonul-2>

Data published by the Romanian Private Pension System Supervisory Commission (CSSPP) [6]

In the voluntary pension funds market (Pillar3) are 10 players, 2 in the low risk sector, 6 positioned as medium risk and 2 in the high risk category. Also contrary to the expectations, in this market some of the medium risk funds performed better in terms of return than some of the high risk funds and the low risk funds were better in some situations than the medium risk funds.

The voluntary pension fund market (Pillar 3) is significantly lower than the Pillar 2 market. At the end of February 2011 the asset under management of the Pillar 3 market accounted for 349 million RON and the number of participants reached 0,22 million. This market is expected to increase as a result of the tax benefits provided to the companies that offer a voluntary pension funds in the employees benefit packages.

The figure below shows the situation of the pension fund returns in December 2010. At that moment the returns of the pension funds showed a strong correlation between risk and return. But this was not the case in

all the time frames as a result of the market volatility.

Fig.2. The returns of the voluntary pension funds in December 2010.

Risk level	Voluntary Pension Fund	Return December 2010
Low	BCR - PRUDENT	8.0343%
	OTP STRATEG	7.4738%
Medium	CONCORDIA MODERAT	14.1512%
	PENSIA MEA	10.7647%
	RAIFFEISEN ACUMULARE	16.5638%
	ING OPTIM	14.8363%
High	AZT MODERATO	15.2257%
	ING ACTIV	15.413%
	AZT VIVACE	14.8046%

Source: <http://www.csspp.ro/rate-de-rentabilitate/pilonul-3#>
Romanian Private Pension System Supervisory Commission (CSSPP)[6]

“The first step in controlling investment risk is the composition of the portfolio. Unfortunately, in order to bring about a low average contribution rate, a high percentage of capital needs to be invested in equities. In order to achieve stable contribution rates over time, a high percentage has to be invested in fixed-income assets. What fund managers try to do is to take advantage of the anticipated higher returns on equities on the one hand, whilst at the same time mitigating the effects of the correspondingly higher volatility. An additional tool is needed for this, and this is the buffer capital.” [2]

The Romanian Private Pension System Supervisory Commission (CSSPP) tries to impose regulations and to set investment constraints in such a way to minimize the loss risk of the participants. The Regulator’s importance is increasing more and more with the decreasing period until the benefits payments, i.e. the pension payments which will prove the quality of the investment decision made by the pension funds administrators.

5. Conclusion

The private pension system has as main goal to provide an extra benefit at pension age to sustain the state pension payments.

In the actual increasing trend of life expectancy the longevity should be a risk that the companies would be keen to take and be remunerated for while the individuals should aim to protect themselves against this risk.

The longevity risk impacts significantly the government, the individuals, the employers and the insurance/ pension industry and they will need to work together to find solutions for the wealth of a longer retirement period.

In the actual context the management of pension funds’ assets has to be thoroughly considered since the quality of the investment decisions will be felt even 40 years from now when the retirement benefits will be paid.

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Views Regarding Floods in the Desnățui Plain and Their Effects upon Agriculture

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Abstract

Being delimited by the Danube River in the South, the Desnățui Plain was affected by floods, the most significant occurring in the year 2006, over the period March – April, as consequence of the water following reach fall-out and melting snows.

Agriculture on this area came to harm, being affected ploughable lands, lands occupied by grazing and meadow lands, but also the animals.

All these phenomena have had an obvious impact upon the farming production decrease which entailed in its turn a rise of agro-alimentary products prices.

Key words: floods, farming lands, the Desnățui Plain.

J.E.L. classification: Q190

1. Introduction

Water has had and still has an essential role in the life of plants and animals. Agriculture is an economic activity tightly related to water existence. The agricultural productions depend to a great extent on the required amount of water in the soil, provided by fall-out, on the phreatic water or, in absence of the best amount of fall-out, by means of irrigation systems, meant to settle this issue. Apart from the positive effects, water can be harmful for the agriculture, when fall-out is in excess.

The main hydrographic artery in the Desnățui Plain is represented by the Danube River, located in the south of the plain, which creates the main collector of the streams (the Jiu, Drincea, Balasan and Desnățui Rivers with its feeder Baboia) from the analysed area. This river is particularly important for agriculture practicing. Since the very

Antiquity was used as a means of transport in the cereals trade [1]. Currently it provides the required amount of water for the irrigations systems built-up on this plain area. Also, the Danube alluvial plain has provided the most benign lands to practice agriculture.

The Desnățui Plain is a region in which frequent droughts and floods occur as consequence of the climatic parameters variation during a year. They mirror in the either minimum or maximum rivers course.

The maximum course is caused by the water excess following rains (especially the pouring ones) or as result of snow melting. It is also called "high water" and it can entail high flood.

High flood represents the sudden and strong increase of the level of a stream determined by: powerful downpours, sudden melting of snow, superposed rains following snow melting, natural or anthropic dam breaking [2].

The most notorious high floods occurred on the rivers in the Desnățui Plain are those from the years 1954, on the Desnățui (at the Lipov hydrometric station), 1972, on the Jiu, Drincea Rivers (at the Cujmir hydrometric station) and the Desnățui (at the Goicea hydrometric station), 1976 and 1985 (in March) on the Jiu River [3].

The high flood in the year 1972 occurred over the period October 03rd – 31st and it had a unique character (mono wave), on the Jiu and Desnățui Rivers and multiple waves, on the Drincea and Baboia Rivers [4].

In the year 2006, high water caused ampleness floods with catastrophic effects upon agriculture.

2. Data and methods

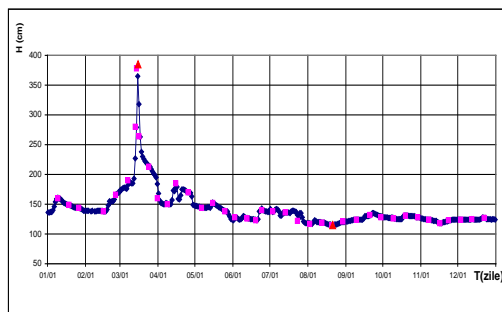
In order to analyse the impact of floods occurred in the Desnățui Plain over the last

period of time, we have used data collected from different institutions, the Oltenia Region Weather Bureau, A.B.A Jiu (Jiu Water Basin Administration), Dolj I.S.U. (Dolj Inspectorate for Emergency Situations), Dolj Directorate for Agriculture and Rural Development (D.A.D.R.), that we have processed and interpreted drawing charts and maps.

3. Results and discussions

Over the period March 13th – 15th 2006, abundant rains and water resulting from snow melting had as result the overflow of both Danube River and Jiu and Desnățui Rivers (Fig. 1).

Fig. 1. The Desnățui River – Level recorded in 2006 at the Goicea hydrometric station

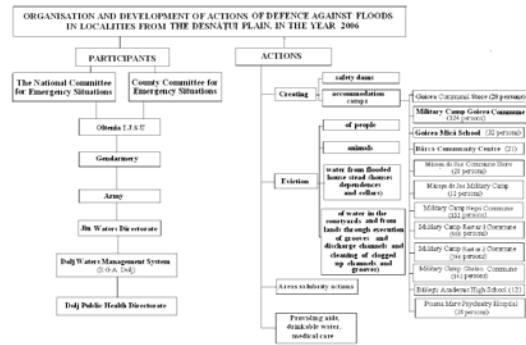


Source: A.B.A Jiu

The same year, on April and May, new overflows of the Danube River and its main feeders, Jiu and Desnățui Rivers occurred. This high flood on the Danube River affected a series of hydrotechnical constructions: Calafat Dam (3 km), Ciupercenii Noi (2 km), Piscu Vechi (0.2 km), Catane (11 km), Măceșu de Jos (0.8 km).

In order to remediate floods effects, representatives of different institutions participated in interventions (Fig. 2) as well as citizens from affected localities.

Fig. 2. The Desnățui Plain - Organisation and development of actions of defence against floods in the year 2006



Source: Dolj I.S.U.

There were evicted 7624 persons from Rast, Negoii, Bistreț, Cârna, Măceșu de Jos and Bechet localities, of which 5603 persons to relatives or other families, and a number of 2021 persons in specially arranged camps in the respective localities. Also, there were evicted 8800 animals from the risk areas.

Over the course of time, a series of localities from the Desnățui Plain suffered damages caused by floods (Fig. 3).

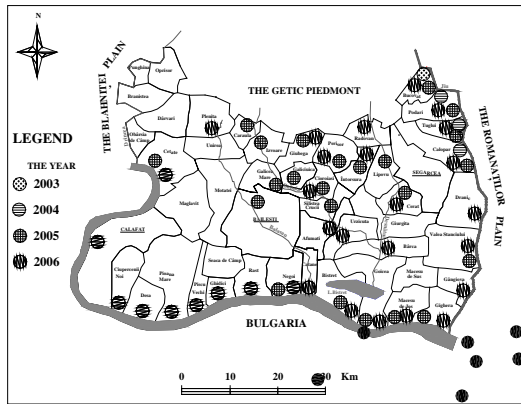
Thus, in the year 2003 floods occurred in Bucovăț Commune (April 13th – 15th), in the year 2004 in Calopăr, Țuglui, Podari Communes over the period June 01st – 13th, and in Podari Commune also over the period November 15th – 16th.

In the year 2005, 46% of the localities located in the Desnățui Plain were affected by floods, both over the period July 10th – 15th (Băilești, Bucovăț, Calopăr, Cetate, Cioroiși, Galicea Mare, Galiciuica, Giubega, Perișor, Siliștea Crucii, Țuglui) and over the periods August 10th – 15th (Bucovăț, Caraula, Cetate, Gighera, Giurgița, Goicea, Întorsura, Izvoare, Lipovu, Măceșu de Jos, Negoii, Perișor, Podari, Siliștea Crucii, Țuglui) and September 19th – 21st (Bistreț, Caraula, Cerăt, Goicea, Izvoare, Podari, Valea Stanciului).

In the year 2006, 62% of the administrative units from the studied area were flooded: Calafat, Afumați, Bârca, Bucovăț, Calopăr, Cerăt, Cetate, Cioroiși, Drănic, Gighera, Gângiova, Giubega, Întorsura, Măceșu de Jos, Negoii, Perișor, Piscu Vechi, Plenița, Podari, Radovan, Țuglui, Urzicuța, Valea Stanciului over the period March 13th – 15th, Calafat, Bistreț, Catane, Ciupercenii Noi, Desa, Ghidici, Gighera, Măceșu de Jos, Negoii, Piscu Vechi,

Poiana Mare, Rast over the period April – May 2006.

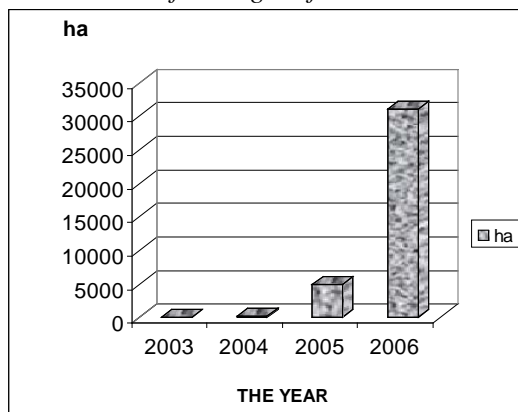
Fig. 3. The Desnățui Plain - Localities affected by floods



Source: A.B.A Jiu

Floods occurred in the year 2006 affected huge surfaces of farming land (Fig. 4).

Fig. 4. The Desnățui Plain – Flooded farming surfaces



Source: Dolj D.A.D.R.

The greatest damages were recorded in the territorial-administrative units in the south and south – west of the plain (Fig. 5), being caused by the Danube River overflow. Thus, the following localities are noted:

- Bistreț, 3435 ha of which 950 ha of farming land over the period 13 – 15.03.2006, and 2485 ha of farming land over the period 14 – 24.04.2006;
- Calafat, 2475 ha of which 1275 ha of farming land over the period 13 – 15.03.2006, and 1200 ha of farming land over the period 14 – 24.04.2006;
- Cetate, 2327 ha of which 1300 ha in the year 2005 and 1027 ha in the year 2006 (147 ha of farming land over the period 13 –

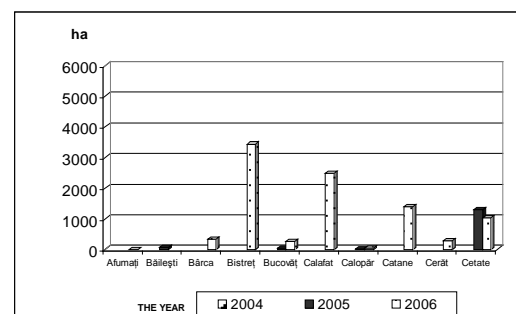
15.03.2006, 300 ha on 12.04.2006 and 580 ha of farming land over the period 14 – 24.04.2006);

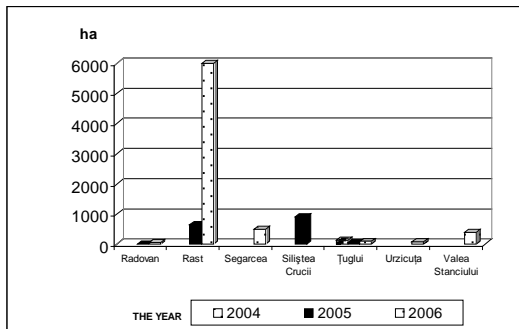
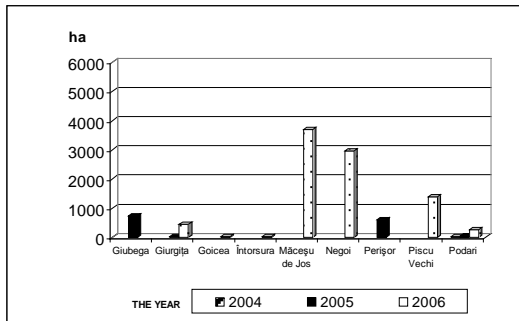
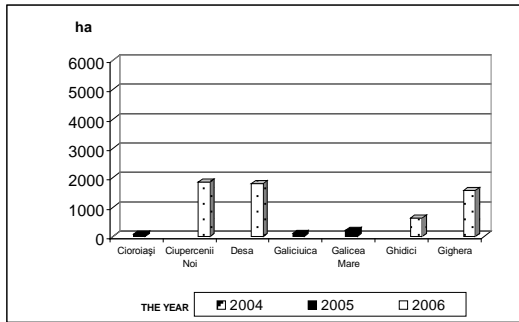
- Ciuperceii Noi, 1850 ha of farming land of which 1050 ha of farming land, and 800 ha of pasture-lands;
- Desa, 1789 ha of which 1389 ha of cultivated farming land, and 400 ha of pasture-lands and meadows;
- Gighera, 1577 ha of farming land of which 117 ha over the period 13 – 15.03.2006, and 1460 ha over the period 14 – 24.04.2006;
- Măceșu de Jos, 3685 ha of farming land of which 400 ha over the interval 13 – 15.03.2006, and 3285 ha over the period 14 – 24.04.2006;
- Negoii, 2950 ha as follows: 150 ha of farming land in March of the year 2006 and 2800 ha of farming land of which 2300 ha of cultivated ploughable land and 500 ha of meadows on April.
- Piscu Vechi, 1387 ha of which 670 ha of farming land on March and 717 ha of pasture-lands and meadows on April;

The most affected was Rast locality, 6750 ha of farming land, of which 650 ha in the year 2005 and 6100 ha in the year 2006 (1600 ha over the period 13 – 15.03.2006, and 4500 ha over the period 14 – 24.04.2006).

Damages recorded in agriculture, as result of floods occurred from the year 2006 in particular, entailed a series of negative consequences upon the territory economy, among which we can enumerate low productions per ha and implicitly the rise of farming products prices.

Fig. 5. The Desnățui Plain – Flooded farming surfaces, by territorial-administrative units





Source: Dolj D.A.D.R.

Currently, over 2605 ha of farming lands from the Desnațui Plain are in areas with risk of floods (Table no. 1).

Table no. 1
Surfaces of farming land from the Desnațui Plain in areas with risk of flood

Item No.	Locality	Water Course	Farming land in areas with risk of flood (ha)
1	Afumați	Baboia	180
2	Bârca	Desnațui	400
3	Caraula	Baboia	200
4	Cerăt	Desnațui	300
5	Drănic	Jiu	100
6	Galicea Mare	Baboia	200
7	Lipovu	Desnațui	40
8	Motăței	Balasan	45
9	Podari	Jiu	350
10	Radovan	Desnațui	90

11	Siliștea Crucii	Baboia	400
12	Țuglui	Jiu	60
13	Unirea	Balasan	90
14	Urzicuța	Baboia	150

Source: Dolj I.S.U.

In order to prevent floods and for the geographic environment safety the following **measures** shall be taken into account:

- Permanent flow of latest information provided by the Craiova Regional Weather Bureau of the Operational Centre within the "Oltenia" Inspectorate for Emergency Situations with regard to the occurrence of potential meteorological phenomena that might affect population. In its turn, this institution notices the local committees, the social and economic objectives, for the purpose of taking the required measures.

- In order to remove damages caused by floods, there were built hydroameliorative arrangements with drainage role (channels) and drainage in order to remove the excess of humidity from the affected farming lands. Also, there were built dams along the following hydrographic arteries:

- The Danube, on the sectors: Calafat – Ciupercenii Noi – Desa, Ghidici – Rast – Bistreț – Nedeia – Jiu in the east as compared with Piscul Vechi locality;

- Jiul, Podari – Țuglui transom, on a length of 14.57 km;

- Baboia, dammed up on a length of 54 km and regulated on a length of 40 km in the area Caraula – Bârca;

- Another safety measure against floods consists of the building up of dam on Fântânele storage basin, with a length of 768 m and a height of 13.5 m. The basin is located on the Desnațui River, at the merging of the plain with the Getic Plateau, having a storage capacity of 25.8 mil. m³ and the role to protect a 1623 ha surface.

- Also, periodically, it is checked both the technical and the functional condition of longitudinal dams or of storages. Thus, in the year 2008, there were achieved additional earth moving and bring up to ground level of the Danube longitudinal dam, affected by floods of the year 2006, Ghidici – Rast – Bistreț facility (km 19 – km 15, earth moving volume 40.000 cubic meters) and it was checked both the technical and functional condition of Caraula storages (located on

Baboia brook, in the area of the locality bearing the same name, with fishing role and of protection against floods) and Bistreț.

- Forest shelter-belts in the areas dam – strand. After the floods from the year 2006, the Forestry Directorate performed an operation and maintenance program for the forest shelter-belt, especially for the shelter-belt located along the Bistreț – Nedeia – Jiu facility.

- Periodically, Dolj S.G.A. develops, through the waters management program, activities to maintain cleanliness in the beds areas and on the water course strands, acting so as to remove wastes and domestic residues dumps.

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Actions of Companies and Customers on the Financial Leasing Market in Romania

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Abstract

Leasing is one of the activities which had suffered most during the crisis. Leasing business in 2009 fell by 72% compared with 2008. The volume of assets finance was similar with 2003, which leads us to conclude that leasing has regressed to 5-6 years. The decrease was observed in all transactions: fewer leasing companies, reducing the number of contracts, reducing the total amount, longer duration for expiring contracts. Leasing is one of the most used forms of financing that can appeal both individuals and legal entities. This is because they offer many benefits: tax - because companies can deduct the leasing, management - through careful planning money accessibility and speed compared to a bank loan financing for leasing services company.

Key words: leasing, crisis, lessor, lessee.
J.E.L. classification: G 32

1. Introduction

Leases had a flowering period, from 2003-2007, registering steady and consistent growth. This prolific period for the leasing market was driven by several factors such as:

- Increase of living has led to increased consumption.
- Increasing competition between leasing companies which made their offers to be increasingly more attractive for businesses, but also for individuals.
- Lack of regulations for non-banking

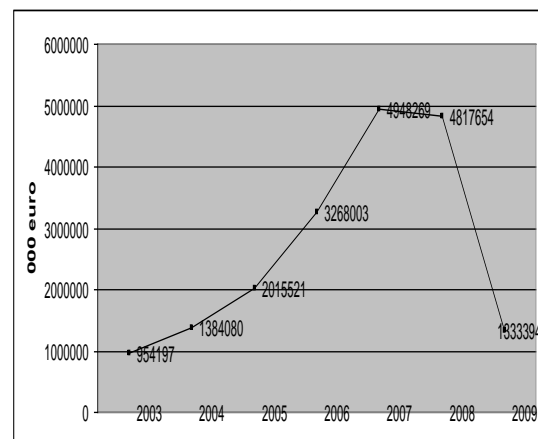
financial companies on the indebtedness of individuals.

- Ease the granting of financing by leasing companies who did not take into consideration the real possibilities for reimbursement by the customer or have overlooked or have not sought guarantees.

2. Evolution of the leasing market

For five years was a "golden period" for business leasing, by mid-2008 the gold began to lose its shine. Between Q3 2008 and Q4 2008, the leasing market has crashed by half, from transaction of 1236976000 euro to transaction worth only 637145000 euro. At the end of the year when the transactions were accounted, their value was 4817654000 euro.

Graph no. 1. Leasing market evolution

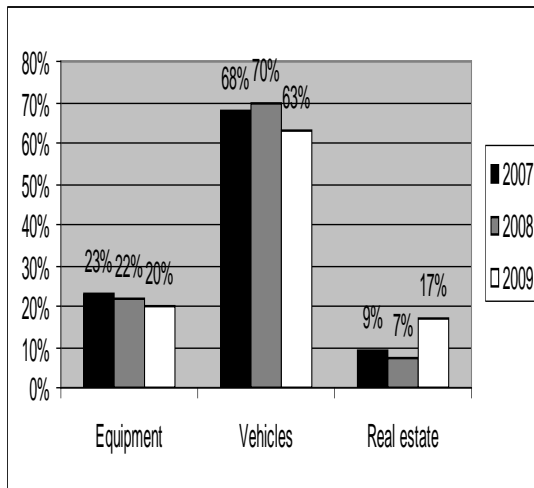


Source: www.alb-leasing.ro

The decline continued in 2009 when the market volume was 1333394000 euro, by 72% lower than in 2008. Value of assets financed under lease in 2009 ranged in value recorded in 2004 when the leasing market was 1384080000 euro [1]. Decline of leasing transactions expressed in all aspects: reducing the number of leasing companies, reducing the number of contracts, reducing the amount finance, the extension of ongoing contracts.

Romanian financial leasing market structure by customer type is: vehicles (transportation), equipment and real estate.

Graph no. 2. Romanian Financial Leasing Market Structure



Source: www.alb-leasing.ro

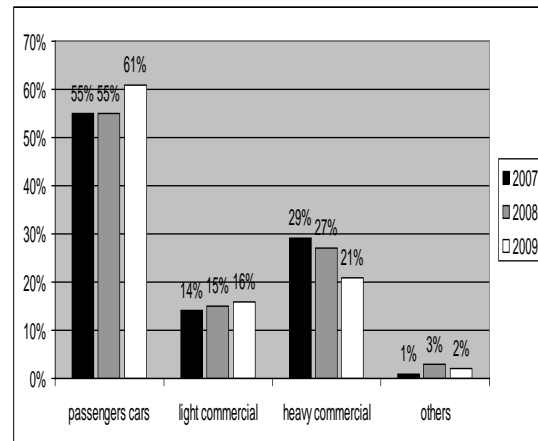
In 2009 equipment reached a share of 20% (261158000 euro), real estate 17% (232647000 euro) and 63% of vehicles (839589000 euro) [1].

The value of **equipment** financed in 2009 was down by 76% versus 2008. Construction equipment has the largest share of 22%, but it declined by 87% compared with 2008 due to suspension of several real estate projects. Area of farm machinery accounts for 9%, IT equipment and software at 8%, 8% is all the equipment for metallurgical industry, food industry equipment 4%, 5% of medical equipment, equipment for the woodworking industry 3%, chemical industry 4%, the rest being allocated to other categories of equipment.

Although every year **vehicles** have the highest share by type of assets financed, in 2009 the value was 75% less versus 2008. A decrease of about 72% was recorded in car

and light commercial vehicles, but the most dramatic decrease of 81% in 2009 compared to the amount funded in 2008, was in heavy commercial vehicles.

Graph no. 3. Romanian Financial Leasing Market Vehicle Financing

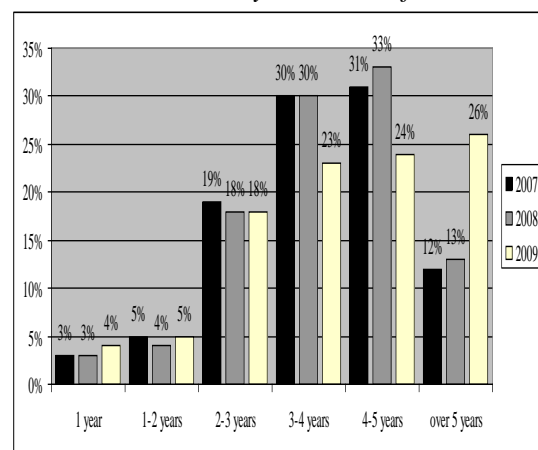


Source: www.alb-leasing.ro

In 2009 **real estate** financing was with 34% less than the amount funded in 2008. Financing was distributed as follows: 36% commercial and industrial buildings, office space 26%, land 4%, 6% were directed to hotels, 7% and 21% retail housing sector.

Experts consider that the conduct of beneficiaries changed due to the crisis. Users extend the contract and defer the decision to sign a new contract. In 2009 there were major changes in terms of the lease term. If in 2007 the most common period for the contract was 4-5 years (31%), in 2009 most of the leases (26%) were signed for a period exceeding five years.

Graph no. 4. Romanian Financial Leasing Market Structure by Duration of Contract



Source: www.alb-leasing.ro

3. Actions of leasing companies

Faced with the dramatic decline in market leasing companies have taken a series of actions to reduce losses:

Bad payer customers sued for recovery of assets. Application of this method is expensive and time consuming. In May 2009 Constitutional Court amended the procedure for enforcement of customer private economic agents who are bad payers. It is imperative for the leasing companies to obtain the declaration of enforcement from the court. This contributes to delays in enforcement proceedings. A good recovery can take several months during which the asset can not be executed. Delaying recovery of property contributes to lower their value and hence the impossibility of recovering damages in full [2].

Sale of goods under the value recovered. Leasing companies resort to selling recovered goods at lower prices than the amount charged for two reasons: the high cost of car parking and increase the number of cars recovered. The cost for a car "parked" in the car park is about 50 euro per month for a car. Losses can be high if the company vehicle fleet is 4-5 months in a car park. Romanian leasing companies reached over 10 000 cars in stock recovered from the customers that could not pay rates, according to estimates from market [3]. Intensification of competition, increased supply and low demand are reasons to determine the leasing companies to sell quickly the goods recovered.

Sale of repossessed goods abroad. Sale of goods recovered from bad payers is made in countries such as Netherlands, Poland, Germany, Hungary, Albania, Moldova and Slovakia. For example, Raiffeisen Leasing has sold in 2009 about 500 of 600 of the goods recovered, 95% abroad. Leasing companies sell cars in the country and abroad to "package" of at least four cars, at prices 40-50% low than the price originally paid in 2008 [4].

Diversifying of the ways of promoting assets repossessed. Along with traditional methods of promotion leasing companies strengthened promotion on the Internet. Some companies have set up special websites dedicated to resale of goods or created special sections devoted to repossessed goods

not only from Romania but also from other European countries.

Internal reorganization. To cope with the crisis leasing companies have gone through processes of internal reorganization to streamline the business. The measures taken concern: staff reductions, the calculation of life assurance, fleet management, changes in top management. Most companies have made changes in corporate governance. For instance three of the largest companies on the market UniCredit Leasing, BCR Leasing, Raiffeisen Leasing - have changed the top managers [5].

Tighten criteria for granting funding. Leasing companies tightened the criteria for selecting the users. To receive funding firms must meet a number of conditions including: delays not exceeding 30 days with the Central Credit Register and the Payment Incidents Register, to prove the existence of contracts in progress [6]. Individuals must demonstrate a stable employment and income in accordance with National Bank of Romania.

Registration in Central Credit Register. Central Credit Register (CCR) is a system specialising in the collection, storage and centralisation of information on the exposure of all reporting entities (credit institutions or non-bank financial institutions enlisted with the National Bank of Romania Special Register) in Romania to the debtors that were granted loans and/or incurred commitments whose cumulated value is higher than the reporting threshold (RON 20,000), as well as information on card frauds perpetrated by cardholders [7]. Leasing companies we're required to install and test the software purchased from the National Bank of Romania (BNR). The Benefit of registration in the CCR is that the credit report of clients can be verified. Before the imposition of these measures firms could be based only on good faith of the customers the declared value of their debt. Due to difficulties in carrying out the verification of financial statements leasing become attractive to many individuals who did not declare all debts taken. Also, leasing was attractive for those people who had the financial resources to pay the lease rate but had no evidence to demonstrate financial status.

4. Actions of customers

The economic crisis has made for some users difficult to pay lease rates on time or be unable to meet obligations under the lease signing. Some of these clients have adopted one of the following positions in relation to the leasing company:

Return the good to the leasing company.

Some users could not pay the rates and decided to return the property leasing company. Unfortunately, for the user unable to continue the contract, this is not a solution. Under the contract signed by the user returning the good does not automatically extinguish the obligations.

Transfer of the lease. Users who have difficulties in carrying leases have tried to find people willing to take over the lease. This means payment of the rates in exchange for the use of the property. Obvious application of this method requires the agreement of the leasing company which owns the good. It was created a site, www.cesiune.ro for those who wish to surrender a lease or are interested to take over an existing one, providing assistance during the entire process and multiple financing options. The site has signed cooperation agreements with a number of leasing companies: TBI Leasing, OTP Leasing, Ager Leasing, Tiriac Leasing. When taking over a lease advance and registration fees are already paid [8]. Person who takes property must pay a tax, which differs from a leasing company to another, but it stands at about 2% of the remaining payment, plus the rest of the remaining rates.

Good damage or declaring the property lost to fraud sponsor. In leasing the goods must be returned in same condition as taken into use. If the customer returns goods damaged, he must pay the necessary expenses to repair property. In addition, for damaging goods are legal consequences. In most cases, user undertakes, in the event of termination of his fault to pay all outstanding and unpaid bills and the rates until the end of the lease, including the residual value.

5. Solutions

There are solutions to overcome the difficult moments in the leasing market. Implementation of these solutions could be beneficial for leasing companies and for

users. Among the measures that may apply are:

- Creating partnerships between leasing companies to overcome the crisis.
- Providing financing solutions to areas less affected by the crisis. The most effective investments are in medical and agricultural equipments.
- Reduce of costs.
- Providing operational leasing contracts.
- Financing of niche segments: oil and gas.
- Providing second hand lease contracts.
- Careful analysis of the scope of the client seeking funding.
- Renegotiation of contract terms. Extension of contract and monthly payment of insurance are simple solution that will contribute at reducing the number of customers who can not pay the leasing rates.
- Flexibility in the relationship with customers.
- Training of staff. Implementation of the solutions presented above can not be done without a well-trained staff to meet the new requirements on the leasing market. Although cost savings is necessary and spending on personnel is not considered a priority in times of crisis, we believe that staff training should not be abandoned.

6. Conclusions

One of the problems of finance leasing market in Romania was a misunderstanding by the user of the real advantages offered by finance lease. In the Romanian leasing market many users have turned to leasing as a financing way to buy goods "unproductive". Leasing is ideal for a customer who needs a good and has no financial resources to purchase it. But, the goods financed by leasing must be an asset that "creates money", that means that the user must use the asset in a productive activity to acquire money. Thus, leasing is not an expense but an investment and leasing rate are paid by the user from the gain arising from the use of the good. Ease in providing financing by leasing companies has been beneficial on the short term, contributed to the growth of the amounts funded, but on long-term proved ineffective. Leasing a form

of financing for productive investment can be a recovery tool for economies drained by the financial crisis, that need strong and profound investments. Thus, states should encourage the financing of investment through the leasing of general interest in agriculture, food, chemical and mechanical engineering. Leasing combined with appropriate tax incentives can help the economic recovery.

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Actual Financial Crisis - A New Phase of Economic Cycles

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Abstract

The present study, through substance and form, proves that contemporary academic interest for techniques to generate economic cycles is not a new one, but a continuation of old actions. As a result, have been sketched theoretical itineraries, convergent or divergent, designated to reflect the dynamism of studies about this thesis. We are aware that this topic is studied intensely, in all its complexity; therefore, our attention will be focused toward analysis of causes which have determined the actual financial crisis.

Key words: financial crisis, economic cycles.

J.E.L. classification: E20, E30, E32.

1. Introduction

During the time, the evolution of economic processes have been marked by „structural transformations in undulated form” [Iancu, 1, pp.210], personalized through some regularity and recurrence. Behind an endless and continued successions of transformations, in which one stage is, in the same time, the effect of the previous one and the cause for the next one, are hidden initial impulses (shocks), propelling forces, mechanisms of propagation. These cycles are in equal measure „causes and effects for some changes and adjustments of structures which produce not only losses, but benefits, arisen from actions for economic recovery” [Iancu, 2, pp.210].

Looking at economic cycles as delicate equilibrium between good and bad, we intend in this study to do research on shocks' line, shocks which generate disorders in economy, and change it course from good to bad. The relevance of this undertakes increases in time and space. Hence, we will take advantages from generous resources offered by recent

economic-scientific literature to help us to understand the origins of actual economic and financial crisis.

2. Theoretical Perspectives on actual financial crisis

The matter about the measure of deficient judgment of investors/players on financial markets has been in the middle of ongoing debate over actual financial crisis (and previous financial crises). We withhold here, for a better view over so many issued opinions, two analyses placed at opposite poles, some assigned to Gorton [Gorton, 3, pp. 466–472] and Stiglitz [Stiglitz, 4, pp. 281–296]. If the first author considers the crisis as a visible panic on a small segment of securities market, the second one point out that all the participants on the market are acting irrational.

The crisis brings in the light failure of corporate administration. Sahlman [Sahlman, 5] demonstrates that, in a big measure, the underestimate of financial risks, which has led to crisis, has been due because of loss of control inside the companies, misleading between concepts of accounting profit and economic profit and, not the last, special inside the firms with aggressive growth strategies, the appearance of executive and management structures which were not prepared to take the correct decisions.

The financial crisis and its effects above word economy give the representatives of behavioral school the occasion to contribute at understanding of such a significant event and to recommend remedies. Also, presents the opportunity of conceptual integration of behavioral economy and dominant economic theory and searching for new paths for behavioral and psychology economy. The articles born in this context provide analyses about origins and effects of crisis and in the same time intensify economic-psychological interdisciplinary approaches. A major

contribution is owed to Rötheli [Rötheli, 6, pp. 124–131], who describes the origins of financial crisis on mortgage and real estate markets from United States. He analyzes in detail the dynamic of collateral security of bank loans and the failure of rating agencies which, in general, underestimated the risks of bad credits. Furthermore, the text concentrates over limited rationality and political errors which have led to an excessive growth of credit. The work illustrates the possibilities of bank regulation and monetary politic and the improvement options for bank risk management as elements for upgrading of cycles of lending money activity in the future. The article ends with a suggestion for finding a compromise between stability and development within banking system.

In a large article, Lewis [Lewis, 7, pp.132–136] organizes his speech about causes of financial crisis on three levels. At the empirical manner, the author draws a range of psychological mechanisms implied in the origin of financial crisis. Based on cognitive and social psychology Lewis put himself between prejudices as "control illusion" and "money illusion", whose effects are amplified through contribution of other social factors. The reasons of failure can be described as a conflict between principles, but are mentioned and competitive economic debates regarding to crisis. In final, the relative admission of these ideologies by society is analyzed as a cultural phenomenon, and Lewis makes a pleading and suggests mechanisms to obtain equilibrium between two understandings of his own interest: a human tendency needed for an efficient market and an endless greediness.

A similar theme is carried on, by Leiser and authors team [Leiser, 8, pp.145–154] who investigate in an empirical mode the way in which the public understands causes and consequences of crisis. Based on an extensive national survey, the authors identify two fundamental approaches. The first one explains the crisis through a diversity of individual human weaknesses, pointing out cognitive and character deficiencies, which made the crisis, happened. The second idea, which is spread lesser than the first one, considers the crisis a systematic failure. Much more demographic variables temper these perspectives, special

the expansion at which the "player" has been affected personal by the effects of crisis.

In his critical article at the book "Animal Spirits" of Akerlof and Shiller, Shwartz [Shwartz, 9, pp. 119–123] analyzes ideas advanced by the two above mentioned authors, who are prominent economist researchers, with an excellent reputation since their contribution at the contemporary economic philosophy. The author treats the affirmation relating to macroeconomic phenomena, as business cycles and financial crises, which could be understandable only taking in consideration psychological factors as trust, persuasion, temptation, jealousy and illusion. According to Akerlof and Shiller a better macroeconomic analysis and a better politic of knowing limits of emotional factors and rationality. Among his affirmations, Schwartz makes reference to inertia which makes the progress harder in behavioral macroeconomic medium.

Taylor [Taylor, 10, pp.27] demonstrates using empirical methods that actions and interventions of American Government have caused, made longer and aggravated actual crisis. The main cause of crisis is represented, in his opinion, by remoteness from historic pattern and principles for setting of interest rate, which have been functional for 20 years. Governmental measures prolonged the crisis through a wrong diagnostic of issues in credit sector and through insufficient concentration on liquidity, besides concentration on risk control. These measures have conducted to more than the beginning and lengthen of actual crisis, but to its aggravation because of the financial support for various institutions and their creditors, on a lack of a clear and firm legislation.

Jagannathan, Schaumburg and Kapoor [Jagannathan, 11, pp.2] in the study "*Why Are We in A Recession? The Financial Crisis Is The Symptom Not The Disease!*" assign for crisis the quality of "symptom". The unprecedented growth of offers on labor market, initiated by geo-political events and technological innovations, as well as institutional incapacity to face this shock, created premises of macroeconomic discrepancy, which led to the big recession. The financial crisis from United States was the first sign which should has been treated. In the authors' opinion, a "healing" will be

possible only if the free circulation of capital from developed countries to undeveloped countries will be reestablished.

Rose and Spiegel [Rose, 12, pp.1-2] have been interested, foremost, to determine which of numerous and possible causes of "Big Recession" from 2008-2009 could be empirical tied by this. A significant number of causes have been suggested that being fundamental and potential reasons for global crisis which has begun in 2008. The researchers' approach was pure horizontal; any other credible theory of crisis should explain at least its impact at international level. The authors considered analysis at global level a simple and interesting exercise, from the moment that does not exist a consensus regarding to causes of crisis until the date of analysis. The researchers' judgment was that if, for example, the excessive evaluation of prices of houses has been the "fundamental" reason for the crisis - letting the freedom to be replaced with an exacerbate credit activity, the unevenness of balance of current account – this should explain the occurrence and severity of crisis in many countries, not only one. To find out the crisis most important causes would be more valuable to build a quantitative "early warning system" (EWS), like the one sustained by G-20 group. The authors appreciated that in a big measure their analysis was a failure, in the end they do not succeed to find an empirical pattern of crisis, which can bind any set of potential reasons for crisis with its manifestations. Their effort was a good opportunity to prove that rich countries have had regular economic failures; the same for countries with a significant growth on the securities market in the years before the crisis. Also, have been weak proves to show that the countries with tight commercial relationships with United States had crises less severe.

Claessens [Claessens, 13, pp. 247–264] and other authors tried to make a comparative analysis between actual financial crisis and other examples recorded by history. The author's team pinpoints three features regarding to contrast between actual financial crisis and the previous ones, each characteristics being treated as an answer to the next questions: "How much resemble the last crisis with the previous ones? How much

is different the last crisis to the previous ones? How expensive will be the last crisis?"

How much resemble the last crisis with the previous ones? Preceding period to actual crisis is characterized by four characteristics similar with the ones recorded in periods of previous periods of crisis. First, in the period before actual crisis, the value of assets has increased quickly in many countries. Second, in the same period, many key-economies recorded an increase of number and amounts of credits approved for individuals. Third, was happened a dramatic expansion in a diversity of marginal credits, special which can be met on mortgage market of advanced economies that led to an increase of systemic risk. Then, the regulations in financial sphere and the monitoring of financial institutions did not succeed to follow the development. These combined factors suddenly increased the risk of apparition of financial crisis.

How much is different the last crisis to the previous ones? The actual crisis has recorded new dimensions regarding to sternness level and the scale at which has acted, ending with incredible discontinuities and falls on many markets, in the 2008 fall. The crisis was different from the previous ones in at least four aspects. First, was recorded an exploitation on large scale of complex and obscure financial instruments. Second, the interaction between national, international and financial markets increased in a short period of time, and had in the middle United States of America. Third, the liability level of financial institutions increased. Also, the sector of goods and services sold played a central role. These combinations of new elements conducted to decline without precedent of sales in fall 2008 and ended in a global financial crisis.

How expensive will be the last crisis? The global financial crisis has aroused recessions in almost all industrial countries. Most of these recessions have been accompanied by crises of credits, by falls of prices on real estate market and severe financial crises. The recessions escorted by this kind of symptoms cause macroeconomic effects more expensive than ones without them. When recessions are accompanied by financial crises, the costs are much higher and emphasized for consume and investments.

Moshirian [Moshirian, 14, pp. 5-10] shows in a recent study that the difficulties

recorded in American banking sector because of excessive increase of bad credits caused chain effect of crisis toward financial sector of other countries, special European countries. The worsening of financial sector in United States of America and Europe have shaken national financial systems in different zones of the world and led to a global financial crisis. The article analyzes a number of rules and regulations which have been introduced since nineteenth century and argues the fact that most of national regulations, in the lack of global background and global property right, will drive often to more mediation actions of transcontinental regulations. The author explains that the "new international financial architecture" and regional and global financial regulations will give to a better global financial stability.

Moshirian sees in the latest universal financial crisis a unique opportunity for national and international organisms to reconsider many problems which have led to global recession and possible ways for amelioration of national and international financial systems. The study refers to another study revealed in 2009 by International Monetary Fund. This study show that recently universal financial crisis "revealed major flaws in actual global architecture". For this reason, International Monetary Fund identified four domains which need reforms: control of systemic risk, international coordination of macroeconomic effects of systemic risk, transcontinental agreements regarding to regulation of financial sector and financing for enough liquidities and external balance. Important to know is the fact that international financial organizations or international legislation cannot solve challenges on which is based a global financial market in continue expansion, without the upheld support of national financial institutions and without an harmonized national legislation with the international one.

Kenc and Dibooglu [Kenc, 15, pp.4-5] consider as major factors which contributed to financial crisis global macroeconomic disequilibrium, unsuitable practices for risk control and a fragile regulation and financial supervision. Probably because of financial globalization, asymmetrical distribution of business opportunities and demand for accumulation of some exchange official

reserves for prudential purposes, the global economy has known major macroeconomic disequilibrium since middle of '90. On one side, United States of America, Great Britain, Mediterranean countries including Portugal, Spain, Italy, Greece, Turkey and countries from Middle and East Europe have recorded big current account deficits, on the other side Germany, oil export countries and a couple of countries from Asia, inclusive China, Japan, South Korea, Taiwan and Malaysia have had current account surplus (International Monetary Fund, 2009). These disequilibrium together with capital flows carried to unbelievable low interest rates, practiced by European and American banks, encouraged a higher output and taking charge of high risks, based on complex, unclear financial instruments.

Fotopoulos [Fotopoulos, 16, pp. 8-18] is making a comprehensive review of myths about causes of actual financial crisis. It is remarkable the manner in which the researcher chooses to analyze in detail crisis causes, through their presentation from different perspectives.

Neoliberal ideologists identified as cause of crisis bankers' greediness and lack of scruples, who have put incorrect into practice the existent rules or have created derivative financial products to avoid to comply with these rules, only for the purpose of profit maximization.

In socio-liberal vision, the crisis, contrary the mythology supported by mass-media, did not conduct to a real "nationalization" of essential elements of financial system, like in the case of after war nationalizations. Political elite of United States and Great Britain evidenced in that moment that banks and other financial institution nationalization will be temporary, and should not be confused with past nationalizations, which had the tendency to extend social control in detriment of free markets.

According to left reformists approach, the crisis should not be attributed to "mean" bankers or speculators, but American neoconservatives and Anglo-Saxon neoliberals, who adopted neoliberal analyses of conservative economists (Hayek, Friedman, etc.). For the left reformist intellectuals, the neoliberalism is a simple ideology which, because of Thatcher and Reagan, was institutionalized through market

liberalization from '80 (inclusive financial markets) - a process that facilitated a "capitalism-casino". According to this idea, the neoliberal globalization "ideology" falls anywhere and the planned economy is back – illustrated today by banks "nationalizations" ("Brown Plan" put into operation these days in almost all central banks) and salvation plans (which are not new, have been put into practice since '80 and '90, during neoliberal globalization period).

In neomarxist approach, contemporary capitalist system is fighting not only with a financial crisis, but with three types of crisis: American imperialist crisis, the crisis created by emergence of multipolarized worlds and the crisis generate because of the pressure of actual economic growth over less and less resources. Financial crisis is perceived in terms specific Marxist image for over-accumulation.

3. Conclusions

In this study we nominated recent theories about causes which conducted to actual economic and financial crisis. At their level, we observe a convergence of opinions; economist researchers have considered that actual financial crisis has the roots in dramatic falls of house prices in United States or the collapse of credit market for houses, incorrect diagnosis of credit activity problems, wrong concentration on liquidity, and defective risk control. However, essential sources of financial crisis are deeper, not only by macroeconomic nature but microeconomic nature too, fact mentioned recently by many analysts.

4. Acknowledgement

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EU Actions and Progresses in Terms of Climate Change and Energy Policies

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Abstract

This paper is in line with the pleadings in favor with the need of transposition into facts of the seductive speech of sustainable development; the focus is on the normative field. Being aware that implementing sustainable development, multidimensional concept, require a full arsenal of tools and policies, we focused on the environmental issue around whom political concerns excelled, from the beginning until now. In a global world, with a “common future”, sustainable development policy agendas are varied and, sometimes, contradictory. Accused of partiality, our approach gets concreteness by the fact that it regards these agendas from the point of view of European Union (EU).

Key words: sustainable development, climate change, environmental policy, European strategies, greenhouse gases emissions.

J.E.L. classification: Q01, Q54, Q56, O52, Q57.

1. Introduction

This paper starts with a sequence of definitions dedicated to sustainable development, following the cadence dictated by the times of reference of the discussions on this topic. Starting from the title, we uncovered our intention to highlight unilateral made commitments, packages of measures and established objectives towards climate change that gives EU a leading role in this area. Much more and, perhaps, more important, we show that EU militates in favor of a strong global agreement and

legally binding, that enables effective participation by all countries in the fight against climate change, announcing its intentions to coordinate the cooperation in this regard. The paper presents an overview of the EU initiatives, actions and progresses in terms of climate change and energy policies.

2. Conceptualizing sustainable development

Sustainable development concept was advanced in Brundtland’s 1987 report in the World Commission on Environment and Development, suggestively entitled *Our common future*. The definition of sustainable development from the above mentioned report is: *that development that meets the needs of the present without compromising the ability of future generations to meet their own needs*. The report calls for reconciliation between economy and environment, aiming to identify “a development path that sustained human progress not just in a few pieces for a few years, but for the entire planet into the distant future” [****, *Our Common Future*, 4, pp. 4].

The concept was accepted and supported worldwide, being subsequently assumed in 1992 by the World Summit in Rio de Janeiro – *United Nations Conference on Environment and Development*. The conference proposed a concrete plan for implementing the sustainable development concept, called “Agenda 21”. Its replies “Local Agendas 21” would provide local governments around the world ideational support and

tools for the conceptualization and implementation of medium and long term sustainable development. The twenty-first century's challenges are reflected in national and global programs whose main action lines are the fight against poverty and social exclusion, sustainable production of goods and services, environmental protection.

Starting from the Rio moment, sustainable development is set to be a major project that aims for an ideal balance in the economic, ecological and social systems as well as their interactions. The multidimensional nature of the project itself and its implicit and explicit objectives raise next to the question of existence of an optimal, simultaneously economic, ecological and social, that of the difficulty of assessing the success or failure towards achieving these objectives.

On the same line of thinking it is placed the definition inspired and with a dense, yet warning message of Alan Durning: "a moderate level of consumption, together with strong social institutions and a healthy environment is an ideal higher than that of continued growth in consumption". In fact, this is the dominant note. Sustainable development is a concept that has inspired theorists from different disciplinary backgrounds, offering the satisfaction of a new creation, the founding of a different paradigm of thinking based on these principles. Sustainable development fits in complex action programs that invite to cooperation between today and tomorrow's people, between people which are the "product" of some particular cultures. Sustainable development needs its own ethics; in the absence of a "new" behaviour the development sustainability remains a nice dream of mankind at the end of the twentieth century.

In economic theory about sustainable development, *environment and environmental policy* enjoy a preferential

treatment. Ecosphere degradation rhythm provides the only explanation in this direction. There is even the danger that the predominant concern on environmental policy reduces too much the attention and the efforts required for solving the other problems that the phenomenon and sustainable development concept subsumes.

3. EU climate change and energy policies before and after

The Sustainable Development Strategy of the European Union (2001), as revised in 2006, is a framework for a long term vision of sustainability in which economic growth, social cohesion and environmental protection go hand in hand and are mutually supporting.

Committed to promoting a low carbon, knowledge-based, resource-efficient economy, EU has, in particular, taken the lead internationally in the fight against climate change, mainstreaming the objective of sustainable development into a broad range of policies.

3.1. What was the first step in the efforts regarding climate change?

The starting point of this analysis is the Kyoto Protocol, a landmark in the worldwide approaches in terms of sustainable development. Negotiated in December 1997 and ratified in October 2004, the Protocol required 141 signatory countries, including 30 highly industrialized ones to reduce the emissions of greenhouse gases by at least 5 per cent below 1990 levels, between 2008 and 2012. EU engaged to reduce emissions by 8 per cent compared to the same reference year. Protocol refers to the emissions of the three most important gases – carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O) – which will be measured compared base year 1990 (except some countries, including Romania, that the base year is 1989).

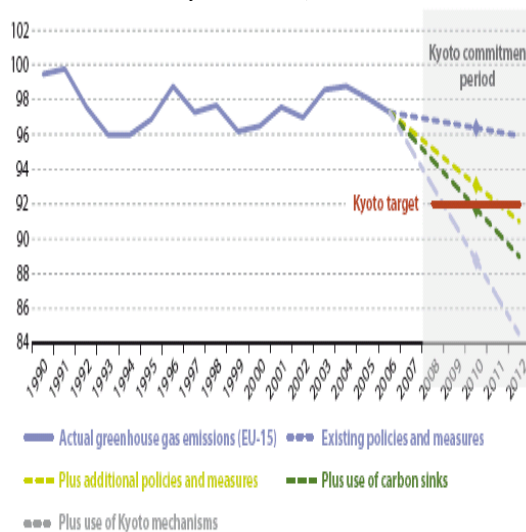
3.2. What are the echoes of the Kyoto Protocol across Europe?

Goals and progress

By adopting some packages of measures and establishing appropriate policies, European progresses in achieving Kyoto Protocol's objectives did not fail to occur. By preparing free trade agreements and climate change activities, by developing innovative solutions by the member countries, EU has managed the integration of sustainable development strategy agenda in its foreign policies.

Eurostat report for emissions of greenhouse gases highlighted the progress made at European level. Some of these results are mentioned below.

Figure 1 – Greenhouse gas emissions and projections, EU-15 (index Kyoto base year=100)



NR: The projections are based on emission estimates up to 2006.

Source: (European Environment Agency)

Between 1990 and 2007, the EU-15 countries have reduced emissions of greenhouse gases by 5 per cent, leaving it 3 per cent from its reduction target for 2008-2012. Although emissions rose during the first few years of the century, they have been decreasing since 2004. Overall, between 2000 and 2007, emissions decreased, but at a slower rate

than over the previous decade. According to the projections made by the European Environment Agency, the Kyoto Protocol's target should be reached with the existing policies and measures. With additional measures, policies and use of the so-called 'Kyoto mechanisms' the EU-15 is expected to overachieve its target.

In addition to the Kyoto Protocol commitments for EU-15 countries, the EU is committed to achieve at least a 20 per cent reduction of its greenhouse gas emissions at the end of 2020, compared to 1990 levels. Until 2007, the EU-27 countries have managed to reduce emissions by 12.5 per cent compared to the same base year set by the Kyoto Protocol, but the major part of these reductions was achieved before 2000, which meant that emissions in 2007 remained at the same level as in 2000. Staring from what it has achieved so far and through its projections, the European Environment Agency believes that the chances of EU-27 countries to reach the ambitious target assumed by 2020 are reduced.

The above graph reflects two distinct trends within the EU. On the one hand there is a modest reduction of greenhouse gas emissions in the EU-15 countries, dominated by significant reductions made by Germany (by restructuring as a result of unification and changing preferences for other types of fuel than fossil ones) and by United Kingdom of Great Britain (by using electric motors at increasingly larger scale) which were canceled by significant increases of greenhouse gas emissions in other Member States and in certain sectors, such as transport. On the other hand, countries that joined the EU in 2004 - 2007, excluding Cyprus and Malta, have been marked by considerable reduction of emissions between 1990 and 2007.

There are a lot of examples that regard taking *concrete measures* by the European countries. France has committed itself to carbon-neutral investment with cohesion policy funds for the period 2007 – 2013. Another example offered by the United Kingdom of Great Britain is the allocation of carbon dioxide “budgets” to different departments. However, we see a lot of progress regarding the carbon dioxide accounting in companies, showing that the use of smart meters can lead to a reduction in energy consumption by up to 10 per cent. Some member countries have created new systems of energy auditing that contributed significantly to reducing energy consumption in the construction sector.

3.3. Can be done more than this? High EU energy and climate goals

The EU climate and energy package adopted in December 2008 sets ambitious targets at EU level. The EU committed itself unilaterally to *reducing by 2020 the EU greenhouse gas emissions of at least 20% below 1990 levels*, aiming also to increase the EU’s emissions reduction to 30%. EU also set itself the target of *increasing the share of renewable resources in energy consumption to 20% by 2020*, up from 8.5% today. The third objective of this package of measures was *a 20% reduction in primary energy use compared with projected 2020 levels*, by improving energy efficiency.

Agreement on the climate and energy package was a major achievement in the light of the economic crisis, being a preliminary stage of the Copenhagen Agreement. However, EU greenhouse gas emissions make up only a limited share of global emissions. While the EU is on track to achieve its greenhouse gas emission reduction targets resulting from the Kyoto protocol, global CO₂ emissions are today some 40% higher than they were in 1990, the Kyoto base year. It is estimated that in order to limit

the average global temperature increase to less than 2°C compared to pre-industrial levels, global greenhouse gas emissions must be reduced to less than 50% of 1990 levels by 2050.

3.4. Can cooperation be a solution? Another global approach of sustainable development through the Copenhagen Agreement

Although the *Copenhagen Agreement* has not satisfied Europe’s ambitions, it was a step forward towards achieving EU’s objective of signing a comprehensive, legally binding and global climate deal, which would take effect in 2013, when the Kyoto Protocol's first commitment period will have expired. As a clear manifestation of the political intention to reduce carbon emissions and to answer the climate change, both short and long term, the agreement has a worldwide support that gives the EU the opportunity to explore and to translate it into facts. Industrialized and developing countries, responsible for over 80% of global emissions of greenhouse gases have included so far in the agreement their own objectives or actions in terms of emissions. The discussions were completed with significant progress in negotiations about the needed infrastructure for the proper functioning of the global cooperation on climate change, even including improvements to the Kyoto Protocol.

3.5. Time is not on our side!

Among the *post-Copenhagen* measures, urgent realization of the EU’s commitment to annually provide developing countries a quick initial financial assistance of 2.4 billion EUR, between 2010 and 2012, is essential to enhance the credibility of the EU as well as the recipient countries’ capacity to cope with climate change. Moreover, EU’s further efforts towards a better

development of international carbon market, are essential to encourage low carbon emissions technologies and to reduce global emissions cost-effectively, carbon market being able to generate major financial flows to developing countries. Enhancing cooperation for a global agreement on climate change supported the adoption of specific and pragmatic decisions at the United Nations Climate Conference in Cancún (Mexico), scheduled between the 29th of November 2010 and the 10th of December 2010.

Among the new challenges of sustainable development are energy security, climate change adaptation, food security, land use, public finances sustainability and the external dimension of sustainable development. Along with achieving the millennium development goals, climate change and energy should remain priority areas.

Kyoto Protocol remains the main element of the climate change process conducted by the United Nations, but the limited number of signatory countries and its serious deficiencies are still problems that must be solved. Not solving these deficiencies related to forestry emissions accounting rules and to the national management of unused carbon dioxide emission rights between 2008 and 2012, would invalidate the current commitments of industrialized countries in reducing emissions.

4. Conclusions

Trying to present the progress made by EU policies in areas affected by sustainable development strategy provides future topics for reflection. The joint efforts of the world states, done together or by region, aim to start a long transition process of the socio-economical system on the current trajectory, which is already in the critical zone of the ecosphere support capacity limits, on a new trajectory of sustainable socio-economic development, incorporated within these limits

.This paper stresses that, despite the considerable efforts done in order to maintain sustainable development on this trajectory, many trends remain unsustainable. So, the challenge that remains is identifying the viable solution to the inertia that characterizes the actual movement of socio-economical systems. In our opinion, the force that can "reverse" the current trends and put them on the correct track is cooperation between people of a world without borders, today and tomorrow people, which consciously or not, are engaged in the struggle for life insurance. Formally expressed, the sustainability of development remains a natural extension of the international consensus in terms of measures, policies and strategies.

5. Acknowledgement

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Mergers and Acquisitions – an Incipient Field in Romania

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Abstract

Purpose – This paper is a review of specialized literature concerning the merger and acquisition processes, both worldwide and in our country, expressing a personal point of view on the evolution of this phenomenon.

Methodology – with this article, we have attempted to achieve a compilation and an interpretation of the directions followed in specialized literature after performing academic research in the field of mergers and acquisitions (M&A).

Conclusions – although the analyzed phenomenon has continuously developed for a long time at the world level, in Romania we can speak of an incipient period of the merger and acquisition processes

Key words: mergers and acquisitions, economic crisis

J.E.L. classification: G34

1. Introduction

The topic of mergers and acquisitions has developed continuously from the viewpoint of the investigations performed in specialized literature in the past two decades [2], as a result of the increase of the number of mergers and acquisitions worldwide, as well as of the development of the complexity of this phenomenon.

As the economic crisis has deepened, financial markets are subject to a volatile and insecure environment, entering a vicious circle of debt redemption through sales of assets and price drops. This situation determines an increase in the number of mergers and acquisitions at the world level. The M&A activity is one of the solutions that governments can resort to in the current

context. 2009 was a year when giant bids diminished and smaller bids were encouraged, so that very large companies have acquired their competitors, weakened by the collapse of the credit market [19].

The reason that supports the merger and acquisition processes is that two companies together are more valuable than two separate entities. The alchemy of a merger or acquisition can be described by the following statement: one plus one is three. The objective of any such transaction is to create a higher value than the sum of the values of the two merging companies.

This article presents in short the merger and acquisition concepts, a structure of mergers and acquisitions, and the stages of the M&A process.

2. The Process of Mergers and Acquisitions – at the World Level

In a broad sense, mergers and acquisitions can involve a various number of transactions, from buying and selling companies, concentration among companies, alliances, cooperation, and associations in participation in forming companies, corporate succession, ensuring the business independence, buy-out and buy-in management, modification of the legal form, initial public tenders, and even restructuration [14]. However, the use of a broad definition of M&A could lead to confusion and misunderstanding, since it involves everything from mergers to strategic alliances [16].

The two terms, mergers and acquisitions (M&A), are normally used alternatively in strategic investment decisions, and a distinction between the two notions is necessary. Mergers imply two entities relatively equal in size, which create a new company by combining all that is best in both entities. An acquisition is a process much

easier to achieve, implying the development of an already existing company by combining it with a much smaller one [19]. An acquisition means buying shares or assets from another company in order to gain an influence on its leadership, and this transaction is not necessarily made in mutual agreement [15].

There are numerous causes why a company chooses to merge or to acquire another company. Specialized literature suggests that mergers and acquisitions are the result of a series of reasons and arguments. These reasons span from considering mergers and acquisitions as a motivated implementation of the strategic intentions up to caprices and egotistic manifestations of the management of companies with a very good financial position.

In the current business landscape, when the large swallow the small and the weak let themselves be bought by the strong, there appears the opportunity to acquire prestige companies at a reasonable price. In the context of the world economic crisis, mergers become a need, not a luxury.

While the last years of research have witnessed the intensification of the human and psychological aspects of the implications of the M&A process [4], specialized literature continues to be dominated by financial and market studies with a high concentration of the interest in the USA[5] and the Great Britain[3].

At the world level, there is a classification of the merger and acquisition processes. From the perspective of the earned value, they can be vertical, horizontal, and conglomerate. Vertical integration is obtained by the merger between a company and its providers. Horizontal integration appears when two companies that activate in the same field merge in order to improve their combined value. Mergers by conglomerating appear when the companies that participated in the merger continue to develop their activity in different fields and sectors[8].

According to the type of relations involved, mergers and acquisitions can be "amiable" and "hostile" [14], and according to the economic space, they can be domestic and cross-border[1]. Cross-border mergers performed between 1990-2000 in the United States of America have had a positive effect

on the economy of this giant of the Globe [12]. Another classification given to this phenomenon, according to the same criterion, splits mergers and acquisitions into external and internal [7].

A study made on a sample from 49 countries has showed that a higher protection of the investors is associated to a larger number of mergers and acquisitions, more hostile undertaking attempts and a reduced number of cross-border bids [20].

Other studies provide new directions in the cross-border M&A category, of which some give the possibility of an optimal selection of the target companies (companies that will be acquired) even from the pre-merger evaluation stage, while others provide a summary of the limitations in this field, in the limitation reporting segment, but both are important in studying the autochthonous industrial diversification [10].

A typical M&A transaction goes through three stages: planning, implementation, and integration. In the planning stage, a global plan is developed for the transaction, in the most inter-disciplinary and broad way possible. Planning covers operational, managerial, and legal techniques aimed to improve the following two stages. The implementation stage covers a series of activities starting from issuing confidentiality or non-disclosure agreements and the letter of intent and ending with closing the contract and completing the M&A transaction. The last stage is concerned with ensuring post-deal integration [14].

A similar model is the Watson Wyatt Deal Flow introduced by Galpin and Herndon (2000), two practitioners at Watson Wyatt Worldwide. Their model decomposes the process into five smaller stages, which are: formulation, localization, investigation, negotiation, and integration. Moreover, Aiello and Watkins (2000, in Harvard Business Review 2001) suggest another model that describes the merger and acquisition process. However, this model outlines only stages in the transaction negotiation process, which in its turn is covered by activities in the pre-agreement stages dealt with by the Watson Wyatt Deal Flow model[14].

Of the three mentioned models, we consider that the most relevant in studying the merger and acquisition process is the

Watson Wyatt Deal Flow model, since it includes the most complete image of the way in which the merger and acquisition process is organized.

In the research field, the merger and acquisition process has largely developed along disciplinary lines, and finance specialists relied mainly on the problem of value creation or reducing the shareholders' wealth after an acquisition. The multitude of proofs shows that, although company acquisitions bring positive results on the short term for the associates of the target companies, the long term benefit for the investors, in the case of a company acquisition, is disputable[5]. Approximately 35-45% of the buyers reach positive values in the 2-3 years preceding the transaction, with a computed standard deviation of 10% around the average [9].

The wish to understand the antecedents of this variance is at the center of research in the M&A field and is the subject of the first article on this issue. This paper takes into consideration the pulse of the bid and investigates the tender effect: friendly, hostile, the white knight, or very hostile, based on the long term performance of 500 acquired companies in Great Britain, through the analysis of a shareholder in various moments over a three-year period. In spite of the negative tenders they receive, the authors claim that their results show that the tendered amounts by a single hostile bidder will have a higher financial performance than that of a friendly bidder, of a white knight, or of very hostile bidders [22].

In specialized literature there also is a time division of the merger and acquisition processes, the so-called "merger and acquisition waves". The first wave (1893-1904) was characterized by horizontal mergers and consolidations, with the purpose of eliminating competition. This is how giants in the field of steel, telephony, oil, mining, railroads, etc. were formed. The second wave (1919-1929) is marked by the adoption in 1914 of the "Clayton Act", an additional instrument through which the authorities attempted to prevent unprofitable mergers. The third merger and acquisition wave coincides with the period of economic prosperity in the USA (1955-1973) and is characterized by conglomerate mergers. Ronald Regan's presidency corresponds to

the fourth wave of mergers and acquisitions (1974-1989), a period when a multitude of either friendly or hostile mergers took place, reaching values of billions of dollars. The fifth wave (1993-2000) followed the economic crisis of 1990-1991, and was mainly characterized by hostile mergers, and the mergers performed through indebtedness were ever more reduced [21]. We could also delimit the beginning of the sixth wave of mergers and acquisitions, after the start of the global economic crisis at the end of 2008 – the beginning of 2009. The negative effects of the financial collapse period have determined an increase in the number of mergers and acquisitions.

In the context of the current economic crisis that has shaken world's economy, mergers can be regarded as a process exterior to the company, a way of attracting foreign investments with the purpose of surpassing the difficult period generated by the economic crisis.

The merger and acquisition activities have significantly increased all over the world in the last two decades, and the value and volume of mergers and acquisitions attained new records. There appeared the need to create large entities, able to become the main pillars of an economy subject to permanent change, companies that would ensure a constant and sustainable economic development for themselves, an objective that can be reached by combining resources and technologies through mergers.

3. The Merger and Acquisition Process – in Romania

We can state that Romania is still in the spade work stage in what concerns mergers and acquisitions. According to some authors [11], mergers are considered the classical form of restructuration, and according to others [17], they are a form of capital concentration (economic, technical, human) in the view of the survival or development of two or several entities on the competition market. Unlike other forms of concentrations, the consequences of the merger are: creating a new company with a distinct legal personality, reuniting the patrimony of the participant companies instead of transferring liquidity or intangible assets to companies under different forms of association.

If in foreign specialized literature a distinction is made between mergers and acquisitions, Romanian legislation defines and regulates mergers through absorption and mergers through consolidation.

Mergers through absorption, characterized by the fact that one of the merging companies continues to function as a legal entity (the absorbing company), while another (absorbed) company or several companies will transfer their patrimonies (assets and liabilities) to the absorbing one, ceasing their existence as legal entities. The second variant corresponds to mergers through consolidation, which implies the legal extinction of the merging companies and the appearance of a new one, which takes over the patrimonies of the extinct [13].

From an economic point of view, a traditional classification can be made between [23]: mergers-annexations – characterized by the supremacy of one company over another and consisting in power and control transfer through patrimony mutations. From a legal perspective, this type corresponds to the merger through absorption; mergers-combinations – characterized by an alliance between two or several distinct entities with the purpose of creating a new entity. This type of merger corresponds from a legal viewpoint to the merger through consolidation; internal restructuring – its objective is to legally remodel power within a group without changing the dominant control and modifying the internal organization in order to meet the imperatives of economic development.

In the period of manifestation of the financial crisis, the number of mergers and acquisitions in Romania has considerably increased in comparison with the 10 years before the crisis, while in other European countries (Great Britain, France, Germany, Italy, Croatia, Bulgaria, the Czech Republic, Hungary, Poland, Greece) the number of mergers and acquisitions has not raised. Based on this information and in combination with the difficult situation of most companies, the Romanian market has become attractive both for foreign investors and for local ones. In comparison with the other analyzed countries, the number of closed mergers and acquisitions is still very low, the

only countries that are on a lower position being Croatia and Bulgaria [6].

4. Conclusions

In our country, the merger and acquisition process is still in an incipient stage both in the field of academic research and at an empirical level.

In the economy of the new millennium, an intensification can be seen in the rhythm of the merger and acquisition processes. In this new context, it is necessary to stress the modeling processes based on typological structures of the relations established between the companies existing on the market. Strategic planning develops long term approaches in the market mechanisms and is an instrument that allows the company to "better navigate in a continuously changing market environment" [18].

The national economic environment could affiliate to the world level tendencies: small and medium enterprises will be able to survive by combining their material and financial resources, through collaboration projects and mergers.

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Tendencies in Tour-operator's Distribution Channels Portfolio

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Abstract

Tour-operators had to change their business model in order to adapt to the new e-mediaries in the travel industry. Besides distributing their products through the traditional travel agencies that can provide much more customized information by gathering and organizing information in a unique manner for their customer's travel needs, they can also distribute online as the Internet has created a new competitive business environment in the last decade.

Key words: distribution channels, tour-operators, travel e-mediaries

J.E.L. classification: L 83

1. Introduction

There are two ways in which a company can promote and supply its services to customers: the direct travel distribution channel when services are delivered directly to consumers and the indirect one that implies at least one mediate in between responsible with one or more channel functions. Most of the companies that activate in the tourism industry use more than one travel distribution channel, each one operates in parallel to or in competition with other channels, in order to reach as many clients as possible (Fig.1).

The distribution mix in tourism is seen as "the combination of the direct and indirect distribution channels that a hospitality and travel organization uses to make customers aware of, to reserve and deliver its services. If wholesaler travel agencies know the effectiveness of their marketing distribution mix, then they can implement strategies to

enhance market share and profits for the most effective distribution channels [1].

2. Traditional travel distribution channels

Tour operators are businesses that combine two or more travel services (e.g. transport, accommodation, catering, entertainment and sightseeing) and sell them through travel agencies or directly to final consumers as a single product. A tour operator is thus a crucial link in the distribution chain, representing the central connection between customers and providers of tourism services, and thus has the power to influence both the demand and the supply side.

Tour-operators connect suppliers in the tourism value chain by assembling various elements of a holiday trip into one package that is sold to the consumer. On the one hand, the tour operator serves as the sales office of individual tourism service suppliers. It has the knowledge of market trends, provides front-end and promotion budgets, and accepts a part of the risk of primary suppliers.

Because operators buy tourism products in bulk, they benefit from scale economies and can offer whole packages at prices that are usually lower than consumers could negotiate individually.

Tour-operators can be classified into two main categories:

- Wholesale operators – the creators and organizers of travel packages sold exclusively through retail travel agencies.
- Direct operators – they do not sale only through retail travel agents, but also directly to the customers.

The two terms: wholesaler and tour-operator are used interchangeably both in tourism literature and industry practice as

tour-operators take the wholesalers place and vice-versa.

Retail travel agents are responsible for the sale of a range of travel products. The travel agents have moved away from over-dependence on airline commissions in recent years, concentrating instead on more lucrative market segments like cruises, tours and vacation packages.

While travel agents are still the airlines' main channel of distribution, it is the most expensive method of ticket distribution.

Airlines can sell directly through their sales offices, call centers, own website and to corporates. The indirect channels which are open to them are traditional travel agents; on-line travel agents; on-line travel portals; tour operators and consolidators. The indirect channels are backed up by Global Distribution Systems (GDSs) [2].

3. Travel e-mediaries

Consumers can undertake their entire tourism product search and booking online and therefore, the role of intermediaries has been changing dramatically. The Internet is widely used to deliver up-to-date content. As a result, Buhalis and Licata (2002) refer to the new distribution channels driven by the Internet as the new tourism "eMediaries"[3]. Travel providers took advantage of the new online business opportunities and allowed consumers direct access to their reservation systems.

- Airlines and hotel chains websites (ryanair.com)

- Online travel agencies(Expedia.com, Travelocity.com, Ebookers.com, Orbitz.com) - collect information from the customer (e.g., departure and arrival destinations, preferred flight times, and number of travelers). This information is submitted to a computerized reservation system (CRS), which searches for relevant flights from the compilation of offerings from participating airlines. The agency then processes the information provided by the CRS and presents it to the customers in the form of an itinerary schedule. Once the customer chooses the most suitable travel itinerary, the online agency processes the booking through the

CRS and receives a commission from the airline in return.

- Internet portals (Altavista) and vertical portals (vortals – portals conceived for a certain industry or research area) also have developed online travel distribution, often by sourcing their travel content from external online agents and suppliers (ski.com, golfonline.com, tennis.com)

- Online last minute agencies (lastminute.com) managed an efficient distribution of all offers that reached the deadline of sale. Priceline agency was the first to introduce a search engine that enabled clients to select travel providers by the budget allocated for their holiday.

- Media trusts, publications and TV channel networks (cnn.com/travel)

- A number of sites (ebay.com) specialized in the sale of distressed stock through auction.

- Social networks (facebook.com, mySpace.com). According to Facebakers (<http://www.facebakers.com/>) there are (as per the month of December, 2010) 2,5 million Romanian Facebook users, 33% of the online population. More and more Romanian travel providers made their own facebook webpages thus changing their online travel approach to consumers.

- Review sites (Tripadvisor.com, Travelpod.com, Travelblog.org) – enable consumers to exchange information, opinions and recommendations about destinations, tourism products and services, with sometimes diaries of travel experiences and ratings of a particular product or hotel.

- Podcasting and vlogs (online videos: YouTube, LonelyPlanet, Travelistic - video sharing)

- Microblogging has taken the concept of blogging and compacts it. Conventional blogs can be of any length but microblogging is carried out usually by mobile phone text messages and is therefore currently restricted to just 140 characters. Twitter is possibly the best known microblogging site and was launched in 2006 although other sites include Jaiku and Pownce. Users post messages to the site via the web or by text message and these "tweets" are forwarded onto their network of friends and contacts.

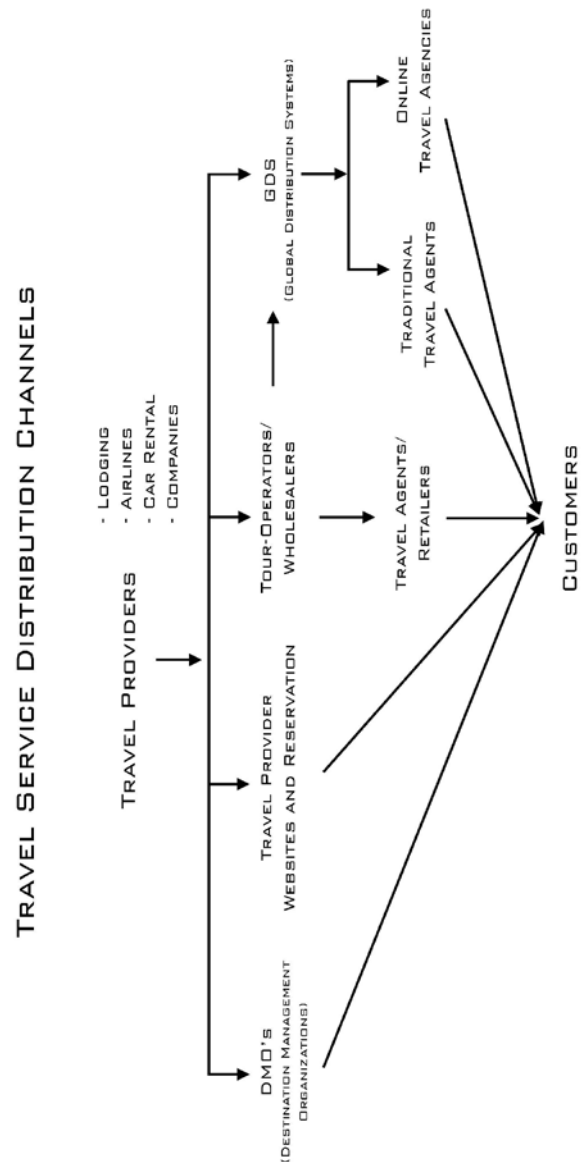
Web 2.0 and online social networking websites heavily affect today most of the online activities and their effect on tourism is obviously rather important. Tourism organizations were some of the first to utilize the resources of the internet, but in the last few years a further "revolution" has impacted the way we communicate, work and conduct business. The buzzword for this is Web 2.0 and appears to have enormous potential for tourism organizations.

4. Conclusions

To remain competitive, tour-operators have to permanently examine all the marketing distribution channels and insure of their use at a maximum level.

Tourists and travelers have at their command online resources which enable research of possible destinations, transportation, accommodation and leisure activities, and enable the online purchase of these products and services. This is nothing short of a consumer revolution which has effectively transferred much power from suppliers to consumers, as the internet further expands and modifies into the Web 2.0.

Fig.1 Travel Service Distribution Channels



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The Public Pensions System, Where To?

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Abstract

We are well aware that, sooner or later, we will have to wear the “coat” of old age. Whether old age will be burdensome or not, or whether we will have bigger or smaller “pockets”, it is certain that we will have to wear this “coat”, even with dignity and pride.

This imposes a favourable and motivating context offered, first of all, by that entity which must ensure the wellbeing of its citizens, namely the state. However, nowadays, this idea becomes more and more out-of-date, considering that the state itself questions “the security of old age”.

If it is, currently, almost unable to offer a decent pension to those who have contributed for years to the public pensions system, what level of credibility could it ensure for the future pensioners?

Key words: pension, the Public Pensions System

J.E.L. classification: H55 - Social Security and Public Pensions

1. Introduction

The problem of the public pensions systems, faced by many states, including Romania, arouses the thoughts and imagination of those directly involved, leading to more or less gloomy scenarios.

The current pensioners probably ask themselves when the government officials will come to realise that the pension is a right for which they have contributed their entire life, while now they only get back what they have given (maybe more, or maybe less), and that they will still have to fear that the “pensions tap” could dry up or get empty in any moment.

The insured persons (as well as other categories of persons insured at their own

initiative), who are, inevitably, loyal contributors to the public pensions system, also wonder, and they are right to do so, how, after years of work and financial support of the current insured persons, they will be, in their turn, “rewarded” at least to the same extent. It would only be normal for this to happen. However, the daily reality reveals a totally different perspective.

These aspects, and many others, still remain unsolved.

Consequently, we can only find valid solutions that could build up a “Salvation Arc” for the Public Pensions System.

2. Indisputable causes

The budgetary deficit for social state insurances, the increase in the relation number of pensioners - number of employees from year to year etc. are only a few of the hotly debated subjects, which cause discontent and disappointment among the population.

This current situation of the public pensions system in Romania, as well as in other countries, is not only the consequence of the economic-financial crisis which is so much debated by the media, but it is also the result of abuses along time, or of inherent situations which are impossible to control and amend.

Hence, the deficiencies of the public pension system in Romania are based on a series of causes, which have been intensely interrogated and analysed, and which could be classified as subjective and objective causes.

Subjective causes have led to divergent opinions.

The people who oppose the private pensions system consider that the blame for the crisis in the public system must be put on the transfer of a part of contributions for private administration, causing deficit in the pensions budget, which needs covering

(generally, by transfer from other budgets), leading to an increase of the deficit in the general consolidated budget.

Most accusations are, nevertheless, directed at the abuses in the system, which are attributed to the government officials, starting right after the Revolution in 1989. Some of them are:

- covering other deficits with money allotted to pensions in cases when the corresponding budget was in excess;
- avoiding unemployment by anticipated retirement, which led to the rapid increase of the number of pensioners as compared to the number of employees;
- increasing the pension amount, especially in pre-electoral periods, while the pensioners were manipulated by means of promises that lacked economic foundations, as a result of politicians' strong personal interests in acquiring power and profit;
- granting special types of pensions or benefits attached to pensions, which were exaggerated as compared to the ordinary ones, and which were entitled to some categories of persons who had previously worked in various domains or areas that were considered "more special" than the others;
- unclear and incomplete regulations in the field, permitting divagations and omissions, highlighting the vulnerability of the system etc.

The amendment of the situation was based on an increase in social contributions, which led to subsequent encumbering for the active ones. The result of this measure was not the one expected. The budget revenues did not rise, on the contrary, they diminished. Why? Because this encouraged illegal work and, more than that, a significant part of the young active people immigrated. We can also observe the increase of the unemployment rate, the outcome of the employers' impossibility to "survive" in times of crisis, and of the heavy fiscal burden, resulting in a continuously diminishing number of contributors.

Among the objective causes we can identify:

- "the demographic boom", namely the continuous rise in life expectancy rates as opposed to an alarming decrease of birth rates;
- increase in population aging rates (a problem in entire Europe, not only in

Romania), which leads to an ever-smaller contributors – pensioners rate (statistics for our country, in connection to the evolution of the number of inhabitants, are not satisfactory, since this number decreases from year to year).

- decrease in birth rate and, because of this, the percentage of the young population within the total number of the population is very small, while this will negatively affect the future, if this pension system, a 100% redistributable one, will be maintained.

All these causes, if corroborated, lead to distrust in the public pensions system, and to uncertainty as related to its capacity to guarantee a decent pension in the future.

As a result, this system on which the state depends (named, in specialized literature, the "pay as you go" system, according to which the collected money is immediately distributed, and it still is insufficient) can no longer operate on sustainable grounds for too much time.

3. Possible solutions?

Therefore, in order to avoid the collapse of the public pensions system, which seems more and more inevitable, pertinent and credible measures must be taken, which will amend its sustainability and durability by way of efficient management of its available resources, as well as of future ones.

There are multiple possible solutions to the problem described, but it is a matter of proving which of them is most likely to be implemented, or which has more chances of success, so that the current crisis of the public pensions system could be a mere story of the past.

1. Encouraging the private pensions system which, according to statistics, even in times of economic crisis, has obtained very good results.

Disappointed with the state system, many contributors show greater trust in private pensions associations, and this is enhanced due to the fact that they offer a series of pertinent security measures which are meant to support the guarantee for invested funds. Therefore, we should accelerate the process of increasing the percentage of contributions to the private sector.

2. Increasing the retirement age and the due period.

Certainly, this measure could be seen as anti-populist, and thus undesirable, but it is in agreement with enhancing life expectancy at old age, so this could be a viable solution, even if it may find some contesters.

3. Increasing employment rates among old people.

This measure is accepted by some, unaccepted by others, but it is closely related to the same reality of enhancing life expectancy at old age.

4. Using a part of the budget for the public pensions system for productive investments.

This way, the public pensions budget could be justifiably named pensions fund, of a non-redistributable type (which means that what is accumulated is also distributed), a new one which could accumulate a lot more as a result of efficient and, hopefully, profitable investments.

5. Issuing viable and thorough regulations regarding pensions, which are intended to restore realism and sustainability in the domain of state pensions.

This is an imperative measure not only for pensions system, but also for concurrent sectors. Only by doing this could we build a pertinent, correct, transparent and unimpeachable system. Nevertheless, this depends on the competence and willpower of "the important" ones, but its feasibility is unquestionable.

6. Solving the problems concerning workforce competitiveness (increasing productivity).

This solution should be applied to all levels, from the smallest firms located in street corners to great corporations, but for this to become viable, the motivation of each employee is extremely important. How are employees motivated when the contributory burden is heavy, even unbearable and, more than that, expectations for at least a decent pension are almost futile?

7. Unifying the pensions system so that everybody pays the same contribution, while the pensions are calculated in a unitary manner for all pensioners.

This way, the great discrepancies that have led, along the years, to controversies and disputes – or even to suspicions and accusations concerning the functionality of the public pensions system – would disappear. This inequity was supported for a long time by the existence of the category of

special pensioners (even if these pensions were not covered completely by the budget for social state insurances), among whom, paradoxically, the deciding agents could also be found, while they clearly favoured these types of pensions. On the other hand, it was also supported by the numerous group of "insignificant" people. By virtue of the equality principle, which lies at the basis of the organization and structure of the public pensions system, this inequity must be abolished, by all means, from the present governing policy which claims to operate in the service of the citizen. The new pensions law (263/2010) took a first step by eliminating special pensions and by including certain categories of people (with a previous special status) in the unitary public pensions system (public clerks, clerks with a special status, military men, policemen etc.).

Certainly, other solutions could also be added to the ones above, but we consider that all these could be unified in a single solution, namely that of creating an efficient collaboration /alliance between the private and public system in order to create a pertinent and credible pensions system.

4. Conclusions

Our optimism urges us to observe that the elaboration or at least the improvement of the existing public pensions system is possible, even necessary without delay. A functional and efficient public pensions system could renew the contributor's and pensioner's vision, conveying new quality to their quotidian work and lives. The "dissolution" of the public pensions system is neither conceivable nor desirable because the state, by virtue of its role, must assume the responsibility of ensuring minimum social solidarity between generations and among the diverse categories of the population.

5. Acknowledgement

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The Ways to Combat Tax Evasion in Romania in Conditions of the World Economic Crisis

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Abstract

Underground economy in Romania is particularly undeclared activities and less illegal activities. I circumvented the statements, those activities and would have to pay income taxes, but do not do it willingly.

Underground economy consists of all economic activities in an organized manner, with the overcoming of social norms, of economic laws, aiming to obtain income that can not be controlled by the state.

Key words: world economic crisis, tax evasion, underground economy, fiscal surveillance, tax law.

J.E.L. classification: G01

1. Introduction

Across the world, tax evasion is difficult to quantify. But there are economic methods that can be assessed. First of all, there is a distinction between tax evasion and tax avoidance through legal means. While the former is illegal, the second is perfectly legal. Tax evasion can be defined as the amount of payments made, but officially undeclared. All activities are included in the tax evasion tax evasion partial and total, both constituting the underground economy.

A first method for quantifying the economy is based on estimates of revenues and expenses related to the population. Obvious difficulty of this method is the fact that people have integrated into the economy's interest to conceal their activities. The information collected for purposes other than tax avoidance measure may be used.

The second method is to deduct the tax evasion of other economic variables. This can be done by measuring the overall economic activity, less the taxed activity, thereby achieving the economy. Tax evasion

in Romania is a significant part of the economy. This substantial part of the existing economy in our country is great because the conditions are conducive to defraud the tax authorities for this phenomenon have large growth over the official economy.

2. Characteristics of tax evasion in Romania

The causes and circumstances in which the phenomenon of tax evasion, have led to the definition of its general functions, determined - as a last resort - one variable: fiscal policy. In Romania, the emergence and manifestation of the phenomenon of tax evasion is even more dramatic as the Romanian society is not only a turning point in its existence, but also a sensitive economic times.

The phenomenon of tax evasion is subject to two factors:

➤ **endogenous** expression by the tax authorities and

➤ **exogenous** variables expressed through economic, social, cultural and psychological.

Cases that have facilitated tax evasion are:

■ conducting activities without legal authorization;

■ deliberate intent to circumvent or breach of the provisions of tax law, the intention of avoiding payment of taxes and contributions;

■ postponement or refusal of payment of tax obligations accurately determined;

■ incomplete or incorrect records management underlying the determination of costs, revenue and tax obligations;

■ full exploitation of inconsistencies or inconsistencies in tax laws or arbitrary interpretation of its provisions in respect of tax incentives;

■ ignorance of tax laws.

In Romania, tax evasion is manifested in the following forms:

- charging prices below cost for raw products delivered and duty calculation based on these prices;
- revenues are not accounted;
- the use of forged foreign bills;
- unreported sales;
- false deductions;
- registration errors intentional;
- requests for refunds undue.

Among the measures that can help fight tax evasion in Romania, noted:

■ unification of tax legislation and its better correlation with the overall legislative framework of the economy;

■ elimination of provisions in legislative acts that may encourage tax evasion and better correlation of tax incentives;

■ reorganizing the territorial structures of MPF device so as to eliminate duplication and overlap of activity of financial and fiscal control, in terms of fiscal surveillance, control and combating tax evasion;

■ setting an optimal ratio between wages and incentives for incentives fiscal system;

■ implementing a system that would provide the data necessary to identify, analyze and combat tax evasion phenomenon;

■ establishing a national system of permanent training of staff in the Ministry of Finance responsible for identifying and combating tax evasion.

Implementation of new legislation on countering tax evasion stage aims to redress the situation. These rules complete the legal framework of the current tax system and implement any specific action tools market economy, that tax penalties.

Tax evasion is as old and ubiquitous in society, how old is the presence and state tax laws. There is a psychology of taxpayers, boosted by the lack of tax education, plus the size of the tax burden, legislative and administrative deficiencies of tax administration, which causes and manifestations of tax evasion.

Tax evasion is a social phenomenon with financial implications, which is to circumvent the right of taxpayers to pay their respective tax liabilities, partially or wholly using legal loopholes or by means of ingenious

maneuvers in order to conceal taxable material. Field of manifestation of this phenomenon is as extensive as it is wide and varied scope of tax. Frequency of tax evasion is influenced by assessing their income.

Tax evasion is a social phenomenon with financial implications, which is to circumvent the right of taxpayers to pay their respective tax liabilities, partially or wholly using legal loopholes or by means of ingenious maneuvers in order to conceal taxable material. Field of manifestation of this phenomenon is as extensive as it is wide and varied scope of tax. Frequency of tax evasion is influenced by assessing their income.

The main types of tax evasion occurred in Romania, grouped according to activities by which it generates, are:

a. in the area of import, production and marketing of petroleum and petroleum products

b. the import, manufacture and marketing of beverage alcohol and alcohol, the main method used by businesses to avoid taxes on the transfer market has been trading companies by foreign nationals;

c. in the service industry and construction when fraud is the Romanian companies registered abroad or services rendered in the country, which then can not be quantified or identified.

In order to prevent, detect and timely handling of the underground economy, generating tax evasion factors, in addition to legislative measures financial and tax to be imposed, I think it should take into consideration the following:

Ⓢ realization and development of partnerships with entrepreneurs, through meetings and mutual briefings on the progress of the phenomenon of tax evasion in the area of responsibility;

Ⓢ development cooperation with state institutions with responsibilities in the prevention, detection and investigation of facts and factors generating tax evasion through the conclusion of protocols to be specified in the modalities of action, exchanging data and information;

Ⓢ approach on a modern basis, actions and special missions, that the effects to be expected, the investigation of complex cases;

Ⓢ improvement and harmonization of legislation specific fiscal and financial control bodies with E.U. regulations, so as to

achieve an increase in the responsiveness of the institution with operational situations in the various fields of activity;

② creation of a modern moral and professional conduct among staff with control, in conjunction with an appropriate salary, that, on this basis, to ensure confidence and respect of individuals and legal entities and state institutions to obtain a wider support as in an effort to prevent and punish fraud and tax evasion, including general factors;

③ development collaborative relationships with similar institutions abroad, in order to harmonize their standards with those imposed by the E.U.

European countries have begun drafting measures to support their economies and to strengthen public finances. These measures are different in form, purpose or budget impact, some countries chose to introduce substantial while others, for various reasons, have relied solely on economic stabilizers.

Most have used tax cuts while some have opted for measures to increase revenues due to lack of ability to have generous budgets, the amounts necessary to provide specific measures

3. Conclusion:

In Romania, the reasons for tax laws is a case of tax evasion, are represented by the various amendments to the legislation, issued regulations for certain correlation taxes, uncertainties and interpretations of the law leading to inconsistencies between the normative acts. To encourage the private sector, attracting foreign capital and the development and modernization of specific sectors of activity, many governments have provided tax incentives to investors.

Developing the underground economy can have very destructive effects, because the activities of the underground economy escapes taxation and reduces state revenues.

First in terms of tax evasion is the development of taxation legislation, to eliminate ambiguities leave room for interpretation that can be exploited by evaders. Secondly, the fight against corruption must be stepped up from among the factors Avenue law enforcement, both by their harsh punishment, and by improving methods of tracking the behavior and

fortunes accumulated by those officials. Finally, consideration should be given to reducing gradually as the budgetary possibilities, the level of certain categories of taxes which amount is very high in order to reduce the temptation taxpayers not to pay such taxes. One of the most commonly used anti-crisis measures is the direct support of the power consumption of households by income tax cuts; temporary reduction of value added;

States should consider the impact of the crisis and that measures will have on economies and end the crisis. Analysis but must be differentiated, especially as measures aimed at certain industries will have to prove their effectiveness, even if they were not and may not be consistent across Europe.

However, measures to stimulate consumption shows orientation rather than labor and capital investment. The effect of the crisis is felt best but the effect of international consensus on the taxation of foreign investment, honesty is the first priority issue for the entire business community. in this respect, the European Union directive on mutual assistance on information about the investment seems to enjoy priority.

Romania does not excel in fiscal measures compared to other European countries strong, especially due to inability to meet such financial measures. We are unfortunately in a time when, I believe, we only treat a chronic disease without hope of healing. But things have still kept under control and the EU membership hopeful, if not guarantee that we can overcome this crisis.

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Significant Historic Reference Points on Accountancy at Global Level

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Abstract

The analysis of the evolution of scientific research on accountancy is extremely important as one can only judge the present phenomena that characterize a certain field on the basis of a solid historical background.

The aim of this paper is to offer an overview of the evolution of accountancy from the fifteenth century to the twentieth century, that is from the emergence of the various forms of writing and paper discovery to the use of logismography and, further on, the elaboration of balance sheet theories.

It also seeks to emphasize the way various schools of accounting thinking regarded accountancy at different moments in history.

The paper is divided into six different parts (except introduction and conclusions), each part corresponding to a certain period in accounting history.

Key words: accountancy, double-entry accounting, accounting theories, logismography, balance sheet.

J.E.L. classification: M40, M41.

1. Introduction

Accountancy is a scientific discipline within the system of economic sciences, which has its own object and research method. Analyzing the evolution of scientific research on accountancy is extremely important because: “If someone manifests the desire to become a master in a specific art, he or she must study its history. Without having a historical background, our knowledge is incomplete and the judgment of current phenomena is precarious and lacks maturity”

[1]. The arise and development of accountancy were determined by the practical needs of economic life [2].

At the beginning, “rudimentary bookkeeping” or “statistical accounting” manifested as a record of various goods, out of practical needs (cuts on animal bones, using pebbles, etc.), its development being closely linked to the development of human society and especially to the great discoveries of mankind.

A special moment in history was the emergence of the trade with goods and, subsequently, the emergence of the currency as a general equivalent, the emergence and development of the various forms of writing and that of figures. We must also emphasize paper discovery, which was firstly used by the Chinese [3].

The first accounting entries were made in ancient times by the means of the king of Babylon, Hammourabi, the initiator of the first commercial and social law code. The study of Hammourabi’s code led to the conclusion that Babylonian people knew the concept of active and passive and used documentary evidence to record commercial transactions.

Research has shown, without doubt, that the Egyptians, Greeks and Romans had accounting occupations, mostly for practical reasons.

The work of Leonardo Fibonacci is remarkable for the Middle Ages; for the first time, he proves how Arabic figures can be used, by drawing up an account using these figures.

2. The fifteenth century

The year 1494 marks a special moment in the history of accountancy. Luca Paciolo's work "Summa de arithmetica, geometria, proportioni et proportionalita" which, in Part I, Section II, Chapter XI presents the "Treaty of accounts", appears in Venice. The diagraph accounting system described by Paciolo led to the development of new theoretical constructions and accounting techniques [4].

3. The sixteenth century

During the sixteenth century, Italy, which had branches in many European countries (Germany, France, Netherlands, etc.) contributes greatly to the spread of the Venetian system of accounting.

On the other hand, the officials of the branches of different foreign commercial or banking houses located in Italian cities preach the new system to their countries. Some of them even become the authors of accounting works of art.

Thus, Matthaus Schwarz, who was bookkeeping for the Venice branch of the trade and banking company "Jacob Fugger", learns the new Italian accounting technique. In 1518, after becoming chief accountant of the Fuggers' company, he draws up an accounting manual - *Musterbuchhaltung*, in which he articulates the German factorial accounting system with elements that are specific for the Italian double entry.

After its establishment as a system, double entry accountancy becomes a subject in schools and copies of some textbooks circulate in manuscript and turn into occult sources of inspiration for various authors. Domenico Manzoni in Italy and Alvisé Casanova in Italy, Valentin Mennher de Kempton in Belgium, Claes Pietersz de Deventer and Leon Mellema in Holland, Passchier Goessens in Germany are not only authors of accounting papers published during the sixteenth century, but also accountancy teachers [5].

During the sixteenth century, the main authors of accounting works with contributions in the field are the following:

In Italy, Giovanni Antonio Tagliente publishes two papers in which he presents the mechanisms of single entry and double entry.

In 1539, appears the work „*Practica Arithmetica*”, in which the author Giralamo Cardano reserves a separate chapter for accounting matters. The paper is written in Latin, which was considered to be the scientific language of the era.

In 1540, Domenico Manzoni publishes an almost faithful copy of the work of Luca Paciolo.

The one who uses the "balance of entry" (opening balance sheet) account is the Benedictine monk Angelo Pietra. His merit also consists in the fact that he adapts commercial accounting techniques to the specific of non-profit institutions.

In Belgium, trade expansion led to the development of accounting techniques. The great authors of double-entry accounting works are localized in the Belgian city of Antwerp. Out of the most important ones we mention Valentin Mennher de Kempton.

In the Netherlands, the list of authors of accounting papers includes: Claes Pietersz de Deventer, Bartholomeus Cloot and Leon Mellema.

In Germany, the most important accounting work is produced during this century. The one who really introduces double-entry in Germany is Wolfgang Schweiker. At the end of the sixteenth century, exactly a century since the first double-entry accounting book was published, the work of Paschier Goessens, in which the accounts "Capital" and "Profit and loss" had identical functions with those of today, sees the light of the print.

Hugh Oldcastle is the one who introduces double entry bookkeeping in England, by translating Luca Paciolo's work into English.

In France, accounting books are printed relatively late. The first author of an accounting book is Pierre Savonne (also called Talon), who publishes in 1567 „*Instruction et maniere de tenir livres de raison et de comptes par parties doubles*”.

In Spain, Jean Ventallol publishes the work „*Practica Mercantivel*” in 1553.

4. The seventeenth century

Starting with the seventeenth century, the modern accounting era begins. In 1608, Simon Stevin's work appears in five volumes: "Wiscontige Gedachtenissen".

The well-known Italian authors for their accounting papers published during the seventeenth century are: Simon Grisogono, Giovanni Antonia Moschetti, Ludovico Flori, Giovanni Domenico Peri and Bastiano Venturi. The name of Giovanni Domenico Peri is linked to the first use of the term "azienda". The forms of the journal and the accounting ledger are different from the Venetian ones, being closer to the Tuscan models [5].

Bastiano Venturi offers the accounting study a new direction. Through accountancy, the Italian author intended to facilitate the achievement of maximum efficiency for each of the parties of the patrimony of azienda, by their administration with minimal expense.

He adopts the personalistic theory of accounts, laying the bases of the administrative doctrine two centuries before H. Fayol.

The particular aspects of his work made him the head of a school of accounting thought, the "Florentine school".

In the seventeenth century, Germany, which was also facing economic downturn, had a much poorer accounting literature quantitatively and qualitatively compared to the previous century.

During the seventeenth century, economic activity is increasingly moving towards North-East. Netherlands becomes the strongest financial power of Europe.

Representative for his writings in the field of accounting is Abraham de Graaf, who publishes, in 1688, in Amsterdam, the work "Instructie van het Italiaens Boeckhouden".

To establish correspondent accounts, Graaf uses two pairs of questions: "who receives" and "who gives" in the case of third-party accounts and "what do I receive" and "what do I give" in the case of value accounts.

The most well-known representatives of the seventeenth century in Great Britain are: Richard Dafforme, Abraham Liset and John Collins (author of "An Introduction to Merchants Accounts" - 1664).

In France, the seventeenth century creates favorable conditions for the development of accounting literature; one of the favoring factors was the "Order of trade" given by the finance minister of Louis the fourteenth, Jean Baptiste Colbert. Through this "order", orderly and "en-detail" bookkeeping is

regulated and the interest in accounting books is highlighted.

Another representative of the French school of accounting, in chronological order, is Claude Irson, who publishes in 1678 a paper which recommends the use of three journals: Cash Journal, Journal of purchases and Journal of sales. To end the period, he envisages the formulation of an article through which to activate the account "closing balance sheet" [5]. He was also the first to use the term "balance sheet" instead of "closing balance".

Mathieu de la Port is the author who gives accountancy the classic form that we know today. His best-known work is „La science des Negociants et des teneurs de livres”, published in Lyon and Paris.

During this century, the oldest accounting book is published in Sweden: „Instruction liber das itallienischen Buchhaltens” (1669), by author Merschidt Cyriacus.

5. The eighteenth century

The accounting literature of the eighteenth century undoubtedly puts France on the first position, both in terms of the volume of writings as well as the consistency of ideas presented, as a continuous combustion engine, which pushed accountancy from one decade to another. The French authors who made themselves conspicuous during the eighteenth century are: Samuel Ricard, Bertrand-Francoise Bareme and Edmond Degranges de Rancy.

The merits of these authors refer to the proposal to use several helping books, the advice on evaluating goods at their cost through inventory (Samuel Ricard) and the proposal to introduce double entry in the work of public finances [6].

The one who crystallized the accounting thinking in France for many decades was Edmond Degranges de Rancy, by publishing in 1795 the work „La tenue des livres rendue facile”.

Despite the decline of the Italian accounting movement in the eighteenth century, a few names and papers may be considered important. These include the work of Tommaso Domenico, Raffaello Secchioni and Pietro Paolo Scali. The name of Giuseppe Forni is linked to the use of mathematical methods for explaining the

relationship between accounts (using algebraic formulas).

Although during the eighteenth century more accounting papers were published in Great Britain than in other countries with more ancient traditions, they were mediocre.

During this century, Samuel Friedrick Helwigs and I.M. Stricker publish accounting papers written in German.

The school of "Austrian Lombardy" begins the scientific study of keeping public finance accounts. G.C. Heyne, T.G. Flügel, G. Brandt and M.I. Ressler produce accounting literature for the Austro-German environment.

In 1762, Puechenberg, chief accountant of the Imperial Accounting Chamber, established by Maria Theresa in 1760, publishes the work „Einleitung zu einem verbesserten Kameral-Rechnungsfusse”.

In the U.S., an accounting literature is developed starting with the eighteenth century; the main authors are W. Jackson and W.J. Alldrige, the later publishing in Philadelphia, in 1797, the work "The universal merchant in theory and practice".

6. The nineteenth century

In the nineteenth century, a lot of accounting books appear and this trend continues during the next century as well.

The representative of the Lombard school, the Italian Francesco Villa, is considered to be the promoter of scientific accounting in Italy.

During the nineteenth century, the representatives of the Tuscan school (Francesco Marchi and Giuseppe Cerboni) manifest themselves. Furthermore, Giuseppe Cerboni develops logismography as a modern expression of the personalistic theory of accounts, which assigns all accounts to people.

According to the concept of logismography, any administrative operation gives rise to debit and credit relations between natural or legal persons, capable of rights and obligations or which exert an action within the enterprise. To reveal these relations, each person must be opened an account. Therefore, accounts must be absolutely and exclusively personal. It is a legal and administrative personalistic theory [6].

By the method of accounting technique that Cerboni creates, the account of the owner and the account of the agency (agents and correspondents) are kept in permanent balance with the help of the logismographic journal.

The founder of the Venetian school is considered to be Fabio Besta, who creates a materialistic theory of accounts, based on the value of the account object [5].

His complete work, consisting of three volumes, appears between 1885 and 1889 under the title of "La Regioneria". Fabio Besta believes accounting is the science of economic control, classified among moral sciences.

Among the representatives of the French school of accounting of the nineteenth century, R.P. Coffy comes to the fore with his famous papers: „Tableau synoptique des principes generaux de la tenue des livres a parties doubles" (1833) and „La tenue des livres a parties doubles" (1834). In his papers, Coffy emphasizes accountancy's character of economic science.

At the end of the nineteenth century, the French school of accounting links this science to mathematics, seeking and establishing permanent relations between the various aspects that may explain the mechanism of accounts.

The French representatives of these theories are: E. Leautey and A. Guilbault, who publish, together or separately, papers that enjoy a wide reputation. Their best-known work with a positive impact in the field of accounting is „La science des comptes", published in 1889. It is followed by an equally well-received paper, „Principes generaux de comptabilité", published in 1895.

As representatives of the mathematical theory of accounting, the two authors believe that the account is a calculation whose purpose is to compare different sizes in order to establish a report that enables their quantitative or qualitative determination.

They are also the protagonists of the "dual personality theory", according to which a mental duality of the merchant's personality is produced. On the one hand, the merchant is regarded as a capitalist who brings funds and, on the other hand, as a guarantor or seller. The capitalist is represented by the account

"Capital" and the seller by all the "accounts of commercial values".

These accounts follow the classic rule: "The account that receives owes to the account that delivers". The receiving account is, therefore, debited and the delivering account is credited [6].

By publishing the work „L'Economologique (science comptable) et son histoire", L. Gomberg, states that accountancy can use mathematical methods; yet, he warns that there are differences between the two sciences.

"Economology" deals with budget principles, the evaluation and estimation of economic assets and operations, and the formulas by which inventory is made.

The author of another accounting theory, the so-called "positive" theory, is J. Dumarchey. He sees the essence of accounting into value and the account is regarded as a class of value units. In his view, accounting is a science that is part of the economic and social sciences and which gains individuality as a science of accounts [6].

7. The twentieth century

During the nineteenth and twentieth century, accounting papers are published also in the German space. The most prominent authors of those times are, among others, Johann Fr. Schar, Fr. Leitner and Manfred Berliner (author of the "enterprise theory").

This period is associated with the creation of the balance sheet theory; the promoter of this theory is W. Osbahr who publishes in 1918 the work „Die Bilanz von Standpunkt der Unternehmung". He is followed by Eugene Schnalenbach, Wald and Heplenstein (with the dynamic theory), H. Nicklisch, Frederich Lietner and Manfred Berliner (with the static balance sheet theory), Walter le Coutre (with the integral balance sheet theory), H. Sommerfeld (with the eudynamic theory), Wilhelm Rienger (with the nominalist balance sheet theory) and Erick Kosiol (with the pagatoric balance sheet theory).

Regarding the issues related to the nature of accountancy, German researchers are divided into two groups of thinking. A group headed by Schar, Berling and Oswald sees accountancy as a scientific independent

system. The second group is less concerned with the field of accounting theory. Having no intention of turning accountancy into a distinct science, they sometimes see accountancy more as a technical method of calculating values with broad applicability to the study of the enterprise.

The second half of the twentieth-century brings along studies and treatises in which leading economists write about national accountancy.

This is a time when national accounting principles and standards are spread by official documents.

The concrete shape of the national accountancy applied in each country at a certain moment is conditioned by the level achieved by global theoretical research and each country's individual experience in the field. The influence of the model that the country chooses to follow is not less important [4].

8. Conclusions

Appealing to the history of accountancy and thus of the accounting profession is necessary for explaining the contemporary structure of accountancy and accounting requirements.

Acquiring knowledge in the field of accountancy in various geographical areas has always been the concern of business partners, mainly for practical needs. Practice is thus the engine that grounded the development of the accounting processes and techniques; still, the merit of accounting theoreticians must not be neglected.

The combination between practical needs and the theoretical work of accounting authors eventually led to the development of the accounting science. Recording all economic operations has always been a goal, especially under the current conditions, when the effects of globalization are more and more obvious.

Accounting professionals are increasingly invited to respond to the challenges of practical life by implementing the accounting techniques and procedures in a regulated framework.

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Quality and Performance in Public Administration

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Abstract

The national context in which change and reforming government is synthesized in any government program, based on new principles, which includes the following objectives: Public administration reform, based on increasing local autonomy and the financial and economic; restructure the central and local government, aiming to achieve an effective organizational model of administrative structures, while drastically reducing public expenditure; reducing bureaucracy and streamlining public services.

The Prefecture aims to provide citizens, high-quality public services, in accordance with the needs, requirements and expectations, as well as those established by law. Thus, the institution will sustain a strong culture of quality, to ensure continuous improvement of services and to increase its customer satisfaction;

Key words: Prefecture, Management, ISO – QMS, Self-evaluation, Customer

J.E.L. classification – Publics Economics, Public Management,

1. Introduction

In the context of efficient use of financial resources, human and material in the public sector, service quality has recently become a fundamental goal for all institutions and public authorities. Thus, among the primary objectives of public management should fall and creating the perception that the provision of all administrative and public services must be made to the highest quality standards. In

order to improve the quality of activities and services provided to customers and to obtain ISO 9001:2008 quality certificates, Prefecture has set the objective of designing and implementing an effective quality management system. The process is ongoing: the institution conducting a diagnostic analysis, system design, human resources training and documentation development, implementation of quality system certification – ISO and final analysis.

2. The self-evaluation, way to increase the quality of public services

The self-evaluation is a tool for total quality management excellence model inspired by the European Foundation for Quality Management (EFQM) model and Speyer of the German University of Administrative Sciences. The self-evaluation is based on the premise that excellent results-oriented performance of key individuals, human resources and society are achieved through leadership, defining policy and strategy, leading employees and using partnerships, resources and processes. The self-evaluation to the organization of work from different angles simultaneously, to generate an overall analysis of organizational performance.

3. The analysis of organization and functioning of the Prefecture

According to the program of activities for ISO 9001 certification of the Institution of the Prefect, approved by Order of the Prefect, the working team constituted for this purpose has developed a comprehensive institutional analysis.

Also, a true and complete diagnostic analysis of the organization and operation cannot be developed without taking into account human vision. The self-evaluation was also used to produce diagnostic analysis.

To identify existing problems, there were two types of analysis:

1. **Problems Tree** (determine the causes and effects of the main problem)–view fig.2;
2. **SWOT** analysis (determine the internal weaknesses that can be improved and external negative aspects that could be turned into opportunities).

Problems Tree

The main problem identified is the poor quality of services provided by Prefecture. It is generated by two types of cases: cases dealing with the internal environment of the institution (and falling generally across government) and cases dealing with the external environment.

SWOT Analysis

Weaknesses of the internal environment are:

1. Insufficient motivation of human resources, mainly due to:
 - a. failure to use effective methods of motivation, such as initiatives to stimulate employees and promote good practices;
 - b. lack of full transparency in relation to assessment systems and promotion of staff;
 - c. lack of an objective and realistic set of criteria on which assessment systems, promotion and rewarding work (sometimes) non-recognition of professional merit by senior staff;
 - d. lack of strategic management elements of the institution (such as mission, vision, values, objectives), disseminated and promoted among staff so that the latter to set their own goals;
 - e. lack of training and staff awareness on quality;

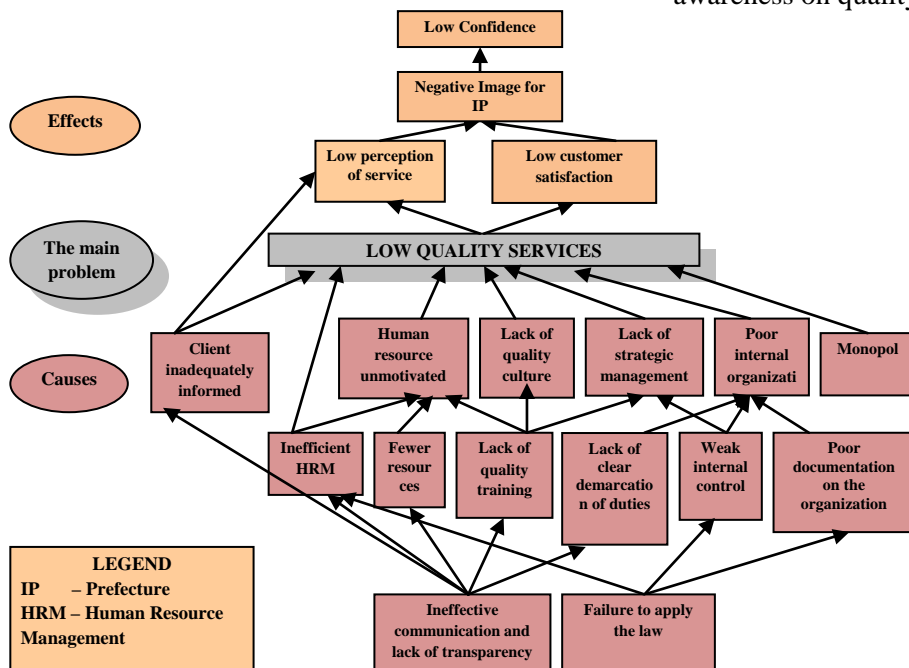


Fig. 1 Problems Tree

2. Material and financial resources are one of the causes of low quality service due to:

- a. Lack of a strong quality culture among employees, which could lead to increased quality of services by shifting attitudes and behavior towards clients and staff quality;
- b. Lack of effective communication within the institution, but also the external environment.

Communication between employees of the same department, interdepartmental and communication between management and the employees. Is essential for the smooth implementation of activities, and hence increase the quality of services provided. Internal mechanism of any organization cannot function optimally without the most important resource - human resource - always know what to do, when, how and especially why.

Regarding the *external environment*, have identified two major *Weaknesses aspects*:

1. Lack of competition in the provision of public services. Specifically, Prefecture has a monopoly on the services they provide, so that the beneficiary has a choice between several suppliers and, therefore, offers. Therefore, public administration in general and Prefecture, in particular, have a strong tendency not to consider his client's needs and requirements as a priority in its activities. Thus, customer expectations remain partially or totally unfulfilled.
2. Ignorance of the customers within the competence of the Institution of the Prefect. Sizing the area of responsibility leads directly to customer expectations in relation to sizing their institution. .

Regarding the *Strengths* identified by analysis, it is worth mentioning the following:

1. At the highest management level (prefect of the county) is directed by the client, open and oriented towards quality, sometimes only a declarative way;
2. Average age of employees is low, which favors the introduction of modern tools and techniques of service, commitment to the

introduction and implementation of strategic management elements, generating a pro-active, results - orientation of education;

3. High level of professionalism among human resources, due to the high proportion of employees with university and post-graduate studies;
4. The existence of internal procedures related to accounting activities, issuing passports and registration;
5. Creating a working group to design and implement quality management system (QMS), and a Working Group on the use and implementation of the self-evaluation as an instrument of modern institutional analysis.

The *Opportunity* to improve the quality of services provided The Prefecture is the possibility to apply for EU structural funds in the development of administrative capacity and opportunity to be included in a project – pilot.

Thus, it could create the framework for purchasing IT&C equipment and other resources necessary to increase training for human resources of the institution, and other activities targeted to the prefecture and its customers.

Also, the availability of ministry staff to support The Prefecture, including by organizing and conducting training seminars, is an opportunity in the real chances of the institution to provide quality public services.

On the other hand, have been identified as *major Threats*:

1. The political instability and
2. Continuous change of government legislation.

It is therefore essential that:

1. Positive aspects falling within the institution to be maintained, promoted and developed (improved);
2. Negative aspects to be reduced or even eliminated;
3. Opportunities to be analyzed and used to achieve the goal of improving the quality of services provided;
4. Threats to be constantly reviewed and monitored so that, where possible, to remove their potential negative effect on the organization and functioning of the institution.

4. The Strategy of Quality in Prefecture

For the strategic project were defined first defining elements of any strategy: purpose, vision, mission, values. Distinguish a set of values that emphasize that simply want to replace the concept of citizen, with the customer and the project will pursue all activities centered on the customer.

Prefecture values County operates the principles on which total quality management.

But who are the beneficiaries of all these goals?

1. *Customer* – by satisfying the requirements and needs for services;
2. *Institution partners* – ensuring confidence in the institution and an improved quality of services provided;
3. *Employees* – by increasing motivation, involvement and their attachment to the institution;
4. *Prefecture itself* – by reducing the costs of non-quality, improve image, streamline activities, increase confidence in the institution and its management, decrease repetitive errors, creating a climate conducive to professional development of employees.

The next step consists of *defining the strategic objectives*:

1. Increase customer satisfaction;
2. To improve the organization and functioning;
3. Improving the image.

And then the operational objectives:

Operational objectives for the no. 1 strategic goal

1. Improving customer relationship;
2. Increasing awareness of the needs, requirements and expectations;
3. Increase customer awareness on areas of responsibility.

Operational objectives for the no. 2 strategic goal

1. Ensuring a stable and effective organizational framework;
2. Human resource development;
3. Raising awareness and motivation of employees on quality management;
4. Improving internal communication within;

5. Increased transparency of the budget for;
6. Attracting financial assistance grants provided by the EU;
7. Improving external communication;
8. Continuous improvement of service provided;
9. Strengthening the conduct surveillance activities in the functional structures.

Operational objectives for the no. 3 strategic goal

1. Increased awareness of efforts to improve the quality of services provided;
2. Improving the quality of the interface;
3. Increased involvement of civil society in action.

Upon completion of defining the objectives to be reached, the manager may proceed with the project implementation progress in time and space which represent it in a table attached. The strategy is mandatory for all staff, from the date of its adoption by order of the prefect.

The next step is a careful monitoring and ongoing assessment of activities to implement the strategy.

Monitoring will be an ongoing process and is based on the evaluation process also provides the necessary adjustment of both the strategy itself and its implementation will be undertaken by a working group established by order of the prefect. It will develop a monitoring report each in its own operational procedures.

The evaluation will be conducted by the same working group on monitoring reports and other tools such as questionnaires, interviews and reports, internal and external audit etc. Following each assessment will produce a report that will be presented to the leadership of the institution to identify and implement necessary corrections and corrective actions. Evaluation will be based on operational indicators set by the procedure above.

For a correct evaluation of great importance is the impact and results. The impact of the main results expected from implementing the strategy is:

- Improve the efficiency of the institution, by applying the elements of strategic management and building and maintaining a quality culture;

- Reduce / reduce non-quality costs, by reducing / eliminating errors and streamlining the work of the institution;
- Increased quality of services provided;
- Full involvement of the management team and executive staff in achieving quality, due to increased awareness and training on quality and quality management;
- Motivated human resources and attached to the institution, due to the awareness of their roles, missions and objectives embedded in the institution of the Prefect;
- Customers with a high degree of knowledge regarding areas of competence of the Institution of the Prefect;
- Meet the needs, requirements and expectations;
- Improved image and increased confidence

Failure is felt deeply in human beings, especially when the failure of an organization reflects more on the manager's organization. All failures "break the head" manager because the manager responsible is the only feature that cannot be delegated. As a manager, if you empower a person to perform a task and it is a failure, then the manager responsible is not known because they choose to or because the employee had not delegated that task. For these reasons, every manager must be endowed with power to take equally, both success and failure. A manager is not only strong when no failures - this is virtually impossible, especially when failure is experienced and taken quickly remedied, corrected and restarted - the end result is success.

Failure if the self-evaluation strategy and implementation of quality management system QMS – ISO in Prefecture, there is a certain failure, as the institution is at the limit of its credibility before the people and even deadlock failure to achieve its objectives.

Therefore, the prefect, failure in this case will produce a great mental pressure, which correlated with all the obstacles and unfavorable factors, may lead to a catastrophe.

After comparing the two situations should be deciding on the optimal deployment option. Are raised, in case of failure and non negative actions - actions and then, for all these solutions are correct. Finally, go to its implementation - called.

5. Conclusions

Organizational assessment questionnaire is the beginning of the institution's most important resource: human resource. Among the 60's questionnaires collected, there are a significant number of questionnaires were left blank on some questions or where undue negative aspects were reported. In this way, it created the foundations for designing an effective management system for ensuring and maintaining a high quality internal activities and services provided to citizens seeking. The ISO – QMS rules requirements for the management system of an organization that seeks to demonstrate the ability to consistently provide a product / service according to customers' requirements and legal requirements, to increase customer satisfaction through effective application of the system, including continuous improvement it.

To assess the internal Prefecture activity, resulting in employee responses were considered:

Structure - Most of the staff considers that the organizational structure of the IP needs to be improved, indicating that there are several shortcomings.

Employee - Although the activities they carry out the job description and corresponding to the ROF, employees have also identified some weaknesses regarding the overload of activities and implementation activities for which some were not specialized.

Rating - Although for some staff assessment is done fairly and transparently, most employees are identified and some negative aspects of the system of evaluation and transparency of the decision in their evaluation.

Training - Although some staff training for human resources is done in a transparent manner and there is discontent in this regard, the present system for most employees about the negative aspects of training programs that are not known to staff;

Motivation - The motivation system, employees have identified the following negative aspects especially relating to improper financial motivation.

Communication - The communication within and between services, employees have identified many negative aspects denouncing

even in some cases blocking communication, which can be corrected by implementing a communication strategy for internal and external to the institution.

Resources - Most employees have difficulties in carrying out his duties, due to insufficient material resources, especially IT equipment. There are claims including personal attitude of rejection, when seeking the resources necessary to fulfill duties.

Objectives and activities - For most of the staff, the goals that the institution should embrace and how to achieve them are related to continuous improvement, their motivation, ineffective communication and lack of stability framework.

By applying TQM in the public sector get many benefits including:

- 1.a flexible management system designed to allow continual improvement of quality services;
- 2.creating a corps of civil servants as motivated in their activity;
- 3.continuous improvement of customer relations;
- 4.process improvement in all categories of resource management in public institutions;
- 5.a system of continuous training of employees;
- 6.simplify management processes and execution of quality system procedures clearly defined and structured;
- 7.timely detection and correction information system deficiencies.

With these objectives, we wanted to win and maintain public confidence and all current and potential partners, and at the same time ensuring that service quality is improving and it will be an ongoing process.

But keeping close to our customers requirements, we provide quality public services in public institutions.

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A Hayekian Economic Model of Thinking

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Abstract

The aim of this paper is to demonstrate that the economical model of thinking developed by Hayek can be verified through the game theory and theory of network. The model of Hayek involves the individual freedom as implicit condition for spontaneous order and economic activity.

We have verified the hypothesis: The sum of whole individuals' utility is greater than the individual's utility. The analyze is a theoretical one and like instruments we use the game theory and the network theory. The result show that individual wellbeing leads to the welfare society.

Key words: methodological individualism, utility, spontaneous order, network effect.

J.E.L. classification: B31, B53, D64, D82

1. Introduction

The Austrian economist, Hayek didn't become an advocate of government intervention like the majority post-war economists. He thought that centralized planning isn't compatible with market economy, individual freedom and rule of law. He remains a market supporter. [5] For him, like for Mises also, economic theory is a qualitative one and not quantitative.[13]

Assumption: Individual well-being leads to a welfare society and not the welfare society involve the individual wellbeing.

$\sum_{i=1}^n x_i > \max(x_1) + \max(x_2) + \dots + \max(x_i)$,

Where $\sum_{i=1}^n x_i$ represent the individuals of the society

$\max(x_i)$ represent the utility of the individual "i" which is endogenous, subjective and implicit (we cannot measure the utility in practice like in the neoclassical theory)

The implicit conditions for this equation:

- Individual freedom
- The "rule of law"
- The spontaneous order
- The methodological individualism

If in the Classical Economics, starting with Adam Smith, the economists proved that the gains come from free trade, in our assumption, the gains come from joint commitment and we want to demonstrate that just the individual following his own interest will maximize the group/society utility.

In this paper we use the theory of Hayek, especially the theory of knowledge, the theory of methodological individualism, spontaneous order and then we made the correlation with the game theory and the theory of positive network effects.

2. Methodological individualism

Individual utility cannot be measured cardinally because the position of different individuals are fundamentally non-comparable; even if were possible in principle (e.g. neoclassical theory) to compare them (ranking different individuals utility), there would be no way to do so in the real world.

Austrians' concept of methodological individualism (especially Hayek), considers individual preferences as given (endogenous, subjective preferences)[7].

$X_i \longrightarrow \max(X_i)$, where $\max(x_i) = v$;

"v" is the max utility of the individual "i" (which is endogenous, and cannot be measured; just individual "i" knows what is the best for him and we cannot find the elements to constitute an equation to provide the result of an individual utility). Preferences differ among different individuals; these are internal alternative situations and emerge out from a process of cultural evolution. Because individuals possess only limited information and are

subject to limited information processing capacity, they are "local utility optimizers"

To solve our equation, we have to find the way individual preferences are represented, then the possibility of interpersonal exchange or comparison and finally the aggregation rule.

We live in a world with asymmetric information. In any contract or transaction, there are possibilities of moral hazard or adverse selection, so nobody can have all the information necessary to take the right decision. The same demonstrate Hayek and Mises the impossibility of planning. The information is dispersed and nobody can have all the details to make a plan for whole economy. The good result is achieved just through individual action. The individual has the specific information (tacit information) for a specific action. The economic development results from individual action through trial and error.

Individual is selfish in market behavior and in the same time the parties in the market interaction aim to help themselves by satisfying the desire of others like the father of modern economy exemplifies: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from the regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our necessities but of their advantages..." or "...whoever offers to another a bargain of any kind, proposes to do this: Give me that which I want, and you shall have this which you want...and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of." [16].

3. Spontaneous order

In market process, actions are coordinated without a central, designing authority that drives and anticipates the result of coordination. Actions of individuals are being coordinated ex-post by their pursuits of own ends, utilizing the subjective knowledge.

The traditional view on general equilibrium is that there is a perfect market, where any event is known by all the market participants, but Hayek deny this theory saying that to understand the equilibrium (more exactly the tendency to equilibrium)

we have to analyze the way of people get the information relate to the event. Equilibrium, the tendency to equilibrium represents the result of individuals' coordination plans.

The theory of Hayek says that sensorial perceptions become personal instincts, which through individual adaptation and dispersed knowledge (and respecting traditions, common rules) lead to a free contractual collaboration. This contractual collaboration means that spontaneous order which involve evolution and development.

"Most of the knowledge on which we rely in the pursuit of our ends is the unintended by-product of others exploring the world in different direction from those we pursue ourselves because they are impelled by different aims; it would never become available to us if only those ends were persuade which we regarded as desirable"[12]. The explanation is that signals of the price system on competitive markets should influence the decision and not vice versa (the central decision should influence the price). Prices are good signals for market participations. Through the prices, the market participations receive the information about opportunity costs, scarcities resources, about demand, supply, about risks and changes. The price mechanism leads to an efficient allocation.

A market is a cybernetic system and every cybernetic system operates by feedback mechanism. [15]

Each economy is an order and consists of orders. The citizens are members (elements) of society. The individuals work together in order to satisfy individual needs. Own plans are based on expectation concerning the behavior of other. To advocate our affirmation we can use the game theory, especially the Nash-equilibrium in prisoners' dilemma.

Fig.1 Pay-off matrix of the normal form Prisoner's Dilemma game

	cooperate	defect
cooperate	3; 3	0; 5
defect	5; 0	1; 1

Source: A. Rogers, R. K. Dash, S. D. Ramchurn, P. Vytelingum and N. R. Jennings (2007) *Coordinating team players within a noisy iterated Prisoner's Dilemma tournament*, p. 245.

As we can see, the best outcome is a cooperating strategy (3; 3). This theory demonstrates that a good result can be achieved just through a spontaneous order (nobody knows what the other will say). The same is in the market: just through spontaneous action of the individual it tends to the equilibrium. Spontaneous orders exist as adaptations to specific local circumstances under general rules of conduct. These rules of conduct do not have to be explicitly known by all individuals. As Adam Ferguson says, spontaneous orders are the result of human actions, but not a human design. The individual elements of a spontaneous order act in accordance with their own objectives. Spontaneous orders use the locally existing knowledge and can be of high complexity. Any attempt to "improve" a spontaneous order by direct intervention is "pretence of knowledge" [10]. The state is a necessary, but no means a sufficient condition for economic growth. [2]

Important is "the rule of law". This concept is like the invisible hand of Adam Smith or the institutions from the New Institutional Economy.

Individuals are selfish "utility maximizers" that are only concerned with their own benefit, but altruistic behavior results from "arguments in the individuals" utility function. Cooperative behavior in a world with repeated social interaction is generally the best interest of individuals.

The model of rational agent, homo oeconomicus like in the neoclassical theory is just a theoretical model, which cannot be funded in reality. In a society, the individual act, produce, sell, buy, exchange. All of these means transactions and each transaction suppose at least two participants. In a transaction, there is no zero result; each participant has his own interest, but the result is not zero or negative. Each agent supposes to gain something from joint commitment. The best example for this case is the theory of positive network effect.

Viewing the economy as a network is different from what represent the neoclassical model. In the neoclassical model it is assumed that anonymous and autonomous individuals take decisions independently and interact only through the price system which they cannot influence at all. This is possible just in a market with perfect competition. In

reality, agents have only minimal market power and they will anticipate the consequences of their actions and anticipate the actions of others. This is what we want to explain through the game theory. This explanation was not sufficient, because we have to assume that the behavior is fully optimizing considering all possible actions and, in the same time, the actions of others. Another limit of game theory is that it doesn't explain the problem of coordination of activities.

The social network is a set of nodes or actors which are connected by a set of social relationships, ties, or a specified type of ties.

The aggregate behavior of an economy cannot be investigated in terms of the behavior of isolated individuals, as it is usually done in standard economic theory. Firms interact only with a few other firms, out of all firms present in the economy. There are different ways in which firms interact, and they may learn over time to adapt their interactions. We may view the economy as an evolving network.

Network effects arise when the utility of an object depends on how many other individuals or organizations use this object. If I am the only person who have a mobile phone, his utility for me is zero, but as soon as the number of people possessing a mobile phone increase, the utility of my mobile increase also. The more people have a mobile, the network effect increase and in the same time, my utility increase and the whole group's utility increase.

The same is in our relation

$$\sum_{i=1}^n x_i > \max(x_1) + \max(x_2) + \dots +$$

$\max(x_i)$, the utility of the group/society is greater than the individual utility.

The evolution of the network is dependent on the agents' experience from using the links (respectively contacts) available to them. Individuals learn and adapt their behavior and this in turn leads to an evolution of the network structure.

Two Germans economists proved in a study that there is a positive influence on people who are more connected, belong to different networks and their economical behavior. [14]

4. Conclusion and limits

We demonstrated that the economical model of thinking developed by Hayek can be verified through the game theory and theory of network. We used the social network theory because to achieve the equilibrium, the individuals should interact each other. It doesn't exist an atomistic individual, a homo economicus in reality, just in the neoclassical theory. The gains come from joint commitment and just the individual following his own interest will maximize the group/society utility. The tendency to equilibrium represents the result of individuals' coordination plans. These individuals' plans represent the spontaneous order. Market is like a network and this system operates by feedback mechanism, that's the explanation that what is good for an individual cannot be bad for the society and not vice versa. Because individuals are dealing with bounded rationality and asymmetric information we have to take into consideration the other elements that cannot be measured or counted (like risk). These will be the subject for further studies in this field.

5. Acknowledgement

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Can SMEs Promote Sustainable Development?

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Abstract

The main aims of this paper were to evaluate, debate and disseminate SMEs initiatives in the area of sustainable development, to identify further dissemination strategies and options for SMEs and to identify information needs of SMEs.

Small and medium-sized enterprises cover 99.8% of all businesses and account for around two-thirds of employment in the EU. It is now generally accepted that these enterprises are key to growth and employment generation.

Well-managed SMEs are a source of employment opportunities and wealth creation. They can contribute to social stability and generate tax revenues.

SMEs can constitute an important source of local supply and service provision to larger corporations. They usually have extensive local knowledge of resources, supply patterns and purchasing trends.

Sustainable Development pursues and tries to find a stable theoretical framework for making decisions in any situation where such a report can be found man-environment, be it environmental, economic or social.

Key words: SME, wealth creation, social stability, Sustainable Development.

J.E.L. classification: F43

1. Introduction

Small and medium-sized enterprises play a key role in implementing the policies on sustainable development.

SMEs represent an important source of innovation. They tend to occupy specialized market “niches” and follow competitive strategies that set them apart from other companies. This might include re-engineering products or services to meet

market demands, exploring innovative distribution or sales techniques, or developing new and untapped markets.

Since the mid-1980s the environment, and subsequently sustainable development, has been a pivotal element of many SMEs.

SMEs research identified mechanisms to facilitate sustainable development in areas such as economic incentives, product design, environmental management, and training and education.

2. Promoting SMEs for Sustainable Development

SMEs often have a vested interest in community development. Being local, they draw upon the community for their workforce and rely on it to do business. For the communities, they provide goods and services tailored to local needs and at costs affordable to local people.

They are an important source of as women and young people, who usually make up the greatest proportion of the unemployed in emerging economies.

The objectives of the SME sectors are[1]:

- the agriculture and forestry: partnering with local farmers to develop new, sustainable timber plantations, forward payments to corn farmers to improve cash-flow and enable purchasing of supplies. SMEs should pursue reforms with a view to eliminating trade distorting subsidies, removing barriers to trade and reducing the overall level of public financial support for agriculture. This should be done in a coherent manner, without compromising the competitive position of the European food industry.

- the industrial sector: enterprise center to build capacity and create employment among local companies, building capacity to meet the company’s engineering and construction needs, investing in small construction stores by providing capital for new storefronts, computers, inventory-tracking software, and

management skills, Integrating local SMEs into its supply chain, training local youths to become masons and secure employment in the building industry, capacity building for SMEs to assist them to become self-reliant viable suppliers.

- the services sector: promoting local entrepreneurs in its paper collection & recycling program, providing equipment to assist local entrepreneurs to become distributors, employing women entrepreneurs to distribute health and hygiene products locally,
- the finance sector: providing microfinance to entrepreneurs. Improved coherence between trade policy/analysis and EU structural funding could contribute to strengthening regions or industrial sectors that need to anticipate or adapt to global competition. EU programmes that foster international technological and business cooperation with trade partners should be made more cost-effective and user friendly particularly for SMEs. EU development assistance should not only focus on export led growth but should also improve internal governance and include developing open and strengthened markets in developing countries.

To contribute on sustainable development, the enterprise has to:

- conducting to the development of economic support and to a good quality of life in the communities who function on the local, national, regional and world's plan.
- looking for a constant reform of the benchmark, the innovative capacity and the economic viability on the long term
- conducting for the reserves' preservation – naturals, materials and renewables – that plays an important role in the economic increment.
- anticipating and managing the risks.
- participating for the searching, learning and creating of the social process, which is the sustainable development, urging all the actors to take their responsibilities and favouring the participation of the minorities at the economic prosperity.

“While SMEs are critical to a country's long-term development, sustainable access to finance and inclusive business design are fundamental to ensuring long-term and

equitable poverty reduction and business profitability.”[1]

SMEs can play a much bigger role in developing national economies, alleviating poverty, participating in the global economy and partnering with larger corporations. They do, however, need to be promoted. Such support requires commitments by and between governments, business and civil society.

SMEs require a favorable institutional framework. Most are overlooked by policy-makers and legislators, who tend to target larger corporations. SMEs often miss out on tax incentives or business subsidies. They suffer more than big companies from the large burden and cost of bureaucracy, as few SMEs possess the necessary financial or human resources to deal with this [2].

SMEs support for sustainable development can take many forms and operate at many different levels:

- national dissemination/support programmes
- national funding programmes
- local/regional eco-efficiency clubs and networks
- regional support centers
- business eco-parks;
- supply chain initiatives.

While there has been a large increase in the number of initiatives targeting SMEs, support provision has not always been correctly tailored to the needs of SMEs.

Feedback suggests that SMEs that need support are often bewildered by the variety of initiatives potentially available. In some EU regions there are too many initiatives with little or no coordination between support organizations. Support schemes are often found to be:

- too abstract/impractical;
- too general (insufficiently tailored for particular sectors/industries);
- too passive (e.g. purely providing self-help materials);
- superficial or lacking in quality;
- too expensive, time-consuming or inflexible;
- poorly targeted or promoted.

There has also perhaps been an overemphasis on environmental management systems and certification (which do not guarantee significant improvements) at the expense of eco-efficiency, eco-design, integrated approaches (e.g. including

environment, health, safety and quality) and fundamentally more sustainable manufacturing (e.g. based on renewable resources).

There has also been too little integration within 'mainstream' education, training and support, for example covering engineering or clerical activities.[4]

Regional partnerships should therefore involve some or all of the following: local authorities and regulators, chambers of commerce/business support bodies, key industry (employer) bodies, trade unions (to inform/motivate employees), real sector/subject experts (e.g. consultants, university/college staff) plus support staff (e.g. graduates). Funding organizations can be particularly influential, offering financial support (e.g. for start up companies) but only subject to certain conditions being met.

Supply chains (through large, powerful companies), can be used to apply pressure to suppliers/customers and provide training and support (mentoring). Finally SMEs should be encouraged to form/join self-help networks, for example environment business, eco-efficiency and joint-EMS implementation clubs.

To encourage SMEs to join the formal sector, governments need to provide tax incentives for SMEs and subsidies similar to those available to large corporations or micro entrepreneurs and to make provisions for start-up funds for SMEs.

The many large corporations that source their supplies from developing countries require reliable suppliers.

Large corporations can help SMEs become more viable business partners by providing training in basic skills such as management, bookkeeping, business planning, marketing, distribution, and quality control. They can assist through technology transfers, direct investment in infrastructure, and the sharing of knowledge. This makes SMEs more competitive and facilitates access to credit.

All of this can benefit the large corporations by creating more effective and inclusive supply chains.

"Business is the most important engine of economic change. It brings employment, goods, revenues, knowledge and skills development. (...) We must also recognize that the most important role is probably not that played by the multinationals, but by the small and medium enterprise sector, the SMEs. We as global companies can provide the catalyst to partner with SMEs to mutual benefit.

We can access their local expertise and markets; they can access our technologies and business skills for local momentum." [5]

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Relationship between University and Entrepreneurial Capacity of Students

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Abstract

Paper analyzes the role of university in improving entrepreneurial capacity of students. This research aims to assess the university's action, its system of values and way of reporting on the outside and assimilation into work on stimulating and supporting entrepreneurship students. Preparing students concerns, especially, their creativity in thinking and action, skills and capacities to innovate, invent and to use the intellectual resources fully. Their activities and courses will be designed to develop a strategic thinking, independence, creativity, preparation for teamwork and required skills to solve problems. Improving students' training can be done by organizing various cultural events like open amphitheatres, workshops, studio groups, or conferences for special guests or for public, students' scientific circles, and practical guidance in production activity. This study makes an original contribution to knowledge of the entrepreneurial spirit of our students.

Key words: role of university, entrepreneurship, creativity.

J.E.L. classification: I21

1. Introduction

As a result of continuous adaptation of the educational offer, students must be constantly aware of national and international business and the university must identify and support those young people with high potential business ideas and which is strong manifested the entrepreneur spirit. The educational offer must adapt and develop in students the vital skills and attitudes appropriate to a highly competitive

environment, the entrepreneurial spirit, identifying opportunities and taking risks, accepting change as a way of life[1].

A program specifically geared towards this aspect include the promotion and expansion of an entrepreneurial culture and spirit of professional success through their own business, consistent and rapid transfer of university research results into economic activities by establishing a centre of technological transfer within the university, providing advice.

To establish their own business, entrepreneurs need a good planning, organization, accounting, management and marketing - areas of competence of higher economic education. Specialists of faculties of economics can support entrepreneurship training to graduates in other fields [2].

Research tool of survey is a questionnaire consisting of 29 questions, developed in order to focus the positive and negative factors influencing the initiation of an entrepreneurial career.

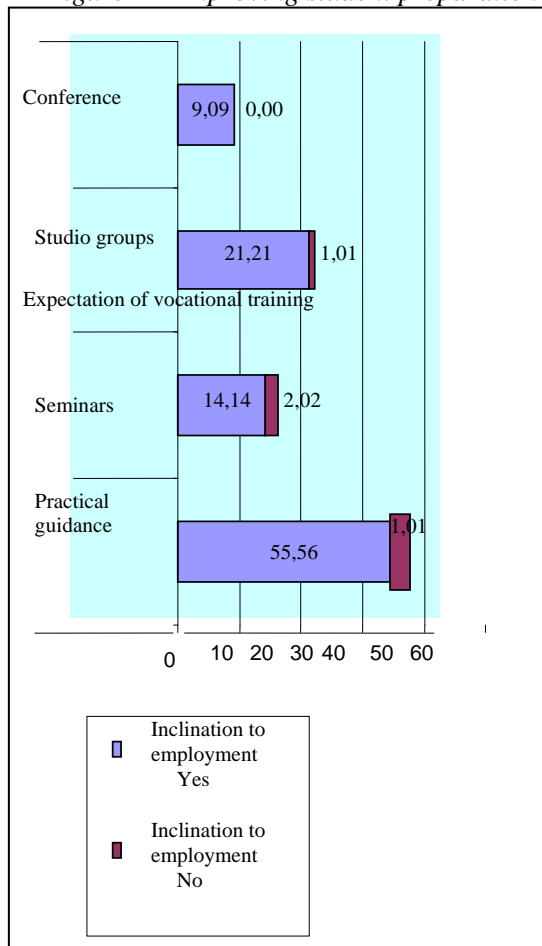
Sample consists of 74 students from the Faculty of Economics, University "Petre Andrei" from Iasi, aged between 19 and 35. Method of selection of students was random. Interviews were conducted face to face with those students in the university.

2. Improving student preparation

Preparing students concerns, especially, their creativity in thinking and action, skills and capacities to innovate, invent and to use the intellectual resources fully. Their activities and courses will be designed to develop a strategic thinking, independence, creativity, preparation for teamwork and required skills to solve problems. Their activities and courses will be designed to develop a strategic thinking, independence,

creativity, preparation for teamwork and required skills to solve problems. Improving students' training can be done by organizing various cultural events like open amphitheatres, workshops, studio groups, or conferences for special guests or for public, students' scientific circles, and practical guidance in production activity (figure 1).

Figure 1 – Improving student preparation

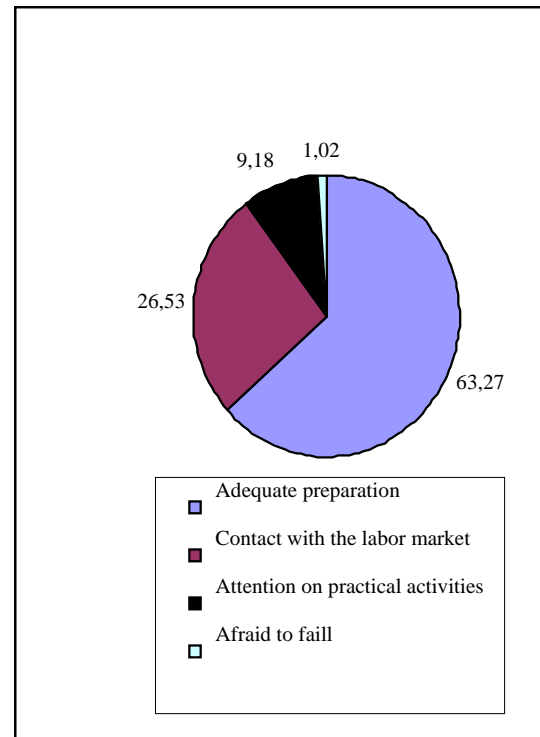


55.56% of the students towards either employment would like to improve their academic preparation through internships in companies, 14.14% want to attend seminars, 21.21% to be part of study groups, and 9,09% to participate in national and international conferences. Of the students surveyed in employment without interest, a percentage of 1.01% will make a business practice, 2.02% to follow in college seminars, 1.01% want to be part of the study groups.

Romania has a good and developed university education system with outstanding programs in all fields of study. At the

university level (undergraduate level) there are excellent programs for traditional disciplines, and for areas with direct professional reference. At postgraduate level (graduate level), students often have the opportunity to work with some of the brightest minds in the field. Romania's education system has to offer something for everyone. Some colleges and universities emphasize broad educational principles; some emphasize the practice, other professional skills training, while others specialize in technical fields, arts and social sciences [3]. As a result, if you are looking for an institution where you can study a particular area, you will be able to find high-level institutions and programs (figure 2).

Figure 2 – Expectation from University

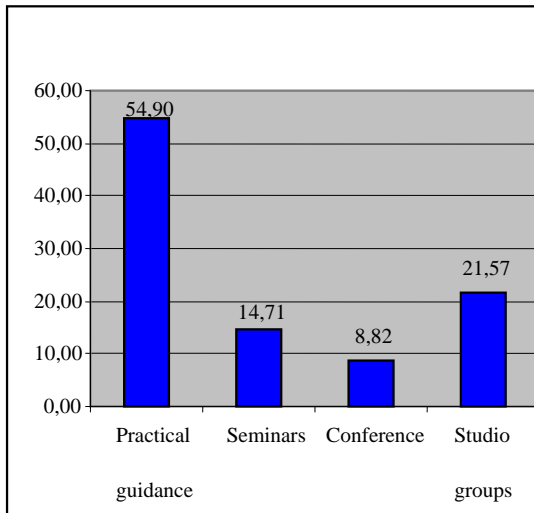


Following university studies, students wishing to receive appropriate training during the years of study (63.27% of the total 98 points), others want contact with the labour market (26.53%), and with a rate of 9.18% of points some students require more attention on practical activities.

Improving university training can be achieved by developing practical skills by carrying out internships in investment in specialized institutions in the country with a well-organized professionally by acquiring new knowledge in cutting edge equipment

and technologies in order to adapt information to specific conditions in the country and offering new ways for specific training by providing new employment opportunities in line with the interest expressed by various institutions, by developing long-term international partnerships [4] (figure 3).

Figure 3 – Expectation of vocational training



The best activity used for improving the academic preparation of students was seen as a stage in the company (54.90%), followed by study groups (21.57%), seminars (14.71%) and conference (8.82%).

A percentage of 68.92% of surveyed students considered that university stimulates entrepreneurial capacity, while 31.08% of students are not pleased with university's way to stimulate the entrepreneurial capacity (figure 4).

Respondent students felt that university can stimulate entrepreneurial capacity as follows:

- doing internships in companies (44.44%),
- introducing new courses on entrepreneurship (29.63%),
- paying more attention to the needs of students (11.11%),
- by changing old ideas with new ones, through conferences, new types of businesses, creating study groups (3.70%) (figure 5).

Figure 4 – The University stimulate the entrepreneurial

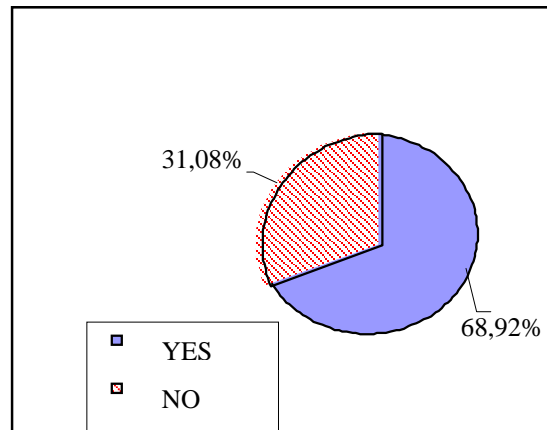
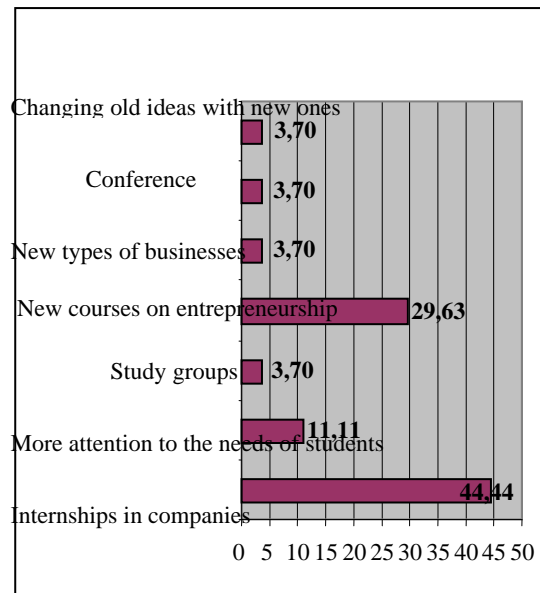
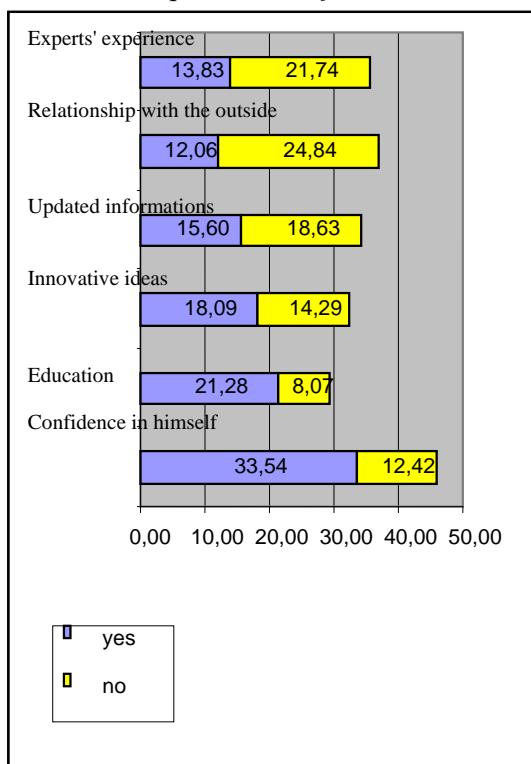


Figure 5 – What has to do the University for stimulating the entrepreneurial?



University helps students acquire self-confidence (33.54%), education (21.28%), innovative ideas (18.09%), and updated information (15.60%), to know the experience of specialists (13.83%) and relations with the outside (12.06%). Among those responding were also some who voted negative, meaning that the university does not help students to have relations with the outside (24.84%), share the experience of specialists (21.74%), to have access to updated information (18, 63%), to implement new ideas (14.29%), have confidence (12.42%), to acquire education (8.07%) (figure 6).

Figure 6 - Aid for university students to acquire certain factors



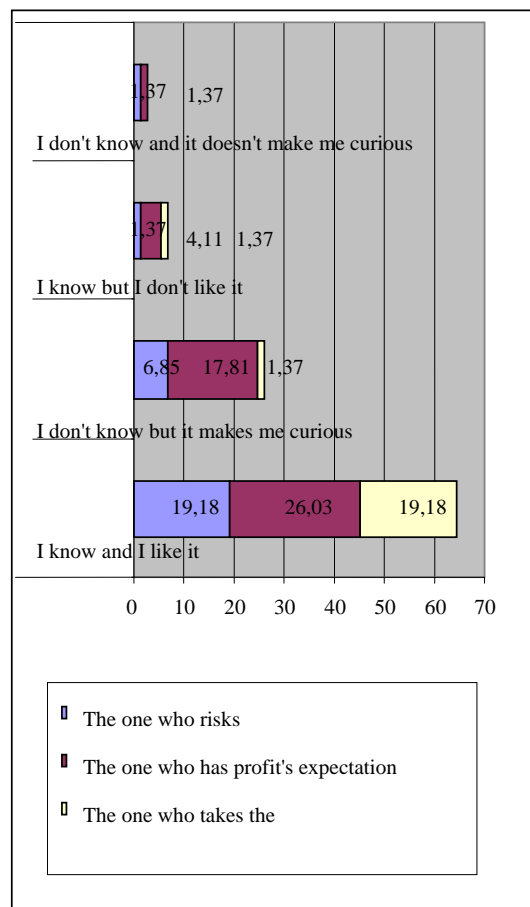
Among students who have experienced the lifestyle of an entrepreneur and liked it, a percentage of 26.03% believe that entrepreneur is a person who has prospects of gain, 19.18% a person at risk and the same percentage (19, 18%) believe that the opportunist is being enterprising.

Students who do not know the lifestyle of the entrepreneur, but they are curious to know about it, believes that entrepreneur can be a person who has prospects of winning (17.81%), at risk (6.85%) and a person who takes advantage occasionally (1.37%).

Students who know the lifestyle of an entrepreneur, but do not like it, thought that the rate of 4.11% can be the entrepreneur who has prospects of success and the same percentage of 1.37% may be a business person assume risks and is opportunistic.

Respondents who did not know the lifestyle of the entrepreneur and do not want to learn about it, believes that entrepreneur can be a person who takes risks and prospects of gain (1.37%) (figure 7).

Figure 7 - The relationship between entrepreneur's characteristics and student's attraction to this



In conclusion it is clear that students consider university as a "job training" which should be based on practical activities. Students ask the university to create a bridge to employment for the purposes of pre-professional insertion. The application is clear and consistent and is in favour of internships in companies [5].

It is therefore the university able to encourage students to become entrepreneurs?

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Place of OLAP Technology in Data Warehouse

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Abstract

Basically, the smooth running of any organization is provided by decisions that are taken in time, decisions that are correct as long as based on data and information on which to base those decisions.

Data warehouses are the product of advanced technology and economic environment. On the one hand, the economic environment is increasingly competitive, global and complex and requires information developed for supporting The strategic decisions and on the other hand, developments in information technology provides solutions for efficient management of large volumes of data integrated.

Most industry specialists believe that the data warehouse (data marts) and OLAP tools provide the necessary support to transform large volumes of data that companies working in information useful to decision makers.

Key words: Decision Support, data warehousing, OLAP, decision support systems, data analysis

J.E.L. classification: D89

1. Introduction

Increased competitiveness, frequent changes of business environment organizations have to adapt to all economic sectors subject to economic organizations to perform complex analysis on the data they hold in order to support decision making. These analytics solutions are possible by using information available to them analysts, analysis performed on data that are stored in operational systems, including databases, the organization that represents a real gold mine

of information that should undergo the process operation.

Mankind is engaged in a historical process of transition to a new society and a new economic system. Train historical progress and the future will bring radical changes in the substance of economics, reflected with great speed on training specialists in economy and in people's thinking [3].

The ability of organizations to adapt to the future economy depends on developing a new type of management focused on creation of scientific knowledge and values. Thus, knowledge-based organizations are collective actors intelligent information society and have a role in its assertion that the knowledge society, belonging to contemporary reality.

Currently, due to progress recorded information technology and telecommunications, access to data and information is more easily achieved, and so the question is to know more and more, and know how to use the maximum information that you have to a time.

Existing organization to learn and accept to survive in a global environment and this information must meet the following requirements: flexibility, openness, openness to integration and globalization.

To provide good leadership to make the best timely decisions about the good of his organization, every manager should have access to necessary information in a timely manner, information to be correct at the time of application and this aspect of management may be provided by new information technologies.

2. Data warehouses

Leadership involves taking an organization from the management team of a set of decisions on current activity, forecasting, investment, etc.. In order to

make better and timely decisions, decision makers need information on which to base their decisions.

Although recently developed computer technologies, the question still centralizing data, because the makers of an organization is facing a huge data volume (volume of business, but also increases the amount of data) and classical methods become ineffective.

Due to the use computing solution available to them, managers have understood that the data stored in operational systems, including databases, are a gold mine of information to be exploited. Data warehouses have been developed to meet the increased demand for comprehensive analysis, which could not be adequately achieved with operational databases [8].

The emergence of modern IT & C lead to a much faster analysis and better data analysis to be performed in real time.

Traditional databases, called operational or transactional daily operations and help to achieve their main feature is to provide multiple users simultaneously access the data. Operational databases contain detailed data usually do not contain historical data, because they have a high degree of normalization, are performing poorly when trying to execute complex queries such as those involving multiple nested tables or aggregation of large volumes of data. Also, when users want to analyze the behavior of the entire organization, data from different operational systems must be integrated.

Economic organizations must anticipate change and evolution of competitors. For this prediction to be effective, must have accurate and timely information. All organizations have data. They come either from their own operating systems or from external sources. The problem is these organizations to achieve their specific sector, taking decisions based on data they have and how they read.

Data warehouses have been proposed to better meet the demands of a growing number of users coming from the decision-making.

Data warehouses are designed to facilitate reporting and analysis. A data warehouse contains a standard data form, consistent, pure and integrated from various operational systems used in the organization, structured

to specifically address the requirements for reporting and analysis [2].

According to some studies, data warehouses have become, in the late 90's, one of the most important developments in the field of information systems [9].

Data warehouse technology includes a set of concepts and methods that give users useful information for decision making. The building of a data warehouse is apparent from the need to improve the quality of information within the organization [8].

3. OLAP Technology

The concept of OLAP was introduced in 1993 by E. F. Codd when after his research showed that the processing difference between relational and multidimensional model and developed 12 rules that multidimensional analysis systems should follow. E. F. Codd of Computerworld magazine published an article where he said that "however powerful relational systems would be for users, they were not designed to provide powerful features of synthesis, analysis and consolidation of data, functions, known collectively as the Sunbeam multidimensional data analysis.

OLAP technology is characterized by a dynamic multidimensional analysis to assist the end user through a set of activities [4]:

- in-depth analysis (the drill-down);
- achievements can forecast different times;
- use formulas and models on the dimensions and hierarchies;
- extracting a subset of data for viewing;
- Runs in size.

The objective of OLAP technology in an organization is to provide an interactive access, quick and easy access to analytical resources necessary to support decision making and leadership. OLAP tools use simple analytical techniques, namely multidimensional analysis of data for analysis of large data sets.

Specialists in the field believe that a system can be considered an OLAP server with which information is allowed easy access to data (atomic data and derived data) and facilities calculations.

OLAP technology uses data structures called blocks and are organized in multidimensional databases. Defining the structure of cubes is known as dimensional modeling, as well as for designing the data warehouse structure. Because any OLAP cube is used to extract information from a data warehouse cube components are similar to components of a data warehouse.

OLAP technology, multi-dimensional modeling of the backbone. "Multidimensional modeling the results of an economic activity or one or more correlation factors that have participated in their training.

Any application based on OLAP technology has the following characteristics:

- data are presented in the form of cubes, that gives us a multidimensional view of data. For example, where almost all models of economic analysis available to users are multidimensional (eg, models involving libra decomposition of a whole into parts, matter that is based on various criteria: the establishment of the organization, factors of production partners business);

- provides the basis for carrying out complex calculations (with help of specific methods can determine the trend of indicators);

- the ability to make dynamic analysis - regardless of subject analysis results to provide information on times or intervals at which the data relates the analysis;

- concurrent access of a large number of users;

- the application can be used effectively by different categories of users.

4. Data warehouses and OLAP technology

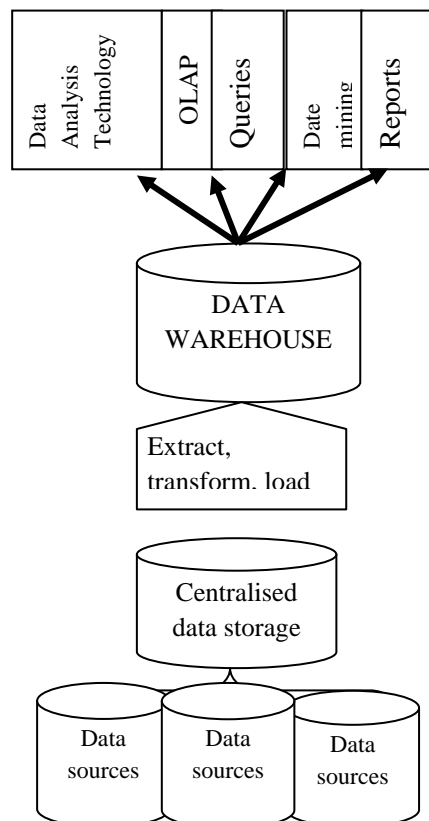
OLAP systems have been integrated within the data-driven decision support although they are hybrid decision support systems, because they use simple analytical techniques (multidimensional data analysis) to analyze large volumes of data. Most industry specialists believe that the data warehouse (data marts) and OLAP tools provide the necessary support to transform large volumes of data that companies working in information useful to decision makers.

The data warehouse focuses more on processes which are insured by the consistency, accuracy and validity of the data, while OLAP systems focusing on requirements and analytical modeling processes and the necessary calculations. Bill Inmon, who has been called the father of the concept of data warehouses has highlighted the idea that the main purpose of a data warehouse is to ensure consistency and accuracy of data used.

Currently, due to fierce competition in the market makers need information to be provided consistently, quickly and easily, which can be secured through the use of analytical tools available to OLAP, data warehouses and the Web facilities.

To better illustrate the relationship between OLAP and data warehouse technology in the following figure is shown a data warehouse architecture.

Fig. 1: An architecture of a data warehouse



Source: Ion Lungu, Adela Bâra, *Sisteme informatice executive*, Editura Ase, București, 2007;

To analyze data stored in the data warehouse using several technologies, most of them used (in terms of actual use but also in terms of existing software support) can include OLAP technology.

The data stored in OLAP technology for data storage is used effectively in on-line data analysis, ensuring a rapid response to complex queries. Multidimensional OLAP model with specific aggregation techniques provide for the organization of large data sets to enable a quick and easy interpretation. OLAP data analysts provide flexibility and speed of work necessary to substantiate decisions in real time.

The relationship between OLAP and data warehouse technology can be defined as: "While data warehouses provide data management, OLAP implements technology that provides strategic information processing such data [6].

The use of OLAP technology provides users with data warehouses several advantages, among which we mention [5]

- rapid execution of queries - because it offers the possibility of storing the values calculated in the cube before performing query such as aggregate values;

- queries based on metadata - for example the MDX is the language that provides native generation of criteria for filtering query results;

- formula similar to those used in spreadsheet applications - one of the advantages afforded by a processor tables is that its users have the ability to generate formulas using cell addresses which are stored values necessary for calculations. OLAP environment and the use of such formula is easily achieved, because the formulas are reachable using any cells address the cube.

5. Conclusions

The importance of a data warehouse is not given by the quantity but the quality of information stored data. Data warehouses have been appointed by Aaron Zornes, a prominent analyst, " data jailhouses " .

Analysis of the data stored in data warehouses would be a very cumbersome process that would not call OLAP technology. Without this technology analysis of deposit would be possible using statistical

models and mathematical methods and time-consuming, with analysis functions developed by developers.

OLAP technology provides valuable data stored in the data store through a more efficient use of the data store.

OLAP tools provide data warehouses along with the transformation of the data bank of information useful to organizations in decision-making.

As a conclusion we can put that into a data warehouse is stored information in order to be able to answer questions like "Who ...?" and " What ...?". OLAP technology is based on a view more sizes to be able to answer questions like "Why ...?" and " What if ...?".

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Some Useful Information to Improve the Insertion of the Work Market Process to Students in "Statistics and Economic Foreseeing, and Economic Informatics"

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Abstract

The paper has in view the achievement of a poll in order to allow the obtainance of information to improve the insertion of the work market process to students in "statistics and economic foreseeing, and economic informatics" - by establishing innovative practice stages.

Specific objectives for the research:

- *The increase of the relevance of the learning results obtained at the work place, by interactive and innovative approaches in the development stages in order to cover the necessary competences and to allow the theoretical knowledge application in concrete psycho-socio-cultural contexts.*
- *Facilitate the transition from school to the real life of the students through participation at innovative programs of practice.*
- *Bringing up-to-date the professional skills of those designated to accomplish the coordination and tutorial activities during the stages.*

Key words: students, statistics, educational process.

J.E.L. classification: C1, I23,

1. Introduction

A nation is competitive either through its economy, but also through its educational offer, respectively the motivation to learn and get continuous specialization of its own citizens. The university represents a primordial institution in order to ensure a long lasting development of a society, being

a provider of knowledge and skills of the specialized workforce.

A first level of the educational process is this where the material, financial and human resources (teachers, administrative employers) are aggregated in an educational service package. At the second level, to the services offer is linked the "student", component important part of the educational process, with specific features. The output of the second educational level is a medium-term output (the specialist in the respective domain), but it is in view a long-term output as well, when more and more specialized personnel is trained.

The paper has in view the achievement of a poll in order to allow the obtainance of information to improve the insertion of the work market process to students in "statistics and economic foreseeing, and economic informatics" - by establishing innovative practice stages.

Specific objectives for the research:

- *The increase of the relevance of the learning results obtained at the work place, by interactive and innovative approaches in the development stages – in the specialization of statistics and economic foreseeing, and economic informatics – in order to cover the necessary competences and to allow the theoretical knowledge application in concrete psycho-socio-cultural contexts.*
- *Facilitate the transition from school to the real life of the students through participation at innovative programs of practice.*
- *Bringing up-to-date the professional skills of those designated to accomplish the coordination and tutorial activities during the stages.*

2. Content

Admission average

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 6.01-7	4	4.1	4.1	4.1
7.01-8	12	12.2	12.2	16.3
8.01-9	34	34.7	34.7	51.0
9.01-10	48	49.0	49.0	100.0
Total	98	100.0	100.0	

Faculty

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid MK	48	49.0	49.0	49.0
CIG	50	51.0	51.0	100.0
Total	98	100.0	100.0	

How content are you concerning the stage discipline development?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very content	6	6.1	6.1	6.1
content	52	53.1	53.1	59.2
Uncontent	29	29.6	29.6	88.8
Totally uncontent	11	11.2	11.2	100.0
Total	98	100.0	100.0	

How content are you concerning the curricula followed still present?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very content	10	10.2	10.2	10.2
content	74	75.5	75.5	85.7
uncontent	13	13.3	13.3	99.0
very uncontent	1	1.0	1.0	100.0
Total	98	100.0	100.0	

How you consider the achievement of the correlation between theory and practice of economics in the teaching activity?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid excelent	7	7.1	7.1	7.1
well	37	37.8	37.8	44.9
middling	33	33.7	33.7	78.6
unsatisfactory	21	21.4	21.4	100.0
Total	98	100.0	100.0	

For the practice stage of this year you make an option for the alternative:

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid individual identification of a company from the list offered from the faculty	80	81.6	81.6	81.6
Total	98	100.0	100.0	100.0

During the academic studies you:

Had a grant at least once	16
Had a part time job (even temporarily)	41
Had a full time job	51
Lived in the students hostel at least one year	21
Have been inscribed at a 2 nd faculty	12
Have been obliged to follow the supplementary 2 nd year	2
Have done a stage abroad?	1

Capacity to analyze and synthesize

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	39	39.8	39.8	39.8
important	55	56.1	56.1	95.9
so and so	3	3.1	3.1	99.0
middling	1	1.0	1.0	100.0
Total	98	100.0	100.0	

Level in the curricula of the capacity to analyze and synthesize

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid foarte inalt	1	1.0	1.0	1.0
enough high	26	26.5	26.5	27.6
medium	52	53.1	53.1	80.6
low	15	15.3	15.3	95.9
very low	3	3.1	3.1	99.0
cannot say	1	1.0	1.0	100.0
Total	98	100.0	100.0	

Capacity to organize and planning of activities

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	2	2.0	2.0	2.0
important	17	17.3	17.3	19.4
so and so	53	54.1	54.1	73.5
middling	20	20.4	20.4	93.9
not important	5	5.1	5.1	99.0
I cannot appreciate	1	1.0	1.0	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to organize and planning of activities

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	2	2.0	2.0	2.0
important	17	17.3	17.3	19.4
so and so	53	54.1	54.1	73.5
middling	20	20.4	20.4	93.9
not important	5	5.1	5.1	99.0
I cannot appreciate	1	1.0	1.0	100.0
Total	98	100.0	100.0	

Capacity to assimilate basic knowledge for the specialization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	54	55.1	55.1	55.1
important	37	37.8	37.8	92.9
so and so	5	5.1	5.1	98.0
middling	2	2.0	2.0	100.0
Total	98	100.0	100.0	

The level in the curricula to the capacity to take decisions independently

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very much	1	1.0	1.0	1.0
much enough	26	26.5	26.5	27.6
few	43	43.9	43.9	71.4
very few	18	18.4	18.4	89.8
none	6	6.1	6.1	95.9
can not appreciate	4	4.1	4.1	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to assimilate basic knowledge for specialization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very high	4	4.1	4.1	4.1
enough high	38	38.8	38.8	42.9
medium	40	40.8	40.8	83.7
low	15	15.3	15.3	99.0
very low	1	1.0	1.0	100.0
Total	98	100.0	100.0	

Capacity to work in team

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	38	38.8	38.8	38.8
important	55	56.1	56.1	94.9
so and so	4	4.1	4.1	99.0
not important	1	1.0	1.0	100.0
Total	98	100.0	100.0	

Using the computer and other devices of the informatic technology

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	66	67.3	67.3	67.3
important	25	25.5	25.5	92.9
so and so	5	5.1	5.1	98.0
middling	2	2.0	2.0	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to work in team

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	2	2.0	2.0	2.0
important	21	21.4	21.4	23.5
so and so	37	37.8	37.8	61.2
middling	26	26.5	26.5	87.8
not important	10	10.2	10.2	98.0
I cannot appreciate	2	2.0	2.0	100.0
Total	98	100.0	100.0	

Level in the curricula of the ability to use the computer and other devices

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very high	4	4.1	4.1	4.1
enough high	17	17.3	17.3	21.4
medium	45	45.9	45.9	67.3
low	21	21.4	21.4	88.8
very low	11	11.2	11.2	100.0
Total	98	100.0	100.0	

Capacity to work in interdisciplinary team

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	8	8.2	8.2	8.2
important	63	64.3	64.3	72.4
so and so	21	21.4	21.4	93.9
middling	3	3.1	3.1	96.9
not important	1	1.0	1.0	98.0
I cannot appreciate	2	2.0	2.0	100.0
Total	98	100.0	100.0	

Use of the alternative information sources (library, internet) in the specialization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	28	28.6	28.6	28.6
important	58	59.2	59.2	87.8
so and so	10	10.2	10.2	98.0
middling	1	1.0	1.0	99.0
I cannot appreciate	1	1.0	1.0	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to work in interdisciplinary team

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid important	16	16.3	16.3	16.3
so and so	39	39.8	39.8	56.1
middling	20	20.4	20.4	76.5
not important	20	20.4	20.4	96.9
I cannot appreciate	3	3.1	3.1	100.0
Total	98	100.0	100.0	

The level in the use of the alternative information sources (library, internet) the specialization is:

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very high	1	1.0	1.0	1.0
enough high	20	20.4	20.4	21.4
medium	39	39.8	39.8	61.2
low	21	21.4	21.4	82.7
very low	15	15.3	15.3	98.0
cannot say	2	2.0	2.0	100.0
Total	98	100.0	100.0	

Capacity to practically apply the theoretical knowledge is

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	60	61.2	61.2	61.2
important	28	28.6	28.6	89.8
so and so	7	7.1	7.1	96.9
middling	1	1.0	1.0	98.0
not important	1	1.0	1.0	99.0
I cannot appreciate	1	1.0	1.0	100.0
Total	98	100.0	100.0	

Capacity to take decisions independently

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	47	48.0	48.0	48.0
important	45	45.9	45.9	93.9
so and so	5	5.1	5.1	99.0
middling	1	1.0	1.0	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to practically apply the theoretical knowledge is

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid important	14	14.3	14.3	14.3
so and so	34	34.7	34.7	49.0
middling	23	23.5	23.5	72.4
not important	25	25.5	25.5	98.0
I cannot appreciate	2	2.0	2.0	100.0
Total	98	100.0	100.0	

The habit to learn and research independently

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	35	35.7	35.7	35.7
important	51	52.0	52.0	87.8
so and so	9	9.2	9.2	96.9
middling	2	2.0	2.0	99.0
not important	1	1.0	1.0	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to elaborate and manage projects

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid important	14	14.3	14.3	14.3
so and so	46	46.9	46.9	61.2
middling	24	24.5	24.5	85.7
not important	11	11.2	11.2	96.9
I cannot appreciate	3	3.1	3.1	100.0
Total	98	100.0	100.0	

The level in the curricula of the habit to learn and research independently

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	4	4.1	4.1	4.1
important	22	22.4	22.4	26.5
so and so	45	45.9	45.9	72.4
middling	16	16.3	16.3	88.8
not important	11	11.2	11.2	100.0
Total	98	100.0	100.0	

Capacity to adapt to new situations

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	48	49.0	49.0	49.0
important	46	46.9	46.9	95.9
so and so	3	3.1	3.1	99.0
middling	1	1.0	1.0	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to adapt to new situations

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	4	4.1	4.1	4.1
important	18	18.4	18.4	22.4
so and so	35	35.7	35.7	58.2
middling	32	32.7	32.7	90.8
not important	7	7.1	7.1	98.0
I cannot appreciate	2	2.0	2.0	100.0
Total	98	100.0	100.0	

Capacity to work rigorously to obtain qualitative things (in specialization)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	58	59.2	59.2	59.2
important	35	35.7	35.7	94.9
so and so	5	5.1	5.1	100.0
Total	98	100.0	100.0	

The level in the curricula of the capacity to work rigorously to obtain qualitative things (in specialization)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	2	2.0	2.0	2.0
important	22	22.4	22.4	24.5
so and so	50	51.0	51.0	75.5
middling	17	17.3	17.3	92.9
not important	5	5.1	5.1	98.0
I cannot appreciate	2	2.0	2.0	100.0
Total	98	100.0	100.0	

Capacity to elaborate and manage projects

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid extremely important	53	54.1	54.1	54.1
important	37	37.8	37.8	91.8
so and so	7	7.1	7.1	99.0
I cannot appreciate	1	1.0	1.0	100.0
Total	98	100.0	100.0	

3. Conclusions

We consider that the proposed paper in linked to this major preoccupation and that it is based on a pull among the students of the Faculty of Economics from "Ovidius" University of Constanta, Romania.

The benefits followed for the target group members are:

- ✚ Identification of the students' performances and skills in the relation with the hiring options and the requirements of the employers concerning the competences in the specializations of statistics and economic foreseeing, and economic informatics;
- ✚ Creation and reinforcement of a partnership network between universities and employers – public institutions and companies – in order to ensure the practice stages;
- ✚ Implementation of practice stages, suitable for the workplaces available from the employers
- ✚ Development of an integrated learning system in order to allow the innovation of the training offers among the academic economic institutions, at national and regional level;
- ✚ Assurance of the conditions for the pragmatic and creative implication of all the trainees in practice stages, in order to make the increasement of the added value in the developed activities like specialists possible.

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Internal Audit and Risk Management

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Abstract

Internal audit and risk management have the same goal: the control of risk. There are various roles for the internal audit in respect of risk management. The main limitations of internal audit in respect of risk management regards assuming risk management tasks.

One of the main issues regarding risk management is to make sure that the key risks are taken into consideration and that the management and the board of the organization take action as needed. Internal audit could give advice to managers on risk management, making easier the assurance audit activities on this issue, due to the fact that the internal audit and management has agreed on what is being looked for regarding risk management within the organization.

Key words: risk management, internal audit, strategies of risk management.

J.E.L. classification: G32, M41, M42

1. Risk management

Internal audit and risk management have the same goal: the control of risk. There are various roles for the internal audit in respect of risk management. The main limitations of internal audit in respect of risk management regards assuming risk management tasks.

Objectives of internal audit functions differ between organizations, but the main objective should be to assess and improve the efficiency and effectiveness of the management to maintain and improve the internal control system. Objectives might be:

- providing assurance on the adequacy of control system;
- providing assurance on the adequacy of activities;
- advising management.

Risks to internal audit achieving these objectives could be:

- not testing enough to provide the assurance needed;
- incorrect advice.

Risk management could be defined as the activities directed towards the management of opportunities and adverse effects.

The board of the organization is directing the risk strategy, the risk appetite and the risk treatment choices. Risk appetite means how much risk the company wants to take in the achievement of its objectives. Risk treatment means choosing the right options to mitigate the risk.

Within the organization the board, the executive management, the risk committee, the experts and the employees are responsible for the risk management. Nevertheless risk is considered to be the responsibility of operational management.

Important benefits of risk management are:

- increased likelihood of achieving corporate objectives;
- reduced cost of risk;
- calculated risk taking.

Therefore risk management should be *embedded* in the operations of the organizations with appropriate monitoring. Business processes should be *supported* by risk management. The board should have an overall assessment of the contribution of risk management to the function of the business.

There are suggestions that the board should take into consideration the following elements:

- The risks facing the organization;
- The likelihood of the risk;
- The costs of implementing controls to mitigate the risks and the benefits obtained.

There is a difference between the board's role and management and staff responsibilities in respect of risk management.

The board's role is to issue policies for risk management and to see those policies put into place. The executive directors are in charge with the day-to-day operations and therefore responsible for the implementation of the risk management policies. The internal audit should provide advice to the managers.

The board should not just rely on monitoring risk management. It should also receive regularly reports on how the major risks are managed. Also, it should assume an annual evaluation of the process.

The non-executive directors should be have a balanced assessment of the key risks and the controls implemented in order to manage those risks. The internal audit work, which is focused on the major risk areas, could help the non-executive directors figure the assessment.

One of the main issues regarding risk management is to make sure that the key risks are taken into consideration and that the management and the board of the organization take action as needed. In order to accomplish these important corporations set up a risk management committee.

The main roles of the risk committee are to:

1. report on the key risks to the board;
2. review how the major risks are managed;
3. promote the best practice in risk management within the organization.

In the public sector, a lot has been done on risk management in latest years. There were created risk committees, codes of conduct and the requirement for statements embracing the risk and control.

The main risk management strategies are to:

- avoid/transfer it – get rid of the activities giving rise to the risk. Avoiding an activity is the answer to a risk that cannot be controlled. Some organizations, for example, taxi companies have identified no-go areas where their cars will not go. Public sector organizations instead do not have sometimes the choice of avoiding a risky activity.

- reduce/exploit it – insure against the risk; Insuring against a risk will reduce the financial impact but is not going to solve the problems created by business discontinuity. Nowadays, insurers require organizations to treat risks using internal controls as well as insuring against it. The insurance might cover above a certain level of excess.

- retain it – implement controls to manage the risk.

The greatest number of risks will be retained. Internal controls will be implemented to mitigate reduce either the probability or the impact. Organizations retain risks where controls have brought them to accepted residual levels.

The strategy an organization takes to mitigate risks should take into account the risk tolerance decided upon. Line management should take into consideration their key risks and chose which of these strategies is adopted. Sometime a mixture of the three strategies is needed to be implemented.

The internal audit function has various roles and responsibilities regarding the risk management process in an organization.

The corporate failures and the growth of enterprise risk management programs determined nowadays the internal auditors to be actively involved in the risk management efforts of the organization.

It is important to clarify how the internal audit can assess the adequacy and effectiveness of an organization's risk management efforts. However, it is important to underline that risk management it is a management responsibility.

In this respect, the role of the internal auditors is to assist management by providing advice regarding risks.

In those organizations that have an internal audit function and risk management process it is vital to be sure that there is no duplication of work. Therefore, it is crucial that the roles of each function is made clear to stay away from unjustified overlap and, more importantly, to avoid conflict of interests.

2. Roles for internal audit within the risk management process

There are many roles that internal audit can fulfill in respect of the risk management process implemented within the organization.

The role assumed depends on the organization and may change over time. There are spreads of activities the internal audit can perform in these respect, such as:

- auditing the risk management process;
- supporting the risk management process;
- participation in risk management committees;
- performing monitoring activities;
- facilitating risk workshops.

Today, internal audit assumes at least two important roles in respect of the risk management. First, internal audit can act as an advisor helping the organization in respect of risk awareness. This can be done by improving the management understanding of the major risks facing the organization. It should be mention that the risk management process can be used by internal auditors in identifying areas for review. In these ways the internal auditors can focus their activity on the key systems and controls within the organization.

Second, internal auditors can act as trainers in risk management workshops. In this way internal auditors aid line managers understand better organizational risks and controls. This is how internal audit can help the managers to identify various risks.

It should be taken into consideration that a specific risk management function is created in many organizations. In this organizations, there is appointed a risk manager, how advises top management on the risks and the ways in which they can be managed. In these cases the internal auditor can provide on the one hand advice and on the other hand assurance on the risk management process.

There are a number of steps that the internal audit function needs to take to be sure that risk-based audit works. The first is for internal audit to work with the risk management function. By working together, the internal audit can get experience from risk managers in those areas that affect its independence. Of course, the management support is vital if risk-based auditing is to work.

3. The role of internal audit in assessing the risk management process

The internal audit can assess the risk management processes of the organization at the strategic and operational level.

Within an organization, the internal audit can assess the effectiveness of the policies and processes implemented.

Internal auditors can participate in committees in order to provide expertise to management regarding risks. Of course, internal auditors should not be directly involved in risk management. This could allow internal auditors to improve their knowledge on management issues and to recommend the implementation of controls tailored to the organization's needs.

Middle-level managers may also benefit from the advice of internal audit in respect of risks. However, internal auditors need to maintain their objectivity. This is way the management should be aware of the impairments to independence and objectivity with regard to non-audit work.

Internal audit could give advice to managers on risk management, making easier the assurance audit activities on this issue, due to the fact that the internal audit and management has agreed on what is being looked for regarding risk management within the organization.

The organization's board might request the internal audit to perform activities away from its usual role of providing assurance to a more consultative role that risk management performs as expected.

4. The involvement of internal audit in the risk management process

The involvement of internal audit in the risk management process is different from one organization to another. There are entities which have risk management functions and there are entities where the internal audit proposes the policies adopted in this field.

There are a number of ways in which internal audit could get involved in the risk management process without impairing its independence and objectivity, as follows:

- organizing workshops meant to provide training to the line staff with regard to the risk management process;
- providing expertise as members of teams appointed to provide solutions on risk management;
- Assessing the risk management process and issuing recommendations on this area.

Nevertheless, it should be mentioned that the internal audit can't assume and be responsible for effectiveness of risk management. That is the responsibility of the top management and operational management. Assurance on the risk management process can, however, be provided by the internal audit. During the assessment activities, internal audit can also give advice on this field.

Internal auditors have to meet the assurance needs of their organization.

The trend of internal auditors providing assurance on risk management process is relatively new. Of course, it's not the same as risk-based auditing. Also, nowadays, it's not limited to corporations that have to obey Sarbanes-Oxley, and it's not something that only internal auditors from the big companies have to do. It should be mentioned that a large corporation has led the way, but over time they brought many other organizations with them.

The various approaches and tools developed by internal audit functions within big organizations are followed by smaller internal audit groups. In practice, this means getting a better understanding of the company's risk profile, spotting changes and addressing new kinds of risks.

There is a change in the way internal auditors take into consideration the risk. Traditionally, internal auditors focused on the probability that the risk would arise. In the years ahead internal auditors will have to be concerned more and more about the vulnerability created by the risk. This is the consequence of the fact that in the past years low-probability risks have brought down important corporations.

Sound risk management can be helpful for internal auditors trying to establish the best balance of assuring and consultancy activities. This might be taken into consideration in designing the audit plan. The audit plan could be more assurance based,

due to the fact that internal auditors consider that the organization has low vulnerability, or could be focus more on a consultative kind of audit.

In the 1980's internal audit was mainly focused on compliance activities, but nowadays the internal audit is more and more focused on consultancy. The future has to balance both approaches in order to provide value to the organization.

The internal audit's key objective of reviewing the internal control system will be achieved by reviewing the effectiveness of the risk management process. The internal audit should give an independent view of the risk management and its effectiveness in mitigating the major risks facing the organization.

Sometimes the chief audit executive is also in charge to propose the internal controls and the risk management system that should be implemented by the organization and might then help the unit to put into practice the policy. Internal audit could get together the results of the risk management process and report to the board on the key risks facing the organization.

Therefore, it is very important for the board of the organization to understand that risk management and internal audit are there to provide assurance on risks facing the business – but they will do so in entirely different ways.

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The Status of Women in the History of Economic Thought

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Abstract

The economic and social status of women has been a topic of considerable interest for many philosophers and economists ever since ancient times. Then as now, the disputes that arose had as much to do with broader political considerations as with simple economic analysis.

Key words: women's status, history of economic thought.

J.E.L. classification: N00

1. The Status of Women in Classical Athens

The status of women in the 5th and 4th century Athens was very low. They were an economic commodity that men could move in and out of marriages.

Plato (c 428-355 BC) wrote some works on the ideal construction of government and laws. In his *Republic*, he described an ideal, but highly utopian, form of government in which the state would be governed by guardians – talented and well trained men and women. For him, the skill of governing was not gender defined. Some men and women have an aptitude for governing, others do not. He saw no reason why women could not hold the highest offices in the polis.

Plato believed that laws should apply equally to men and to women. And so should education. He reasoned that women and men each represented half the population. If only boys were to be educated, it took the same effort and expense, but in the end only half of the population was educated.

In his work, there is a gender distinction – in terms of military service. Though girls would receive the same military training as boys and serve under the same regulations, they would serve from the end of their

childbearing years to age fifty, whereas men would serve from age 20 to 60. And since women performed military service, they would be able to participate in government and be officials.

Plato promoted the equality of women and men and believed that gender had nothing to do with the ability to govern. But **Aristotle**, Plato's student, believed that women were inferior to men and needed to be governed by them. He believed women were not full persons. The system proposed by Aristotle did not allow any public role for women. He thought men were by nature superior and were made to rule, while women were inferior and made to be ruled. Men had reason and intelligence. Women had them also, but less in quantity and different in quality.

Aristotle advocated some education for women, but only to enhance the quality of the household and of the state. Within the household, there were three relationships: master and slave, husband and wife, father and children, and the man was the first in all three of them.

If Plato used Socrates in his dialogue to support sex unity, in another dialogue – *Oeconomicus* - **Xenophon** (c 430-357 BC) used Socrates to do exactly the opposite, to support sex polarity. Because ideas about gender vary according to historical context, the *Oeconomicus* has been given different receptions over the years. In the modern era, the status of Ischomachus' wife has been persistently misunderstood by feminist as well as traditional scholars.

In his work, Xenophon asserts that women and men are complementary in their biological nature, and therefore in their contributions to the domestic economy, but this difference does not imply inequity. They are complementary in estate management as well.

Like Plato in the *Republic*, Xenophon makes it clear that the soul has no sex; men and women are endowed with a potential for moral equality.

His dialogue contains a great deal of information of interest to the concept of woman. For example, the husband is responsible for the quality of the wife's work on the estate. He should instruct her, if he does not he is to blame; and if she is well-instructed but does not do a good job, then she is to blame.

Isomachus draws a rigid distinction between public and private spheres of activity through the bodily potential of the sexes and through divine ordaining. Thus, Xenophon was the first philosopher to offer detailed arguments for the separation of virtues for men and women.

2. Classical Economists and the Status of Women

With few exceptions, such as **John Stuart Mill** (1806-1873), classical economists are generally held to have focused on the activities of men in markets, to the neglect of women's status. In some cases, (**Smith, Bentham**), this is partly due to the fact that these ideas were not published in their most prominent contributions.

In the case of **Adam Smith**, he analyzed the evolution of the status of women across four historic stages of economic development (the ages of hunters, pasture, agriculture and commerce.), but this analysis of his appeared in his work *Lectures on Jurisprudence*. Central to the argument that underpinned this history was the notion that while biological differences between the sexes are a constant, the social significance of these differences is a variable. Smith focused on the respective physical strength of men and women and on women's capacity to give birth, arguing that the relationship between these factors and the mode of subsistence is a key influence on gender status. Most importantly, Smith suggested that the further development of commerce and industry would lessen the importance of physical differences, making possible further improvement in women's social and economic position.

Women did work for pay in Adam Smith's Scotland, as they did elsewhere in Europe, although the *Wealth of Nations* pays them little attention.

But it has been concluded that Smith had relatively little confidence in women's independent judgment and hence in their capacity for reasoned decisions on economic matters.

Jeremy Bentham's thoughts on the relations between the sexes were scattered across assorted publications and manuscripts, which greatly lessened their impact.

Jeremy Bentham's dictum "Let There be no Distinction between the Sexes" sums up his thoughts on relations between the sexes. Bentham's utilitarianism treated women and men as equals, with equally valid preferences and equal capacity to act rationally in their own interests.

3. François Poulain de la Barre

During the second half of the 17th century, European liberals began constructing a theoretical foundation for "the rights of man", meaning by this the rights of men.

Writer, Cartesian and feminist philosopher, **François Poulain de la Barre** (1647-1725) was a pioneer in the history of economic thought by applying the deductive method of analysis to the study of women's social position. A disciple of Descartes, he wrote three rationalist tracts between 1673 and 1675 which cogently argued the case for equality of the sexes.

He was able to highlight the fact that the claim that women are men's social subordinates (because they are naturally less productive) was in many cases merely a product of prejudice. He also challenged the assertion that the biological differences between the sexes fixed forever the relative economic and social status of men and women.

Wishing to illustrate the value of Descartes' methodology, he reasoned that refuting an assumption so widely accepted as was the claim that women were innately inferior to men would encourage scholars to recognize the need to reject beliefs based only on appearances or the world of authorities.

He started with the readings and interpretations of the Bible, more precisely the interpretation of the 'curse' God supposedly pronounced against Eve at the time of the Fall.

After denying that the origins of women's subordination were divine in character, Poulain searched to develop an explanation for how it could be that external conditions were created that enabled men to discriminate against women – what he called 'historical conjecture'.

He started from the axiom that human beings will impose their will upon others given the opportunity and chance to benefit by so doing. He then deduced that men used their greater physical strength to impose their will upon females, in a primitive world when there was no government and there was an abundance of material resources. Women's ability to match men's contributions in the production of economic goods would have been undermined by their role in reproduction.

As population grew, per capita resources became scarce, and conflicts were generated in both the home and between communities. Poulain suggested that once competition for the available economic resources reached the stage where communities were compelled to fight for the right to utilize them, we have the beginning of warfare, slavery and social subordination of women. That is because women became reliant on the warriors for their immediate physical security, their freedom from slavery and their ability to attain their subsistence. Not being involved in conquest and defense, they had little say in the government of society.

From here it was an easy step for men to believe that, apart from the ability to give birth, women's capacities were inferior to those of men, and women did not have the intellectual or spiritual capacity to rule. In time, this prejudice became self-evident truth.

Poulain's contribution is significant in terms of the development of economic theory and methodology. Still many failed to see it when studying his work.

4. John Locke's analysis of gender relations

Apart from his contributions to the development of economics in the area of monetary and property theory, **John Locke** is also credited for pioneering research into the economics of the social position of women.

Locke developed his analysis of gender relations as a consequence of his involvement in the liberal critique of regal absolutism and the divine rights of the monarchy. He observed that in the Bible the word 'them' is used when stating to whom dominion of the earth was initially given. So, God had not given sole regency of the world to Adam. When Adam and Eve were driven from Paradise, both were being punished. The fact that Eve was subjected to greater punishment than Adam did not give him superiority over her. Rather, he obtained some form of material advantage. In short, he gained a capacity, not a right to rule.

Locke explained women's subordination to men by the males' greater innate abilities and strengths. He denied there was any difference between the minds of males and females as regards their capacity to comprehend truth. He believed the mental capacities of the two sexes to be so alike that there was no reason why both should not receive an identical programme of education.

To comprehend Locke's argument regarding the status of husband and wife, it is also necessary to understand his theory of the origin of private property, his justification for the uneven distribution of property within society and his understanding of the relation between property-owning partners.

By property he understood property that men have in their persons (life, liberty, capacity to labor), as well as goods. This leads to the idea that all individuals own some property, even if this is no more than their life, liberty or capacity to work. Locke also recognized the equal right of all individuals to be free of arbitrary domination.

As far as inequity is concerned, Locke admitted that some individuals can labor more productively than others. He also pointed out that when people chose durable metals (with little intrinsic capacity to sustain life) as the primary instrument of exchange, they chose to support the unlimited

accumulation of wealth and the uneven distribution of the world's resources.

As a result, the partners in a relationship are not necessarily equal. The relative standing of partners depends on the quantity of property each puts into the relationship and the respective degree of need each has for the other.

5. The Status of Women during the Victorian Age

Legally, married women during the **Victorian period** had rights similar to the rights of children. The law regarded a married couple as one person, the husband being responsible for his wife and bound by law to protect her, and the wife being supposed to obey him. Women in those times were consequently trying to gain their own voice. Women wanted equality with men; they wanted a right and the opportunity to have equal education. They were interested in education in that they wanted to learn the same things that men were learning and no longer be educated in domestic necessities. Women were supposed to exist only in the domestic sphere. They were supposed to raise the children and make sure that the household ran smoothly; they were also to be the moral conscience of men. Also, men did not believe that women had the capacity or the will to understand politics. So, women were fighting for their legal identity in that period. They were trying to gain rights to their property and their children.

John Stuart Mill was the most prestigious radical writer in England and the most prestigious name to be associated with the cause of women's social and political advancement.

The Subjection of Women by John Stuart Mill was a cornerstone in the fight for equality between the sexes. In this essay Mill was exploring the "Women Question" and the role women had in English society. He attacks the notion that women are inferior to men. Mill argues that there is a full half of the population being constrained by societal gender-roles and that it is unfavorable for society in that it is somewhat preventing societal advancement by not allowing a free-flow of ideas.

The *Subjection of Women* is about much more than woman suffrage – it is an incisive analysis of women's degraded position in society, describing in great detail the manifold ways in which patriarchy operates and how men's dominance of women corrupts both men and women.

The first chapter contains Mill's argument about why the existing and long time social subordination of women should not be taken as any evidence in favor of the proposition that this arrangement is for the best. The second presents an argument against the 19th century subordination of women in marriage. The third presents evidence of the competence of women to do many of the jobs from they were by custom (and law, in some cases) barred. The final chapter addresses the most important question, for a utilitarian, to wit, what is the gain in human happiness that is to be secured by the social emancipation of women?

Mill compares the domination of women to slavery. Women are forced to submit to the will of their husbands and have no say in their lives. Women cannot change their position because they rely on their husbands for everything they are given. They have no right to money or even to govern their own children without the permission of their husbands. Women cannot maneuver in their society without the help of men because they have no rights.

What is very interesting, Mill used in his essay examples of ancient societies that thought women capable of intellect and that did not hold women subordinate by law. Ancient civilizations that he cited to show the capability of women include the Greeks and the Spartans.

6. Conclusions

Plato, Aristotle, Xenophon, Poulain de la Barre, Locke, and Mill are only a couple of examples of great men who were drawn to writing about the status of women in society. Though they lived and wrote during different periods in our history, and though they were driven by different reasons when doing so, their analyses shed light on the topic and can be used as starting point in any feminist argument.

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Water as a Global Public Good

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Abstract

Water, like many natural resources, has been conceptualized — and managed — as either a public good or a commodity. The United Nations Committee on Economic, Cultural and Social Rights issued a statement declaring access to water a human right and stating that water is a social and cultural good, not merely an economic commodity. Ensuring that the public receives an adequate supply of public goods requires some level of government responsibilities and action, since purely private markets often do not find it profitable to provide public goods. Often provided at subsidized prices or for free in many situations, water is available to even the poorest segments of society.

Key words: Global Public Good, water, privatization, crisis.

J.E.L classification: O13

1. The Concept of Global Public Goods (GPGs)

During recent years, the concept of **Global Public Goods (GPGs)** has become an increasingly important part of international policy making. The notion of global public goods appeared sometime in the early 1990s in the context of global environmental issues.

The concept appears in the agendas of UN agencies, the IMF/ World Bank, and Non-governmental organizations. Everyone depends on public goods, neither markets nor the wealthiest person can do without them. Clean environment, health, knowledge, property rights, peace and security are all examples of public goods that could be made global.

Most goods in the world are "private" in the sense that their consumption can be withheld until a payment is made in exchange for them, and once consumed they

cannot be consumed again. In contrast, once "public" goods are provided no one can be excluded from consuming them and one person's consumption of them does not prevent anyone else's. The provision of public goods is central to securing human well-being. But, given their characteristics, public goods are open to free-riding and vulnerable to what is known as the 'failure of collective action'.

A **global public good** is therefore a good that is *non-rivalrous*, *non-excludable*, and it is *available worldwide*. GPGs are unlimited by national boundaries, but cross over into sub-regional, regional and global spheres. They are public goods - commodities for which the cost of extending the service to an additional person is zero - where the effects spill widely around the world and for a long time to come.

The concept of **GPG** is an extension of Samuelson's notion of public goods to the economics of globalization. In 1954, in two and one-half pages writing on public goods, Paul Samuelson reshaped the way economists and political philosophers think about the distinction between private goods and public goods. In some academic literature the concept of global public good has become associated with the concept of a common heritage of mankind.

Knowledge is a canonical example of a global public good.

Many **GPGs** have historically existed outside of human interference, such as the oceans and seas, the atmosphere, and ozone layer, whilst other GPGs have emerged as different aspects of globalization have advanced. GPGs cover global issues that range across the whole spectrum of the sustainable development agenda, from the global environment, international financial stability and market efficiency, to health, knowledge, peace and security and humanitarian rights.

Street signs, global positioning systems are a good examples.

For the case of **global public goods**, there exists today no workable market or governmental mechanism that is appropriate for the problems. There is no mechanism by which global citizens can make binding collective decisions to slow global warming, to cure overfishing, to efficiently combat AIDS, to form a world army to combat dangerous tyrants, or to rein in dangerous nuclear technologies.

The concept of **global public goods** helps us respond to the new global challenges of the twenty-first century. In the light of globalization, a term that now permeates everyday language, people's well-being does not depend only on the provision of public goods by national governments, but increasingly depends on the provision of global public goods that only international cooperation can secure.

The supply of these **GPGs** depends on the willingness and ability of countries to devote national resources to domestic objectives that also contribute to international purposes and goals. In the absence of an international body endowed with the power of levying taxes to finance **global public goods** or endowed with the power of making enforceable laws to provide them, voluntary co-operation and global collective action are currently the only two ways of ensuring supply of **global public goods**.

2. Water World Statistics

Fresh water accounts for only 2.5% of the Earth's water supply, the rest 97.5% being salt water. The 2.5% are made up of glaciers and polar ice caps (68.9%), lakes and rivers (0.3%), and groundwater (30.8%).

12 percent of the world's population uses 85 percent of its water, and these 12 percent do not live in the Third World.

Vast amounts of water are used to produce food, clothes and other consumer goods.

Industrial agriculture damages the environment through massive water consumption. It is recommended that governments put agriculture at the centre of an integrated policy response and invest in more carbon efficient systems, which conserve water and address the concerns of small-holder farmers.

Bad water kills more people than wars or earthquakes. One billion people worldwide do not have access to safe drinking water and 2.5 billion are lacking safe sanitation. Some 3.6 million people are estimated to die each year from water-related diseases.

Water consumption is doubling every 20 years and yet at the same time, water sources are rapidly being polluted, depleted, diverted and exploited by corporate interests ranging from industrial agriculture and manufacturing to electricity production and mining. With water tables falling, rivers drying out and salt pollution of groundwater rising across the world, global fresh water resources become increasingly scarce.

Climate change will only worsen the problem.

According to UN figures, by 2015, 1.8 billion people will not have access to water. Other estimations claim that, by the year 2025, two-thirds of the world's population will face water scarcity.

It is argued that public water provision is key to "tackling the global water crisis" and promoting development.

As consumers of goods produced in poor countries, wealthy nations bear responsibility for contaminating and using up poor country water resources.

3. Water Privatization

Water has historically been considered a "public good," however, in recent years governments and businesses have begun treating it as an "economic good," promoting privatization in both poor and rich countries. Emerging water markets are changing the nature and structure of how our water supply is managed. It is becoming profitable for states to buy the rights to water in a foreign place.

Though privatization is functioning in some rich countries, it creates a slew of problems in poor countries, where fair contracts are harder to negotiate and people are more desperate. Many argue that privatization serves the interests of unaccountable multinational corporations rather than creating an engine of growth. Because once private water giants take over water services, prices skyrocket.

Also, if allowed, private water companies will favor richer customers, shift risks back to the government and invest as little as possible. In too many cases, companies have repeatedly renegotiated their original contract to increase rates or get out of requirements to connect poor neighborhoods. Governments that turn to privatization will need a lot of help from international institutions if they are to play the strong regulatory role required to make a privately run system a success.

Across the globe, the World Bank, the International Monetary Fund (IMF) and multinational corporations are pushing poor countries to privatize their water resources.

Currently there is a rush to privatize water services around the world. Countries faced with large debts are forced by the World Bank and IMF to privatize water. Water deregulation is a common demand of the World Bank and IMF as part of their loan conditions.

The World Bank and International Monetary Fund (IMF) are pushing for the privatization of water services by European and U.S.-based companies. They are pushing privatization through stipulations in trade agreements and loan conditions to developing countries. These privatization programs started in the early 1990's and have since emerged in India, Bolivia, Chile, Argentina, Nigeria, Mexico, Malaysia, Australia, and the Philippines, to name a few.

Since 1990, water privatization - turning over some or all of the assets of a public system to a private company - has been growing rapidly. Globally, more than 90% of water and sanitation systems are publicly owned and operated.

According to the World Bank, in 2007, 84 percent of water systems privatized in the 1990s were still under private control. 24 countries have regained public management of their water systems.

The number of people served by private companies has grown from 51 million people in 1990 to nearly 300 million in 2002. Six water companies alone expanded from 12 countries in 1990 to over 56 countries by 2002.

Privatization turns water into a commodity and abolishes water as a human right. Without public control, poor people will not have access to clean water and sanitation. Since the 1990s, many countries have handed

over water management to private companies. Water became a commodity instead of a public good, leaving millions of poor people without access to safe drinking water and sanitation. And as water resources dwindle, conflicts over water intensify. In Bolivia, South Africa, Ghana, the Philippines and Indonesia violent struggles have broken out against companies seeking to privatize water. About 175 people were injured, two were blinded by the gas, more than 50 people were detained a boy was shot dead and six people were killed in protests in 2000 in Cochabamba, Bolivia, where the newly privatized water company, a subsidiary of Bechtel, substantially immediately modified the rate structure and it increased water rates as much as 200 percent, which the company claimed was necessary to cover the costs of planned extensions and upgrades to existing infrastructure.

Water is the oil of the 21 century. Corporations are rushing to invest in the water business, having made plans to buy water rights, privatize publicly owned water systems, promote bottled water, and sell "bulk" water by transporting it from water rich areas to markets desperate for more water. For example, companies like Coca-Cola are selling purified tap water as a healthy option, and they believe that in the long run selling water will be more profitable than selling Coke.

The commoditization of water is the main reason for the **water crisis**. Promoting water as a commodity has led to increased control of water by multinational corporations whose main responsibility is to increase the shareholder's profits to the expense of many people who are too poor to afford it.

The World Bank and the other international institutions took on neoliberalism, and encouraged privatization of most resources. In other words, they attempted to put a price on everything, even if it was not appropriate, e.g. health, education, and, possibly, water, amongst other services. It was hoped that efficiency would increase and subsidies for such provisions would be removed. In doing so, the poor have found themselves being shut out as prices have risen beyond affordability. When confronted about the water crisis, the World Bank argues that the problem is not

privatization itself, but improperly practiced privatization.

The private sector proves to be unreliable in this area because of two main aspects. Firstly, in the absence of a strong regulatory capacity to protect the public interest through rules on pricing and investment, the water sector develops many of the characteristics of a natural monopoly, with real dangers of monopolistic abuse. Secondly, in countries with high levels of poverty, money is an issue, regardless of whether the provider is public or private.

4. Conclusions

Water is a human right. Article 25 of the United Nations Declaration of Human Rights notes that "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of ... circumstances beyond his control."

While water is not mentioned explicitly, the right to food includes water as well, because water is essential for humans to live, and is therefore in line with the principles of the declaration.

Water management—not water scarcity—is the problem and that calls for new ethics.

In terms of privatization, water should remain a common property resource, common heritage of all. Other solutions such as eco-sanitation and rainwater harvesting should be pursued. However, there may be costs associated with being able to provide the infrastructure and services in a sustainable way.

Water, this 'blue gold', has become an unavoidable issue. The global water crisis is the biggest challenge facing the international community.

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Quantification and Reflection of Economic Operations with Goods and Services in National Accounts

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Abstract

The economic operations quantified and reflected in national accounting, consisting in income and expenditure flows, are classified in operation accounts, according to their intrinsic nature.

These are display accounts that allow a decomposition of the relationship existing between two institutional sectors more detailed than that offered by sector accounts.

Although a nation's economy includes an impressive number of economic operations, they can be regrouped into three main categories that are: operations with goods and services, distribution operations and financial operations.

Operations with goods and services represent mainly one of the three categories of economic operations.

Key words: national accounting, income flows, expenditure flows, goods and services, macroeconomics.

J.E.L. classification: A10, E01, E21, E23, M41.

1. Introduction

The economic operations quantified and reflected in national accounting, consisting in income and expenditure flows, are classified according to their intrinsic nature. By this criterion, although a nation's economy includes an impressive number of economic operations, they can be regrouped (structured) into three main categories that are: (i) operations with goods and services; (ii) distribution operations; and (iii) financial operations.

The operations which describe economic flows are grouped by the nature of the economic activity reflected in operation accounts. These are display accounts that

allow a decomposition of the relationship existing between two institutional sectors more detailed than that offered by sector accounts.

2. Operations with goods and services

Operations with goods and services represent one of the three categories of economic operations. Operations are economic flows while operation accounts regroup identical economic operations developed by various institutional units [1].

Operations with goods and services refer, on the one hand, on their origin or provenience, that is production (P) and import (I), and on the other to their final use, respectively consumption (intermediate and final), gross fixed capital formation (GFCF), valuable objects, stock variation and export.

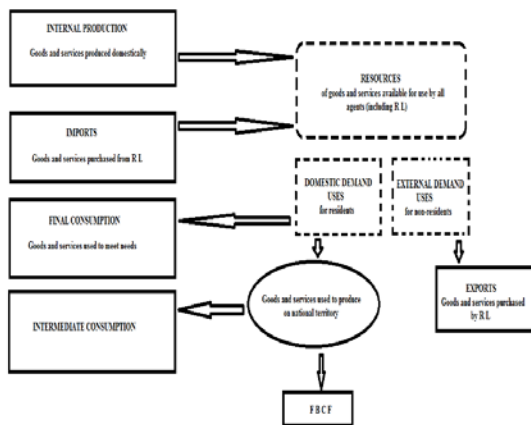
The macroeconomic balance described by national accounts and founded on operations with goods and services presents as follows: $P + I = C + GFCF + E + \Delta S$, where P=production, I=import, C=consumption, GFCF=gross fixed capital formation, E=export and ΔS =stock variation.

The relationship above would be translated by the fact that the total amount of available quantities of goods and services (production + import) is necessarily equal with the total amount of use: consumption (intermediate and final) + gross capital formation (GFCF + valuable objects + stock variation) + exports. Thus, the total of resources is always equal with the total of uses (figure 1).

Production is an activity consisting in manufacturing goods or providing services under the control and the responsibility of an institutional unit. Within this activity, the institutional unit employs a combination of production factors, workforce and capital and "consumes" goods and services. Production is thus the result of this activity [1].

According to the operation nomenclature of the SCN, the production realised by resident institutional units has two components in its structure: production for the market (merchandise) and production not for the market (non-merchandise).

Figure 1. Operations with goods and services



Source: [1].

Production for the market (market production) is the production destined to market exchange or that which is likely to be exchanged on the market at a price that should cover at least the production costs. The price of merchandise production may take various forms: royalties, cession prices, voluntary fees, etc.

Production for the market may include both goods for the market and services for the market, as follows:

1. *production of goods for the market*; it is conventionally considered that all the goods are for sale. Are excepted from this rule only the goods that are used by the producer to cover its own consumption needs, such as, for example:

- for intermediate consumption (thermal energy produced by a power station and consumed by itself);
- for final consumption (the part of agricultural production obtained by farmers and used by themselves);
- for gross fixed capital formation (fixed assets created by economic units through their own efforts);

2. *production of services for the market*; merchandise-services are represented by the services sold in various forms (reparations,

advertising, consultancy, financial brokerage services; etc).

The revenues gained by the units that have services as their object of activity come from:

- commercial margin-generated by the services produced by the commerce branch and determined as residual between the selling price without the VAT and the purchase prices without the VAT;

- rental services-the estimation of a fictitious rent obtained if they rented their own building. Rent-real or fictitious-is payment for a service rendered (rent) and not a revenue on the property owned that would generate a distribution operation;

- services sold at their residual value refer to the services provided by government and sold at the cost of factors, not that of the market (for example, preschool canteens).

Production not for the market, non-merchandise (non-market production) includes two categories of such production:

1. *production for final self-consumption* that is developed by institutional unities for final self-use. It refers to the goods or services that an institutional unit produces and preserves for its own final consumption or for its own gross fixed capital formation. Such a production is mainly provided by the people's houses/households and consists in the production of housing services and domestic services, along with the cultivation of agricultural goods, and by enterprises in the form of equipments for their own use.

2. *other non-market production* that is provided for others but financed by the producer itself, especially by public administrations and IFSLSGP. It is defined as the production provided to other units either for free or at an insignificant economic price, which covers less than half of production costs.

Consumption

Obtaining a product is closely connected with developing *consumption*. By consumption we understand using a good or service with the purpose of obtaining other goods or in order to satisfy certain human needs.

In its turn, consumption takes two forms: intermediate consumption and final consumption.

Intermediate consumption is produced by the consumption of commercial goods and services coming from other institutional units

and employed in the production process; it is the "value of the goods and services transformed or entirely consumed during the production process". Intermediate consumption differs from final consumption by the fact that it is productive, contributing to the production of goods and services with a less than a year life-cycle (circulating assets), while final consumption is unproductive because it does not leave to the production of new products.

Final consumption is produced by the consumption of goods and services employed to meet individual (final consumption of households/houses) or collective (final consumption of public and private government and of IFSLSGP) human needs.

Final consumption may take the form of the final consumption of merchandise or commercial goods and services and of the final consumption of non-merchandise or non-commercial services.

According to SEC'95, we distinguish two concepts in what regards final consumption: final consumption expenditure and actual final consumption.

The concept of final consumption expenditure refers to the expenditure approved by a sector in order to purchase goods and service for consumption while those of actual final consumption refer to the purchase of goods and services for consumption by a sector. The difference between the two notions consists in the treatment applied to a number of goods and services which are financed by public administrations and households and are provided by the latter in the form of social transfers in kind.

Gross fixed capital formation (GFCF)

Is an indicator that reflects the value of the goods and services purchased or produced within the resident unit employed in the production process during a period of over a year.

In national economy there is a wide array of ways in which gross fixed capital forms, from which we may distinguish [2]:

a. purchasing (less those that are out of use) new fixed assets or extending the old ones, grouped as follows:

- living quarters;
- other buildings and structures;
- machines and equipments;

- livestock and fruit plantations.

b. purchasing (less those that are out of use) new intangible fixed assets or from existing ones, grouped in:

- mineral explorations;
- computer programs (software) and development projects;
- licences, patents, copyright, etc., for the production of shows, for literature or for artistic originalities;
- other non-corporate assets.

c. major investment in non-productive tangible assets, including in land;

d. the cost associated with the property transfers of non-productive assets.

In a general manner, the coherence of the new GFCF notions might be doubted, because it excludes research-development expenses but it integrates the purchase of durables such as weapons when they cannot have a civil use (weaponry or ammunition are excluded because, in order to be durable, goods must not be usable only once, such as bombs, grenades, etc... – these expenses are considered to be intermediate consumption), the troops' housing is included into the GFCF.

In 2009, Romania's GFCF included: 26% industrial equipments, 47% buildings and 27% services.

Valuable objects

The new system introduces a new concept named valuable objects. These objects are represented by precious metals and gemstones, jewellery, art objects. These goods cannot be included into the GFCF because they are not usable in a production process and cannot be considered as final consumption either because their value does not depreciate in time as their main purpose is to become value reserves. As goods and services use, these objects are registered as purchases without cession.

Stock variation (ΔS)

Stock variation represents the difference between the value of stock inflows and stock outflows during the financial year:

$$\Delta S = \text{Inflows} - \text{Outflows.}$$

It is the last possible use for a product. The concept would be more appreciated if we mentioned that stock variation does not represent the variation of stock value during the financial year. A product's stock value is

always determined at the market prices available on a given day (so it is a potential value: the amount that would be redeemed if all the stocks were sold). This value may vary in the course of a given period because the market prices of stock items change. In order to delimit this variation we talk about stock appreciation or depreciation [3].

These stock value increases or decreases are taken into account in inventory variation accounts.

Operations with the rest of the world

This category includes all the operations with merchandise goods and services carried out between resident units and the rest of the world (non-resident units). In other words, we are talking about exports and imports of goods and services.

Exports refer to goods and services that leave the national territory for good, being the result of resident institutional units and making the object of a transaction between these and non-resident units.

This category also includes the goods and services consumed by households that do not have their residence on the national economic territory (for example, tourists, diplomats, etc.).

Imports represent the inflows of goods and services created by non-resident units and purchased by units that reside on a nation's economic territory. They include goods and services consumed by households situated on the foreign economic territory.

3. Conclusions

Operations with goods and services refer, on the one hand, on their origin or provenience, that is production and import, and on the other to their final use, respectively consumption, gross fixed capital formation, valuable objects, stock variation and export.

Operations with goods and services represent mainly one of the three categories of economic operations.

4. Acknowledgement

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The Efficiency of Applied Strategy Management Based on Knowledge

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Abstract

Global requirements, general economics and world business, are subject to rapid change. In such stormy conditions, strategic management must pro-actively intervene.

The economic areas and the current scientific use increasingly more lately knowledge and knowledge management theme. Knowledge of central significance for gaining competitive success through focused knowledge management. A long survival in the competition can only stand as passing knowledge management as one of the key strategic features of the company.

Key words: *management, implementation, consulting, economy, learning*

J.E.L. classification M 12, O 10

In New-Economy knowledge management plays a leading role in almost all areas of the economy such as development, manufacturing or marketing.

Relationships of knowledge bases (shape, carrier and availability) in a business capacity forms an important basis for action, a competitive advantage which leads indirectly to the success of the company on that market.

Promoting the knowledge society is not taking place only at the global level (eg Lisbon strategy) but also increasingly more micro level business and companies adopt knowledge management considering it as an indispensable element of the formulation of future strategies.

In strategic management, knowledge can be regarded as a specific management tool "Strategic Management" being a procedural perspective in literature.

"The basic concept is understanding the classic strategy developed under the Harvard strategic management tradition. Within this understanding of strategic management a

process that includes at least four distinct tasks or phases was conceived: scope definition phase (development of company policy, vision and strategic objectives), stage of strategic analysis (analysis of enterprise and environment and forecast future developments of information and ignorance), strategy formulation stage (forms, assessment and selection strategies) and the phase of implementing the strategy. The concept of knowledge management can be derived directly from basic procedural model of strategic management. Reference model shown in Figure 8, differentiate the functional knowledge management toward the methodological-instrumental. "

An overview of the possible constellations of knowledge-based strategy was developed by Albrecht (1993). Crystallized two double task of strategic management knowledge, formulating and implementing strategy, covering both the use and knowledge bases change.

This double character of knowledge has a direct influence on the relationship between conceptual knowledge of business strategy and range of its strategy. In the context of "Strategy Follows knowledge" the knowledge becomes a starting point ("enabler") in the formulation of the total enterprise, competition or functional strategies. This influence could be demonstrated for example in formulating an entry or divestment strategy. In the context of "Follows knowledge strategy", on the other hand, demand knowledge gaps that derived from business and competitive strategy is the strategic management and knowledge center.

In other words, strategic management knowledge has a management function of the strategic management of the company.

Strategic Knowledge Management is integrated into strategic management and is derived from it. This action significantly influences dual strategy in the spectrum of knowledge-based company's strategy, which

is characterized by an exchange of liaison "Follows knowledge strategy" and "Follows knowledge strategy. " There is a strategic synergy, where knowledge management and strategic management complement each other.

The purpose of knowledge management as a prerequisite for potential existing knowledge, knowledge tends to a corporate, integrated. This knowledge is an efficient processing of knowledge to achieve the main goals of the company. This organizational intelligence development in May and aims.

"By 'intelligent organization " means the ability of enterprises to cope with new challenges of structural changes within and outside the company. Other views are confined to an optimization of knowledge and a capacity increase of general learning to implement that knowledge in competitive avantejelor and goals of knowledge management. "

By optimizing the flow of knowledge is the ability to stimulate learning, as it can more easily identify and use knowledge. A high learning ability can lead to a corrected adapting to changing business environment, which ultimately lead to the building and expansion of competitive advantage.

Knowledge Management goal-oriented human capital refers to the process of learning and interacting individuals in the company's knowledge is not objective, but are obtained in the context, depending on the person. The purpose of the principle aims of the intellectual development of their employees.

Another area concerns the dynamics of knowledge bases of different media change the contents of knowledge. It can be seen as different processes of knowledge change, depending on when it comes to personal sources of knowledge, materials or collective.

Organizational learning and learning organization are two concepts often confused

If knowledge processes, knowledge contained change occurs through the process of learning and dezvoltare. By learning to understand, in this context, an increase of possibilities of action of various sources of personal knowledge.

On the other hand, signifies a lesser development of conscious and / or intentionally, and forgetting a step backwards

rather unconsciously and / or unintentionally the means of action.

In this context it should be stressed that learning should not always strive consciously acts nor necessarily in the form of observable behavioral changes or positive effects (eg increased effectiveness).

Detail changes differentiate various types of knowledge which can be explained by different theories of learning. Next, we can identify various situations in practice and learning with a multitude of factors that influence learning success. These are discussed below in more detail.

Individual learning produces a change in knowledge gained. Thus, the assimilation of new knowledge and the changing of existing knowledge can be distinguished two poles of knowledge change, which may rank among the various learning processes.

An assimilation of new knowledge exists when the person has as a result of learning-knowledge that until then had not. This may result from both cognitive training in November and a knowledge of possession of new skills or abilities.

On the other hand, there is rather a change in existing knowledge, where knowledge of depth at least in principle already exists. This type of change of knowledge is expressed among others by becoming more clear that cognitive contexts and connections are drawn between every fact in hand, which was not previously known. Further it is also about practice competencies and skills to be mastered at the end with greater certainty.

Deepening of existing knowledge could lead such a party to the internalization of explicit knowledge, if such steps are psychomotor unconscious. Here is the advantage of implicit knowledge requires less cognitive resources for activities related to perception and coordinative. It may result from an "explanation" of knowledge, if such actions carried out or measures taken unconscious to unconscious when they are consciously articulated. This explanation is often necessary to transmit knowledge and knowledge of others or store the media.

In psychology there are many different theories of knowledge which can not be discussed fully in the exposure. Therefore, we still have only a general summary of key research directions for the analysis of learning processes. In practice it usually

starts from a different set of learning processes.

According to Ke and Wei (2007), organizational culture is a social glue that allows individuals to learn together in social networks.

Independent individual learning processes: instincts and maturity

The creatures found possible processes that produce changes in behavior but not a learning process. Includes external influences besides first instincts and maturation processes.

Types of behavior are instincts and reactions to certain stimuli to some extent they become active only in certain situations. When people have a very minor role.

Maturation processes occur both physically and soul and is in many cases a prerequisite for further learning processes. Thus, certain movements involves learning appropriate muscle maturation. And learning a language is linked to the appropriate maturation of certain cognitive structures. Observing the process of maturation is important, among other things, to recognize the right time for certain learning processes.

Behaviorist theories of learning

Many of the learning processes of an individual can be explained if it is independent of the phenomena inside the body (in the sense of shape in a sort of "black box") and instead of considering it primarily contexts of change observable behavior and relevant external conditions. This procedure is called a study-SR (Stimulus-Response Study). Essential knowledge in this field of research is explained by the direction of behaviorism.

An assessment in this context is classical conditioning. In this case, is repeated an unconditioned reflex that causes a specific reaction, coupled with a neutral stimulus. One can see that after a number of rehearsals, a neutral stimulus also causes a reaction similar to that caused by unconditioned reflex. This effect weakens over time, there is a so-called extinction.

Further study of behaviourism is instrumental conditioning and operant conditioning. As the foundation of behavioral change are identified here environmental reactions to various types of behavior of organisms in the form of positive or amplifiers negative. In detail, receiving a

reward or avoiding punishment leads to more frequent these types of behavior, while the deprivation of rewards or imposition of a sentence causes the opposite. A longer absence of amplifiers lead to extinction of behavior, in which case the effect of extinction occurs later, if the amplification took place at rather irregular intervals.

The category of behavioral theories of learning is also integrated with some restrictions and learning by trial and error. In this case a person tries some types of behavior required for the resolution of a problem. Types of behavior which is confirmed in some form (that entails is success) are still followed, while the types of behavior are reused without visible success.

Moreover, behavioral learning theories can explain the benefits of knowledge-based or action (eg, learning of specific series of movements) and knowledge based on knowledge (eg elimination of false meanings by denial). The cognitive level is in principle about knowledge through experience. Cognitive theories of knowledge

Some learning processes can not be explained only on external conditions but requires both a process of interpersonal observation. These cognitive theories of learning and research are called SOR (Stimulus-Organism-Response studies).

Individual learning takes place largely in the brain and the memory is reflected in each person. For this reason while trying to understand the neurobiological foundations for learning. An essential result of this research is to identify three different stages of memory, called ultra-term memory (UZG), short-term memory (KZG) and long-term memory (LZG) which in turn are subdivided into several sections . These steps of memorizing the contents of memory are characterized precisely by the different periods of storage, different forms of memory (among other form of electrical signals in the form of protein) and various transfers. On this three-stage construction of memory is explained that there are two basic types of forgetting: forgetting irrevocable on the one hand and non-memory, where the fundamental contents of conscious access to knowledge stored in long-term (that's only partially accessible through hypnosis) is not possible, on the other side.

Individual learning is often attributed, in cognitive theories of learning, constructing "cognitive maps" (cognitive maps), enabling individual orientation. On this basis, a knowledge of personal support is provided, based on prior knowledge of that environment and image, to imagine a specific situation in mind, and to draw conclusions from it about the consequences of possible actions and thus find alternatives to solve concrete. In this case new knowledge to "existing knowledge, cognitive maps are semi-tailored. Such a learning process need not be manifested in actions immediately noticeable.

The cognitive psychology of learning is discussed and so-called implicit learning, which is characterized by the fact that the benefit without intent to obtain knowledge and learning outcome can not be expressed by the individual words. At this point is obtained in detail the question of how implicit knowledge is an unsolved problem in extensive research.

Social theories of learning

Some learning processes can be explained only by existing and in some cases the cooperation of several individuals.

A key conclusion in this context refers to the fact that individuals can learn from observing the actions of third parties already. This effect is discussed under names such as learning through observation, learning by imitation, learning by identifying, learning by model, learning by example, etc.. For example, competencies and skills can be learned by copying examples. The condition for this is that such knowledge should be made known in a noticeable way. It is often the case series of moves. But how to proceed in solving problems in many cases can be learned through observation.

In principle distinguish four different situations of learning (and teaching), which possesses typical characteristics occur in various forms, linking different knowledge bases and are suitable for various learning materials. As shown in Fig. 3-27 is about learning in detail about courses, learning workshops, individual learning and learning by doing.

Learning Situations:

- learning courses
- learning in working groups
- Individual learning

• Learning by doing

Learning courses

On learning courses, usually a lecturer is in front of a large number of students and communicates material in a structured manner. Here it is usual auxiliary environments (Beamer, Overhead-Projekt, board, etc..). Interaction is possible through intermediaries questions or feedback questions, but often deals with only a small fraction of the total. In essence, learning takes place in this situation from person to person.

Typical shapes of classical learning courses are classes at school, lectures, presentations, conferences and public speeches. Using modern communication technologies of information makes it more possible to include more remote participants at the event.

The course is suitable for pure fact-based knowledge communication and understanding of the basic contexts. But is limited in principle to explicit knowledge communication.

Learning in working groups

The working group learning more students, usually from the same level in a group to solve problems. And this situation prevails learning personal communication of knowledge between knowledge bases.

Group work is suggested in many courses as a form of secondary learning. Furthermore, it is often chosen in the form of joint working groups to assimilate the material. In companies, group work appears in a variety of forms. Therefore it is becoming increasingly implemented as a form of organization in the production. Learning takes place in the group but also in so-called knowledge networks (intra-company), in which specialists in certain fields of knowledge exchange, and in this way develop and communicate knowledge. More recently group work can take place through electronic networks. Group learning is appropriate to obtain problem-solving skills and teamwork ability. This can be obtained as explicit knowledge and implicit knowledge.

Individual learning

In individual learning, individual deals with matters independently of a teacher. For the study of classical literature as a form of individual learning is a large number of aids

such as textbooks, works of reference and tutorials scheduled. Individual learning opportunities have expanded considerably by the use of computers. For areas of learning and growing use of related companies, are the newest offerings provide CBT or computer-assisted scenarios. In addition more use of individual learning networking is required, peripheral and autonomous learning which is considered more efficient.

The individual learning takes place predominantly on knowledge dissemination of knowledge on physical media for personal knowledge bases. This learning situation is important to clarify gaps in knowledge and adapt to various learning skills. Especially favors the formation of explicit knowledge.

Learning by doing

Learning by doing occurs when the student gain new knowledge through practical use, often without the explicit intention of learning. The basis for such learning processes are both imitation and trial-and-error processes. For example, using models and prototypes as well as the possibility of "testing" in laboratory studies or in the simulations may lead to increased special knowledge and practical skills and training as a potential experience. Learning by doing business as often occurs on the job training.

Through learning by doing a trend favored implicit knowledge is being made. It is strongly oriented towards skills and competences. Also, the use of knowledge is gradually diminished the danger of forgetfulness, which is expressed in particular by the loss of skills, "if they are not always trained, optimized, adapted, thorough." This should not be underestimated in its importance. The personal media knowledge is replaced by the use of certain media content knowledge, so when such decisions are routinely taken by expert systems or when works are made by machine precision it plays an important role. In certain situations, personal media miss the opportunity to use those skills in other contexts. Combining learning situations

In practice, various situations occur very rarely as isolated learning, often can be seen alternately. This is significant in the sense that different learning situations can be used various channels of learning, and communicate different content. For this

reason I suggested various learning situations combined especially on complex educational goals beyond - for example in education, study or training.

The problem of combining different learning situations regain important, in contrast to rising use of computers and computer networks in education. Essential opportunities to use computers enough to enrich courses (Enrichment) through a primary or collateral to complete takeover of the handling of knowledge (Total Teaching). Multitude of learning situations is usually ensured by the fact that traditional forms of teaching are complemented by computer-based programs. The programs are basically designed as a computer-assisted, include (or simulated) usually several learning situations (for instance by suggesting support of a tutor, virtual discussion forums, virtual libraries, etc..).

For collective knowledge holders, as for personal media, we can speak of learning processes and unteaching respectively oblivion. This again defines different types of knowledge changes and different learning processes. Overall we can establish that collective learning has had less attention in research than individual learning.

Collective knowledge is characterized by the fact that the media is based not on personal or isolated, but on combined knowledge of media. In contrast to active learning and cooperative group, which stands isolated increasing their individual status within the exchange processes, collective learning takes place when common knowledge is changing and with it also the possibility of action and gender of the whole collective knowledge bases . In detail, the change can differentiate various types of knowledge.

Thus, knowledge of each substrate can be divided in collective media and thus become collective knowledge. Examples are the development of cognitive maps and the exchange of expertise. Collective knowledge can also mean that the interaction of knowledge in media collective knowledge arises entirely new knowledge, which before has not mastered this form of any one participant.

Ultimately, it can change, collective learning processes explaining the degree of common knowledge. On the one hand an

explanation of implicit knowledge before the support is born as a collective awareness of common knowledge can be articulated. On the other hand it can take place in earlier involvement of explicit knowledge. An example is "automate" certain routines. A possible consequence of such involvement is dissension among the various mitigation activities.

Types of knowledge described the change explained by various mechanisms of collective learning. Part of the learning takes place during the conduct of business processes.

Internalisation know-how usually occurs during unplanned constant use of knowledge. On the other hand knowledge outsourcing often involves a specific exchange and specific manifestation of that knowledge. In this context, a support group can develop knowledge and metacognition on ongoing processes and use this knowledge in future actions.

The formation of entirely new knowledge is more know-how, especially when sites supporting each of the knowledge are combined with each other in new ways. Processes relevant in this context are for example training for associations. These profound effects are analyzed in terms of creativity and are made available under various creative techniques.

In analyzing the collective learning processes should be considered that in particular groups, in many cases, have their own dynamics. Thus, it was determined that the groups can identify a clear tendency toward conformity (Groupthink). In the same time, groups have a greater inclination to risk that person singular.

Depending on the prevailing collective learning process, such as the composition of the media's collective, knowledge acquires a different meaning. While the creative process can influence the excellent performance of each shared positive result, the intensity of learning processes often depends on the jointly performance of one of the members of the collective knowledge support.

The changes to the contents of various media available knowledge changes in a company knowledge. In principle personal and collective learning processes can be distinguished as well as changes in media materials knowledge, where individual

learning processes acquires a special significance.

Changes of the contents of existing knowledge on the media make actions easier for a company, and are often more effective than changes in the availability of media to adapt to environmental changes and to make these changes in the possibilities of action.

Conclusions

Creative capacity of the human mind is immense, with a very ambitious importance and value.

An economy, or a modern organization can not sit side to knowledge management context because it is dynamic, competence, creativity and innovation, this thinking is not only aware of the Lisbon Strategy, but all participants the economy are in a continuous learning process.

To create synergies, trough which efficiency should increase and which could have an important role in the vision should be, in my opinion, human capital, which also contributes to the same extent to fulfill the vision.

In this way transparency on one part of the knowledge base and consistent care knowledge are guaranteed.

Employee motivation, sharing their knowledge by creating a dynamic market positioning, makes each area of business to be interested in increasing its market value trough its own employees.

Finally attention is acting both as a consultancy and as a raw material produced in equal measure.

One of the main points about knowledge management strategy, as already mentioned above, places Human Capital at the center of attention as a crucial factor for the company.

That is why the company does not give up any form of Spinne-off strategy in collaboration with universities, to gain potential future employees, young people with appropriate training and consulting skills.

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Knowledge Management. Synergy between Theory and Practice

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Abstract

There are, however, not much time, work to provide the reader synergies between theory and practice. The objective of this paper is to bring them closer to the reader the foundation and direction of knowledge management and aspects of it, because later this knowledge to develop the example of Best Practice and to be enhanced. It consists of two models of strategies in relation to the implementation of knowledge management, with special traits, oriented consultancy. The economic areas and the current scientific use increasingly more lately knowledge and knowledge management theme.

Key words: knowledge management, implementation, consulting, economy

J.E.L. classification: M 12, O 10

1. Introduction

In recent years many works on knowledge management have been written. However, they differ with the more basic character, the critics founding a number of adjectives and attributes by which to categorize them: from too pragmatic, not relevant from a practical perspective, inconsistent and based only on theories, up to unstructured.

Knowledge management is a main part of today's economy (see also "Lisbon Strategy"), upon the request of expressive description reflects the globalization of science, learning and the relentless flow of information. Global requirements, general economic and business world are subject to rapid change. In such stormy conditions, strategic management must pro-actively intervene.

The economic areas and the current scientific use increasingly more knowledge

and knowledge management theme. There's a real boom.

Knowledge gains a central significance for competitive success through focused knowledge management. A long survival in the competition can only stand as passing knowledge management as one of the key strategic features of the company. An optimistic interpretation is similar to Anglo-American in space: "In an economy the only certainty is under Uncertainty, the one source of lasting competitive Advantage is knowledge" (Nonaka 1991, p. 96), and expressed further: "the ability to learn faster than your competitors may be the only sustainable competitive advantage" (DeGeus 1988, p. 71). Birth and transformation of knowledge are at the forefront of business, especially for companies operating in knowledge intensive areas, such as consulting, software, financial services or biotechnology. To accelerate the spread of knowledge, the foundation and development of modern information and communication technologies are seen as key components that lead indirectly to new forms of transparent information.

Knowledge and intelligence are interdependent, one without the other losing its effectiveness.

Available knowledge slips through the various business processes and finally converted into business results.

Knowledge, unlike information, is creating a context, because patterns are dynamic, evolving over time.

2. The concept of knowledge

The term "knowledge" hasn't a common understanding yet, universally recognized, although in many areas it is a basic term.

For this reason, even in science there is a delineation of the term, which starts from the basic meaning.

Knowledge, viewed from a resource perspective, consists of knowledge, information and skills used consciously, or unconsciously by an individual or a group, in the use companies.

Andriessen (2006, 2007), Andriessen and Boom (2007) in the analysis shows that the prevailing Western thinking is the metaphor of knowledge as objects that can be created, stored, located, moved, controlled and manipulated. These attributes were associated with both individual knowledge and the organizational resources to deepen their knowledge functionality.

"Intelligence individual receiving dozens of definitions, knowledge also has a number of interpretations in terms of the definitions.

Building knowledge based on work experience gained over the years, no longer meets all the requirements, since it would take too long.

In Romania, there are many companies that use knowledge gaps in existing knowledge and are aware that it is necessary to introduce new methods and tools for use and usefulness of knowledge. Unfortunately, in practice, this happens rather hesitantly.

Knowledge characteristics:

- Knowledge includes information you provide to solve problems;
- Knowledge includes both knowledge and skills;
- Knowledge includes both custom items and non-customized items;
- Knowledge can be unconscious and conscious;
- Knowledge of learning occurs as a result.

The significance of knowledge has won a more relevant increasing role over the last decades in organization processes. It is therefore of crucial importance to both "human capital" and "knowledge" (related to learning and knowledge flows) to be accepted as the main component of any economic strategy.

Usefulness of collective intelligence in such cases is to create a new relationship, which can sort out the existing ones, resulting in a significant benefit for both individual and group to which it belongs.

3. Types and sources of knowledge

There are a lot of subdivisions of knowledge of which are mentioned four basic types of knowledge:

a. Knowledge of Knowledge. This arises from the perception of reality. It can be so subjective, the individual perception and objective - for example knowledge of mathematics;

b. Knowledge-based action - where abilities and skills count. It is influenced by natural abilities, but also by mastering problems or creative skills;

c. Explicit knowledge - knowledge is conscious, articulate, convertible into words. It can be transmitted between individuals, oral or written. Some examples of this genre would be:

- Database systems;
- Warehouse Data System;
- Expert System (Business Intelligence).

d. Knowledge of implicit (tacit knowledge) - is a state rather intuitive, unconscious knowledge, often obtained through physical experiences. "I see human knowledge in terms of the fact that we know more than we say. " The experience-based learning processes, implicit knowledge is developed through extensive accumulation over a period of time and linked to a particular context (eg task or activity). From this point of view, implicit knowledge deals with these characteristics.

e. Through interacting with the implicit knowledge explicit, the so-called spiral of knowledge creation takes part.

Stages:

1. First phase is socialization where implicit knowledge - implicit knowledge takes place.

Trough behavior or observation, individuals exchange knowledge. But that is not covered and transferred to explicit knowledge, and therefore can be used for the group.

2. This is about outsourcing, implicit-explicit interaction.

This is about the transfer (transformation) knowledge implicit knowledge explicit so it can be used for the group and transformed into an exploitable knowledge. The claim arises from dialogue and communication outsourcing.

3. Resulting combination of explicit-implicit interaction.

Here arises explicit knowledge, by concentrating, or combining existing knowledge processing.

4. The internalization (explicit-implicit) can be assimilated and passed on explicit knowledge group. Here, creativity is the main role.

"In a review of Nonaka / Takeuchi (1995) is notable that there are few data points for the explanation of practicable size. So to use the maximum size transparency, explaining that knowledge can not necessarily be motivating. For every explanation requires resources, efficiency is crucial issue in the decision. (Wiegand 1996, p. 169). Advantage explanation is, moreover, accompanied by a minimum of specialization of each member organization. (Weber / Schaefer 1999). The additional cost of existing latent knowledge explaining thus apply only to those parts of the knowledge base from which a contribution is expected from the company's strategic positioning."

To apply the knowledge spiral (Nonaka / Takeuchi), the following criteria must be taken into account:

- Trough vision and mission strategy, employees are required to generate knowledge. I take into account factors such as cost, efficiency and learning;

- Independence work serves as the strongest motivator, leading to the creation of new knowledge. Each individual is integrated almost throughout. Here it is a flexible type of communication of knowledge, from individuals to team up to design level, is the opposite of classic information flow. The project team actually plays the central role, in this place so-called platform collaboration, communication, exchange of information and knowledge;

- A third criterion refers to the fluctuations that can act as a vector for the generation of knowledge. Fluctuations can be generated artificially, but often arise naturally. Sometimes trough fluctuations the companies are forced to adapt to different demands or market conditions and this automatically leads to the generation of knowledge.

Knowledge creation results from the combination of tasks or duties intersection (implicit knowledge exchange). Under this

system, the diversity and variety of companies are born knowing. In this case, everyone in the organization has access to the necessary information and such combinations are formed, leading indirectly to refresh the stock of knowledge. Changes in organizational structure and conversion of staff (internal) allow employees to have access to new knowledge. An integrator is a field of forces Powerful Two or More Capable of combining elements into a new entity, based on Interdependence and Synergy.

A second more extensive system, particularly in Anglo-American literature, was developed by Sackmann (1992). It develops a typology of four distinct types of empirical knowledge in companies:

- "Dictionary knowledge, factual knowledge that answers the question "Why?" in a company. It represents the language acquired over time, cultural-specific, and defines a company.

- "Knowledge Directory" active knowledge that answers the question "how?" in a company. Is generally accepted as explanation for the cause-effect relationships and explains, for example, such problems that occur in organizations.

- "Recipe knowledge" and knowledge-prescription incorporate answers to the question "what must be done" to solve a particular problem. Contains regulatory measures and evaluation strategies for improvement.

- "Knowledge axiomatic" that knowledge principled answering the question "why?", being the basic acceptance of the current activities such as basic issues of strategic direction or future customer needs. "

Sackmann's basic idea - in 1992 - has been processed and înbunătătită by Krueger / Homp - 1997 - and of Bach / Homp - 1997. Sit authors three central categories of knowledge:

- "Know-how"
- "Know-what" and
- "Know-why"
- And recently, "Know-who"

in relation to each other and thus may appear different learning processes and synergies.

Know-how (operational knowledge) is used for both operational tasks to perform effectively and to ensure the ability to

compete. Original strategy to "Know-what-your piercing (strategic knowledge). It is characterized by a subjective perception and interpretation of reality. "Know-how" and "Know-what" Controlling knowledge are normative "know-why."

This kind of categorization shows centralized pluristratificate faces of cognitive object "knowledge" and explains that the concept of knowledge can be described in various ways in research and organizational practice observed. You still have to agree with Romhardt (1998) that this kind of collection of categories of knowledge is "at best, a first step towards a comprehensive understanding of knowledge in organizational contexts. Still open discussion about which categories may be subject to knowledge management and how the various categories of knowledge on each other.

Organizational intelligence, non-linear system, like individual intelligence, is not yet a unified approach.

Defining the boundaries of knowledge media

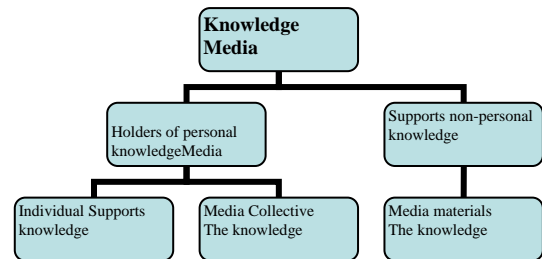
Within the support of knowledge are subsumed those physical environments in which knowledge can occur.

Knowledge is related to humans, however the information is stored in documents, databases or visual media. Rehaeuser / Kremar (1996, p. 16) go ahead with the delimitation of describing all the "objects, people or systems that are capable of storing knowledge" as knowledge support.

Due to multi-media knowledge, they should be divided into homogeneous groups. However, those works that have been processed, were reasonable and the contextual link can be described as knowledge stored documented (explicit).

The term "knowledge support" faced by individuals with a heterogeneous design knowledge about potential sources of organizational entities, business organization, network and all stakeholder.

Structuring the knowledge media



Source: Dr. Dr. Al-Laham, Andreas (2003). p. 35-36

Substrate materials have in common knowledge that largely meet the storage functions that at the same time are not capable of generating new knowledge.

Consequently, the quality of stored knowledge ultimately depends less support than on sources of knowledge.

Here is an excellent artificial intelligence in information and communication technologies in the sense that the combinations can be generated by new knowledge.

By separating the knowledge of personal media and data storage environments, different goals are pursued. Thus, knowledge is used for storage:

- Documentation of knowledge (ie, protocols)
- Preserving knowledge for subsequent steps of the process (eg data storage)
- Multiplicity of knowledge (eg publications),
- Opportunity to develop personal knowledge through other sources of knowledge (eg teaching materials, user guides)
- Knowledge protection of the rights (eg patents), and
- Guaranteed completion functions (eg knowledge of products).

4. Conclusions

One of the basic principles of a strategy refers to the introduction among the employees of the concept and behavior, according to which the exchange and application of knowledge is an effective approach, at both organizational and individual. This has implied a close link with the well-known slogans of strategy (strategic

concepts) by M. Porter: "doing the right things (efficiency) and"doing the right things (effectiveness).

The goal of stakeholders is to practice such a thought and at the same time to have common process knowledge. This requires an open and transparent atmosphere, while the exchange of ideas and knowledge are absolutely normal and not covered aroused any suspicion of physical or moral.

The importance and value of knowledge is enhanced on the basis of mutual exchange of ideas, which aims to create synergies. At the same time it is wanted to bring out tacit knowledge, which is much harder to identify than the classical one. Creative capacity of the human mind is immense, with a very ambitious importance and value.

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From Economic Growth to Sustainable Development in a Globalized World

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Abstract

Nowadays it is important that developing countries tap themselves fully to a new philosophy of development that is specific to the European Union and widely shared worldwide – namely the philosophy of transition from economic growth to sustainable development. Thus, concrete targets are now pursued, designed to enable transition within a reasonable and realistic time to the development model generating high added value, driven by interest for knowledge and innovation, oriented on continuous improvement of human life quality and of human relationships, in harmony with the natural environment.

Key words: Enhanced economic; economic growth; sustainable development; globalization of the world economy.

J.E.L. classification: F01; F43; F49; K00

1. Introduction

The issues of “economic growth” and “economic development” have been tackled by many macroeconomic studies and research in the past decades.

Potential economic growth materializes into a maximum growth rate of domestic production based on economic resources available at any given time and on the harnessing of available human and material resources.

Enhanced economic growth is a contemporary concept, which is specific to those developed economies planning to switch to ensuring in the dynamic the compatibility between direct economic efficiency criteria imposed by the market and the social – human and environmental efficiency criteria imposed by the constant need to create equal opportunities for existent

generations and for generations to come into being on the planet Earth.

The first concerns of the classics were clearly pointing to the economic growth issue. Thus, Lipsey and Crystal (2003) consider four important factors of economic growth: increase in labour force, as it occurs in times of population growth or of increase in participation rate; investment in human capital such as in formal education and on-the-job training; investment in physical capital such as factories, machinery, transport and communication facilities; technological changes caused by innovations introducing new products, new ways of manufacturing existing products and new forms of business organization and appropriate institutional environment.

Consequently, while economic growth may exist without sustainable development, sustainable development is impossible in the absence of economic growth.

The key element of sustainable development is the reconciliation between the development process and environment quality, the promotion of the integrated process of formulation and making decisions, both at global as well as at regional, national and local level. Sustainable development also depends on the fair distribution of the costs and the benefits of development amongst generations and nations. Sustainable development is based on the following key principles: concern for equity and fairness amongst countries and generations, long-term development vision, and systemic thinking – i.e. the intertwining between environment, economy and society.

Viewed at macro level, economic activities appear as an uninterrupted succession of growths, developments, stagnations and declines in processes and in their outcomes. The dynamics of macroeconomic flows has been approached and is currently analyzed using specific

concepts such as economic growth (positive, zero, negative) expansion and recession (depression); economic development and socio-economic underdevelopment; economic up and downturn; social reproduction (simple, enlarged, limited) etc.

The concept of sustainable development is based on the assertion that human civilization is a subsystem of the ecosphere, which depends on matter and energy flows within it, as well as on its stability and its self-adjustment ability. Public policies developed on this basis, such as the National Strategy for Sustainable Development, are aiming at restoring and maintaining a reasonable balance in the long run between economic development and the integrity of the natural environment, in ways that are understood and agreed by society.

The major objectives of sustainable development of any community focus on protecting the environment, eradicating poverty, improving life quality and developing and maintaining an effective and viable local economy.

Globalization overturns the old precepts of an economic, political and social nature, which have been governing the world for decades on end. Economic crises of the last decade of the XX-th century are the best proof that development systems should be redesigned and reoriented towards new trends.

The process of globalization of the world economy begun in mid 80s and has acquired new meanings and followers in the '90s and continues to manifest itself to our days, in spite of many regionalist and nationalist mentalities defying it.

The mystery of globalization can be unraveled through deeper knowledge of the phenomenon, its manifestation and its underlying causes.

Globalization has become the expression of a system that integrates itself to the utmost possible degree while remaining constantly open to integration, revealing its intentions in a more and more obvious way.

Exclusion from the system is exceptional and the entry into it is liberalized in as much as the system as a whole is designed to absorb extreme variations, including failures, even where the option belongs to one of its component parts.

In terms of human development, globalization covers not only trade, financial and capital markets, but also all that is fundamental to people and their life: technology, environment, culture etc.

As a strategy, globalization is the direct, verifiable and substantiated expression of rationality and judgment. Globalization is, in fact, an ideal world where truth meets freedom and justice amid a global generation of wealth and prosperity that is individually assumed, a world which is not necessarily the best world ever, but only one possible world that has been long masterminded by the human race.

Global ideas, global markets, global technology and global solidarity can enrich the lives of people from everywhere in the world, but they may just as well impoverish them at the same time. The key features of globalization are: contraction of space and time, disappearance of borders, and emergence of new markets, new rules, new players and new facilities. To promote globalization from a human perspective means to ensure that its benefits are distributed on a fair basis and that the growing interdependence amongst economies worldwide is working for the people and not for profit only.

Globalization has made communication easier for more and more regions of the world, connecting them to the economic and social reality of the Western countries.

The benefits of globalization are countless and are felt all around the globe and in all areas of activity, with major influences not only on the less developed or the developing countries, but also on the developed economies.

But, like any phenomenon, in addition to positive effects, globalization has brought a series of negative effects, too. Today, as a result of increased interdependence ties, it becomes more and more obvious that the world is gradually turning into one single societal system, affecting every one of us.

The foreseeable global system is not just an environment where private companies exist and evolve as distinct systems. It is a system that turns, through its social, economic and political ties, through its common institutionalized forms and through its communications systems that cross the borders between countries, into a totally new

system, which tends to substantially limit the action of subsequent systems, thereby determining in a decisive way the fate of the inhabitants of each such subsystem.

Moreover, we may anticipate the birth of a common consciousness with regard to globalization, the planet we inhabit and maybe, why not, to the planetary system as a whole and to the problems of the worlds that are about to find themselves. With the globalization phenomenon, we, humans, have discovered that the planet we live on is the one and only we have. Now all we can say is that we are all one big human family and that we must overcome all national, linguistic, cultural, racial and religious barriers amongst us. Globalization has, by its nature, a human dimension, as the world, seen as whole, as mankind, requires, in addition to involvement of the society, the involvement of each individual destiny and of the human species in its entirety. Globalization decreases the feeling of loneliness, isolation and exclusion.

Judged from this worldwide perspective, globalization transcends appearances; it looks at everything from a global scale perspective, starting from essence, substance, purpose, means and finality and seeking answers to the challenges we are faced with by the projection of our common future together.

Transition from bi- and trilateral treaties to regional and global treaties, laws and legal institutions, regional / global case law and doctrine, and from what is today a regional Fundamental Law to the "tomorrow's" global Constitution - is also a major challenge that is likely to change attitudes, mindsets and structures. Thus, we will gradually reach to new common global governance, which, within a given framework, will determine the internal (national) governance as result of increased application of the principle of subsidiarity in as many different fields as possible.

Globalization as a process implies a continuous movement as a source of progress and growth, coupled with dual identity of states and individuals (nationality). It requires an education that goes beyond the requirements of the specific national background, an education that takes into account the corresponding values socially validated regionally and globally, such as: cultural pluralism and interculturality,

freedom, equality, solidarity, democracy and the rule of law, alterality, free market etc.

Globalization is a process that expands the determinant framework of social change at the level of the world as a whole. It is an integrative process, touching many sides of knowledge; at the same time, globalization is syncretic, having a unitary character (unity in diversity). Thus, while social change has initially been approached within a local and national context, concern for globalization has increased the interest in explaining the relationships between territorial units and the world as a whole, with debates dealing with issues related to local – global rapport and to multilevel analyses.

Potentially, we are approaching the point where the world as a whole will find itself in each and every subsystem, while, at the same time, each subsystem, locality, region or nation-state will find itself reflected anywhere in the world as a whole. Each component deindividualizes itself, becoming more and more alike the whole, while the whole manifests itself more and more at the level of its components, with local conflicts turning into global social problems.

2. Conclusions

Globalization has opened the so called "book of the world", in which mankind can now write perhaps the most interesting episode of its entire life. Globalization appears to be, therefore, amongst the most important social changes the today's world is facing. Many of the today's fundamental issues, such protecting natural environment, avoiding military world conflagration or fighting terrorism are of global importance.

The study of globalization has a fundamental research nature because it implies a comprehensive and multidisciplinary investigation into human nature and society, in the attempt to resolve at global scale vital problems dealing with the conservation and sustainable development of our planet.

Even if the benefits of globalization have in many instances been small, the price paid was much higher, with social costs being, in some cases, huge, with natural environment heavily polluted and the pace of change much too quick to allow economies to adapt themselves to the new system of values.

But, fortunately, there are successes in the process, too, which entitle us to remain optimistic about the proper functioning of the globalization.

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Changes Management Accounting Faces in the Knowledge based Economy

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Abstract

Given the fact that during the last decade of the 20th century, thanks to Peter Drucker's works, a new concept (firstly in the USA and then on the entire world) has risen, the concept of knowledge-based economy or knowledge economy, a concept that is acknowledged as a new step in the information era, or the informational society, we considered analyzing its influence on the management accounting practices to be useful.

In the first part we will try to answer as much as possible to questions that have risen in time: what is knowledge-based economy? Is it the new economy's invention or was knowledge a key element right from the beginning of the industrial age? Which are its main characteristics? In the second part we will review the impact the new age of knowledge has on the management accounting.

Key words: knowledge, management accounting, convergence

J.E.L. classification: M41, M20

1. Introduction

The economic globalization, thanks to the speedy development of information and communication technologies, has managed to change existing socio-economic patterns.

The development of the knowledge-based economy and the worldwide spreading of the internet are two of the signs of the step made from the speculative economy to a new form, based on cooperation and democratic economy. Free software, open-source programs, electronic encyclopedias, blogs and other new media are just the first steps in revolutionizing the scientific, technological

and communication fields.

The economic theory and science acknowledge a particular kind of knowledge, through which characteristics of unprocessed reality are transferred into abstract models, based on rational constructivism, mostly theoretical and on the mathematical demonstration of the correlations that describe the models.

Accounting, as a fundamental and applicative science based on numerical management techniques, acknowledges a particular model of objective knowing of reality, able to be demonstrated by means of mathematical calculus, verifiable by maintaining the measuring and appreciation unit of the abstract models and by certificating facts comparing them to the scriptic dimension of the researched complexity.

In a time when knowledge-based economy and information economy put an end to all theories that relied on *homo oeconomicus*, we consider that the international accounting regulatory institutions (IASB and FASB) should revise their concepts and take into consideration that society needs real, pertinent reporting, which is mostly supplied by management accounting and not brought to the interested stakeholders.

As new products creators are becoming more careful to consumer needs, so do accountants need to follow the providing of information to comply to demand coming from different users. If contrary, reliance in methods used and even in accountants' professional skills may suffer.

2. About knowledge, knowing and the new economy

When it comes to information technology and communication, capital networks, knowledge-based society, different realities

are being referred to, often misused and wrongly mixed between each other. When it comes to knowing, training, competencies or knowledge, concepts that can be synonymous or different may be referred to.

The starting point is the fact that after a quarter - of - a - century - crisis of the taylorist - fordist - keynesian paradigm and a series of studies and analysis on the new forms of production and social organization, it is possible that, in the northern capitalist countries, a new paradigm of capitalist production, that we shall name "cognitive capitalism", has emerged.

Wealth production is no longer based exclusively on physical production, but on non-physical evidence, non-tangible "commodities", which are hard to measure and count, that come right from the use of power and emotional relations and of the human mind. It no longer relies on a standardized and uniform model of work organization, no matter the product type. Production takes place in different organizational models, marked by a network structure and the development of linguistic communication and transportation technologies. Therefore, one of the classic forms of unilateral hierarchical production organization is replaced by hierarchical structures stretched upon the subcontracting, production chains.

Work performance will change both in terms of quality as of quantity. In what concerns the work conditions (the quantity aspect), there will be a raise in working time, combinations of tasks will be possible, and working time and lifetime will go separate, making it possible for work relations to be individualized. As a consequence, work will attract more non tangible elements.

Today knowledge is a key production factor, especially in areas where technological, financial and organization functions of the production are available. We live in a world where remote control through technology and language allow for rich countries to survey the production process thousands of kilometers away, allowing the same control level, inherent in a capitalist organization.

In the knowledge era a new international labor division is being developed by means of spatial knowledge and communication division. This will be the new international

division of the accumulation processes that stand for the dynamics of space at a global level.

The question that rises is: can knowledge (on the one side, the process of knowledge transmission, meaning education, and, on the other side, the process of knowledge - creation, or the starting of scientific research) be considered to be a commodity, like any other production factor?

We currently are aware that, from the neo-liberal capitalists' view, it all becomes a product than can be associated to a positive valor (price). The more common a commodity is, the smaller its price will be. This explains the diversity in prices and income. The trade economy is in fact, for all products, a change in property, and the change in knowledge is in fact a change in emotions and life experiences. But knowledge is not necessarily fully separated from the human being. While work capacity is somehow separable and can be shared (especially at the work place), cognitive and activity knowledge are a part of the human being. Is it possible for the exchange to involve the transfer of property rights? Evidently, no, because each transmission (exchange) of knowledge led to the efficient diffuse of them to a larger area of people. In other words, information and knowledge exchange does not mean the alienation of the assets sold by the seller, like all merchandise and services, for a certain price. Knowledge is not limited, it can never be bounded merchandise, and it generates cumulative knowledge and it become more abundant as time goes by. Strangely, the more we consume more information and knowledge, instead of diminishing themselves, they tend to disperse themselves and become more abundant. From this point of view, according to the classical liberal theory, the price for knowledge should be equal to zero. This doesn't mean that in a purely capitalist view property rights on knowledge should not exist.

Therefore we can agree that the essentials of knowledge are:

- its capitalization is commonly based on dues and not on the selling / buying;
- knowledge does not consume, but on the contrary, the more people access it, the bigger its positive effects (the

- so called "network effect");
- knowledge creation is favored by the strict defense of the rights to access it, and the contrary phenomenon of "piracy" of this access has a negative and non-simulative effect.

As a conclusion, knowledge cannot be a commodity, in the capitalist meaning, and therefore, there is no private market, where property rights can be exerted, except when they are considered on-the-spot interventions (patent, copyright, exclusive rights etc.). As a consequence, knowledge is a common commodity, in the sense that it is the collective result of interaction of the human and social development.

Knowledge based economy may seem to be an "invention" or a late "discovery in the last period, a myth built around information (knowledge coded to be processed by a machine). On the contrary, it's much more, it is a natural, inevitable change. Once the limits for information established, the process of evolution from information to knowledge doesn't seem as simple as first seen. From the moment in which knowledge based economy confronted a more and more complex environment in which there had to be continuously developed new knowledge in order to ensure real predictions, it has been proven that not only the coded, useful only to computers and machines information was sufficient, but also human intervention and typical learning, too.

Defining knowledge based economy is a difficult task, taking into consideration the great variety of implementation made to the concept and the specifics of the countries that have envisaged significant progress. The academic literature offers two defining directions:

- from the euro-american point of view, which emphasizes explicit knowing, by means of words or numbers, scientific formulas, manuals, universal principles;
- from the Asian point of view that emphasizes tacit knowing, based on impressions, intuitions, inspiration, flair, values, faith, ideals, emotions, perceptions and ways of thinking.

Mihai Drăgănescu, chairman of the information technology section, at Romanian Academy, defines a series of vectors assigned to the knowledge based economy,

spreading them into technological and functional vectors. Among the technological vectors: the internet, the e-book, artificial intelligence, nanoelectronics, and among the functional ones: knowledge management, e-business.

3. The effects of knowledge-based economy on management accounting

In this knowledge-based economy, there will be complex mutations. Electronic communications will be used as platforms for political, social and cultural activities. The internet will become a proper environment for one to express its ideas on the world, life and society. E-commerce is supposed to become a pillar of the new economy.

Also, because of a shorter decision-making timeframe, an increasing number of companies will call for intelligent systems to assist management in taking important decisions by more often using a form or another of decision-assisting software.

Under these circumstances, we can wonder: is management accounting an expression of globalization or localism?

Sheridan thinks that management accounting's practices in European countries converge towards a common model, which is the American one. In his book, Bhimani suggests that the "americanization" of the accounting techniques began when some of the european countries started emphasizing on costs for planning and decision making in the 1960s and continued with the "new" administration accounting promoted by Cooper and Kaplan at the beginning of the 80s. Also on the ground of the "americanization" stood the attending of European university teachers and managers to US university courses starting from the 1960s.

As a consequence a demand is to come: do the European management accounting practices become part of the globalization process (Sheridan, 1995)? We are willing to believe that in a context where different societies from different parts of the world are confronting similar threats and opportunities, such as consumer typology, technological incertitude, accounting regulations, competition), differences in what concern organizational design, processes and

practices, including administration accounting will shorten. Globalization will also be encouraged by companies worldwide, which rely on a growing basis on the same consultancy firms and hire university graduates that studied similar management accounting techniques.

At an international level, in the academic environment, there is large consensus on the fact that management accounting systems show a global tendency towards convergence. The factors that lie beneath this convergence process are: transnational regulation, integrated markets, education and information technologies.

Starting from 2005, with the adaptation of the International Financial Reporting Standards (IFRS), due to extended requirements for annual reporting, management accounting has to provide a large amount of information, despite the fact that financial reporting is mainly done by the financial accounting. Therefore, cost evaluation procedures had to be adapted to comply with IFRS requirements, and in order to allow for a time comparison of the results, annual reporting of 2002-2005 had to be done again using the new methodology.

Following the adoption of IFRS, there were voices who said that, although these standards are an important step in the process of sustaining transparency and comparability of the companies from the investors' point of view, they failed in finding a common point between local standards and the local development of management accounting techniques. Furthermore, with the global increase in the demand for audited financial statements, managers and auditors felt the need for an internal accounting and a standardized control to support IFRS.

The influence of integrated markets on the convergence of management accounting can be separated into intrinsic and extrinsic factors. This way, global harmonization of management accounting following common practices of branches from different practices constitutes an intrinsic factor, whereas among extrinsic factors we can find the growing competition which comes with measures being taken to improve efficiency, but also changes in the capital markets. In Europe the accent was on the company's interest but, with the coming of American and British investors on the European markets,

shareholder value management began gaining interest.

Researchers in the academic field are the third convergence factor. Pistoni and Zoni (2000) found that, through alumni exchange, and by large-scale use of American study books, management accounting education tends to converge to a common model. Therefore, at an international level, courses tend to cover similar topics.

The larger distribution of similar information technologies can be another convergence factor. IT is today a critical resource for every company competing in the global economy of a digital era. Depending on the industry, market and objectives IT can allow access for a large scale of competitive strategies. Furthermore, it has become an essential infrastructure for every company, the backbone for the flow of corporate information and a business driver (Huang C.D., Hu Q. 2007).

On the background of the progresses in information processing technologies, we are currently undergoing a functional integration between financial and management accounting in the sense that a single entry goes into a global data base, which will provide the base for elaborating both financial statements for the financial accounting, but also for the cost analysis common to the management accounting.

Increasing competition in all areas of activity, as a direct effect of globalization, has resulted in an international competition for the best model for the application of corporate governance principles. Each country developed its own management system depending on the economic, political and cultural heritage, and this hampers the work of the big corporation.

Structural differences between American and European systems are essentially related to the influence exerted by the way of which external financing of corporations is done. Therefore, the U.S. has a strong shareholder oriented legislation so that everyone can have an influence on the company as long as you buy its shares. Even more, because speculative funds invest a great deal of money in the stock and bond markets, even those who do not own private shares have a direct interest in the health status of the corporation. In this model of governance, capital market oriented, implemented in

countries like Great Britain and the U.S., individuals invest their savings by purchasing shares. The corporate financing is predominantly in the capital market.

Instead, the situation in Europe is slightly different. European companies increase their capital through retained earnings or banking systems. The legislation protects investors rise and fall of stock markets and bonds, but also eliminates, most aspects of the corporate world. In European model, the external financing of corporations is through banking institutions. Banks play an important role in financial markets and sell a product line significantly more varied than traditional credit institutions.

Unlike financial institutions operating in the U.S. and UK, those working in Europe have access to information enabling them to monitor and, if necessary, to discipline companies management. In addition to the fact that credit institutions have direct influence on the companies they finance, these management systems are characterized by the following:

- making frequent checks and audits within corporations that fund them (Insider System);
- banks supervise the companies through shares they hold, their aim being the recovery of borrowed funds and not profit maximization, which gives to tension between the majority and minority shareholders;
- employees are actively involved in the audit.

In these conditions management accounting may lose because of the influence of interest groups (eg shareholders) that are privileged and may obtain informal and private informations.

4. Conclusions

Although prof. Nicolae Feleaga mentioned in his book that *management accounting cannot, in any way, be a one-scenario model and furthermore, it cannot be normative*, we consider that the new economic environment in which management accountants work will influence their practice. Even though there will be different decision support models and techniques depending on each country's economic characteristics, the global tendency is to level the accounting practices, hereby

including management accounting, too.

The changes in the business environment and the technologies used by the companies in their daily activity could produce essential changes at the level of management accountancy. Thus, these changes lead to new decisions and to new problems related to management accounting practices.

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Marketing Strategies in Tourism

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Abstract

The determining element in developing the Romanian tourism is represented by the definition of a realistic conception concerning the capitalization of the touristic potential and the objectives of its development, taking into account the international tendencies, mostly the European ones, regarding the travelling options and the ways of spending holidays requested by the foreign tourists as well as the local ones. In Romania, tourism is also considered an export industry, generating exchanges and creating jobs. The tourism industry is quite different from other export industries through the fact that the potential of a client comes to Romania for the product, and the product is not sent back into the client's country, like it happens in other industries. The evaluation of the touristic industry in Romania indicates the fact that tourism is one of our export industries, effectively competing to other countries. There are, anyway, some problems regarding the standards of the product and of the services, the marketing and the publicity, the culture, the environment, the organization and the legislation, that should be overcome in order to realize the potential.

Key words: agency, tourism, marketing

J.E.L. classification: M31

The notion of touristic product is generically defined as being a mixture of goods and services necessary to stimulate the specific consuming touristic activities.

S.C ITALICA S.R.L CONSTANTZA is a touristic agency with Tourism License, category A and Tourism certificate in 2003. The strong point of the agency is constituted by the relations that the manager and the owner of the business at the same time has with different touristic agencies from the country and from West Europe. The business

itself was conceived as a plan resulting from the analysis of several possible variants.

The activity scheme:

- an operating turn in the internal and external tourism
- commercializing programs and adequate touristic activities towards the tourists
- booking and commercializing accommodation services, transport, touristic assistance (guides, interpreters)

The starting point in elaborating this plan was represented by the establishing of the activity objectives:

- products/new touristic services, superior in comparison with the ones offered by the competition
- ensuring the necessary funds to initiate and develop the business
- an intense activity to prospect the internal and external market
- promoting the brand widely on the market
- the permanence of the customers
- ensuring an adequate balance between quality of the services/the right price
- close relations between the internal and external touristic agents
- the improvement of the distributional and informational channels
- associating to an occidental partner from tourism, someone with market potential particularly with the products designed for the balneary tourism, association that contributes to the development of the economic competition of the products and the services offered by the agency, as well as to the distribution of the products/touristic services

One can state that the touristic product is absolutely perishable, determining the impossibility of storing it, it is hard to present it to the customer, being immaterial, hard to mark it and impossible to take it to

the customer, harsh to any quantifying and qualifying modifications of the demand, on a unstable market, quite difficult to model.

The touristic specific terminology uses two English terms, incoming (the organization and offer of touristic services to foreign citizens who choose Romania as their touristic destination) and outgoing (the reorganization and the offer of touristic services to the Romanian citizens travelling abroad).

The touristic products offered to the customers can be initiated either by the touristic agency or they can represent products of the great touristic agents that they have put in sale, with a commission, for the collaborating touristic agencies. These touristic products are meant to the organized touristic groups as well as to the individual tourists.

Achieving these objectives is closely related to the capitalization of the opportunities identified on the market. The first analyzed aspect refers to the age groups that the offer addresses to and to their financial possibilities.

➤ For the offers destined to the balneary tourism launched on the intern market, but mostly on the external one, the age group aimed to is that with medium and high wages, over 50, but also those who suffered some serious injuries and need balneary treatment.

➤ The agro-touristic offers, mostly during Christmas and Easter time addressed to the families living in the urban areas, but also for the Romanians from abroad

➤ The relaxing tourism for the great companies staff: promotes this kind of tourism within the organizations ruled by managers who know that resting leads to the rising of the efficiency of their staff

➤ Holidays are destined to all age groups, but fit into the average wages category

➤ Cruises are destined to that population group that has more spare time (over 50 years old) and whose income is quite high

➤ Ticketing is for the physical or legal persons that go travelling quite often and prefer a certain airline, but also for the Romanian and foreign staff of the great companies

➤ On-line booking

➤ Express services are auxiliary activities for the ticketing operations

➤ Touristic transport (charters, coaches)

All the products and the touristic services proposed by the agency have as basis an analysis of the market, the analysis also

representing the helping element to accomplish the proposed objectives. The analysis of the market realized researches regarding the customers, the competition and the opening market.

As far as those requiring touristic arrangements, the segmentation of the touristic market within the Dobrodja area determined that some possible clients might be physical or legal persons. Through analysing the market, it has been approved that the group regarding the ticketing operations is not sufficiently exploited by the competition, and the touristic agencies that concluded contracts with similar agencies out of the country go just for the classical touristic offers.

The research of the market proved that most of the touristic agencies from the seashore area rely on the classical balneary touristic offers (respectively Mangalia, Techirghiol, Baile Herculane, Baile Felix) without exploring other areas from Romania, offering good or even superior accommodation conditions (Bazna, Corund). According to the analysis, the touristic market registered a slower evolution, but certain for the balneary treatment offers and an ascending evolution towards the external touristic destinations (Egypt, Greece).

Another important group is represented by the requests for the rural tourism, the agency taking into consideration the internal market (the urban population) as well as the external market (the Romanians from abroad). The manager of the company also relies on the contracts with some Dobrodjean agencies that will offer to their employees, in certain conditions, an alternative to the everyday monotony, respectively a way of getting some rest. The agency will introduce among its offers some classical destinations, having as major objective attracting more and more customers, proving that it can represent a danger for the big touristic agencies.

The marketing policy stipulates, in the beginning, the adoption of a strategy focused upon a market group for every product, group that will be at its service and will know very well its needs.

Moreover, the manager of the agency will release as marketing policy and promotion the participation at the Touristic

Fairs organized by the Tourism Ministry, C.C.I.N.A. Constantza, A.N.A.T., A.N.T.R.E.C, the fairs having as goal knowing the tourism services operators and concluding advantageous contracts for both parts, as well as promoting touristic offers for the potential customers.

The business plan included a products and services developing plan, referring to the high prices practiced by the company in comparison with other touristic agencies' similar offers but, to their own research and development actions, for the next period of time. But for launching a product on the market, there should be taken into account several elements: the moment of the launching on the market, the target market, the place and the way its commercialization will be started. For touristic products, commercialization represents a complex problem due to the characteristics of the offered services, but its complexity is emphasized by the staff that facilitates selling the product and will have a deep mark on it.

The marketing plan starts from reducing the difference between production and consumerism, being an answer to the necessity of orienting the touristic products according to the actual needs and to the perspective of the market.

The marketing research will offer the necessary information for fundamenting the decisions of the managerial staff in formulating the programs, the plans and the market strategies, as well as the strategy of the entire agency and will include:

- the product policy
- the price policy
- the distribution policy
- the commercializing and promoting program of the products/touristic services

The correlation of the four variables (product, price, distribution, promotion) emphasizes the way for a practical realization of the market strategy. The feature of the mix marketing is given by the touristic market on which the agency is about to enlist.

The product policy: is the most important element of the marketing mix, the touristic products/services representing the main communication ways between agency and market. The agency searched particularly the market groups to which the services and the touristic products address to, as something new, but they did not neglect the touristic products from the offer list belonging to the

competition, here interfering the agency price policy that must lead to getting a high peak on the market and the loyalty of the customers. In order to thank the customers and to participate to the reaching of the established objectives, the agency must permanently develop new touristic products/services, to improve the existent ones and to eliminate the ones that would not satisfy the customers' needs or would not bring acceptable profits.

As far as the price policy is concerned, it will be followed the correlation between demand and offer on the local touristic market. The establishing of the price belonging to a product /touristic service is the result of the actions of a multitude of factors. The most important factor influencing the price is represented by the complex and heterogeneous nature of the offered touristic product, but also the quality of the touristic services depending upon the staff professionalism.

Taking into account the fact that every tourist learnt to compare the price with the touristic price and if this seems unfavourable as long as the quantity or the quality is concerned from a certain country or a certain resort, he will avoid requesting the destination offered for spending holidays. As far as the buying decision belonging to the tourist, the variable price can have a moderate, inexistent and loose influence. This means that, several times, the touristic consumerism is also determined by emotional, psychological factors.

The analysis determined that the seasonal touristic consumerism allows a strong rise of the prices according to the moment of consumerism (sometimes the difference can reach 20-25%). The establishing of the prices of the touristic products/services imposes taking into account not only the elements of costs, but other factors like demand, competition, but mostly the consumer economic potential. The raising of the tourist income represents his economic potential. Under this respect, we can distinguish a market of the luxury tourist, rather loose, made up from customers getting high income, hard to satisfy, asking for sophisticated touristic products at fluctuating levels; a market of the average tourist which gathers tourists

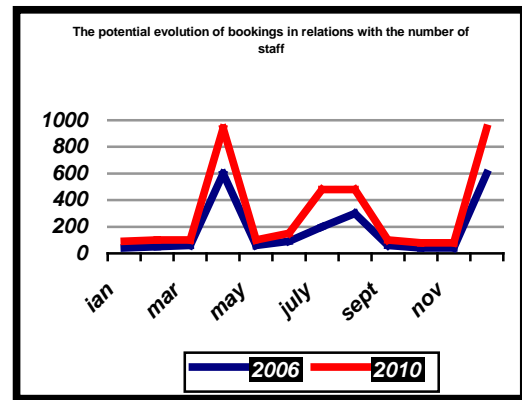
with average income, being customers quite easy to satisfy and the market of the mass tourist constituted from clients with average or even modest income products less elaborate and at low prices.

Creating a general image upon this business relying on the global diagnosis show that the strong points are concentrated upon the new services that can be offered, by unusual touristic services, sustained by the respective group that has never been exploited by the competition and the weak point refers to the low peak market for some products, but the possibilities of co-partnership and recruiting young people even from their freshman years represent opportunities that can lead to a rise of the peak market belonging to the agency activity. The weak financial motivation of the employees, the price risk (the existence of superior or inferior limit of the price in the opinion of every tourist), the flexibility of the competitors to adapt to the conditions of the market, but also their organizational process all representing possible risks for the agency.

The study of the market

The identification of the accessible market supposed the answer to some basic questions: What is the target market? What are the market dimensions? What is the activity of the competition? For instance, the ticketing operation relies on the cashings coming mainly from plan tickets booking for the foreign staff of the Nuclear Power plant from Cernavoda (fig. no.1). This operation supposes the collaboration with the airlines flying mainly towards Canada, Italy and India, taking into account the customers' preference, oriented towards certain airlines that flew with, but also the loyalty towards a certain airline (this loyalty supposes to have certain advantages). This market group hasn't been exploited by any other touristic agency; in conclusion, the competition does not exist upon the target market in question, beneficiary of this service.

Fig.no 1 The statistics of the staff department CNE Invest Cernavoda

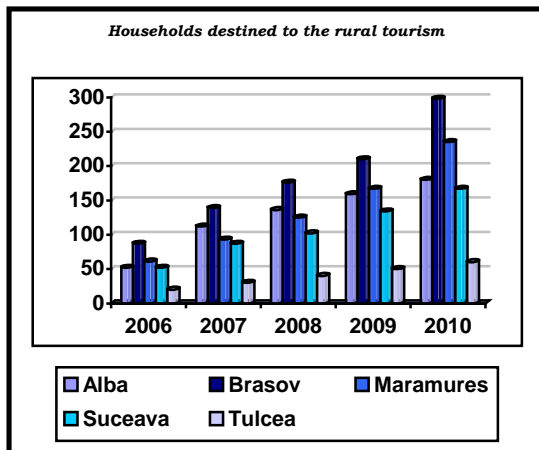


For the balneary touristic services, the target market will be oriented towards the foreign tourists (the age group over 50), but will have an oriented limited group towards the intended tourists, too (the collaboration with the Tourism Ministry for selling social services for pensioners and students). The touristic offers for the external market existed permanently, but according to the statistics there have been fluctuations as far as the foreign tourists arrivals are concerned (no matter the used means of transport). This fact is due mainly to the treatment devices growing old, but also to the weak collaboration of the touristic agencies with the investors creating new treatment clinics, with extremely modern devices. In this respect, the touristic offer on the external market (Germany, Holland, Sweden) of the agency will include traditional destinations (Mangalia, Techirghiol) but also new destinations (Bazna, Corud). The internal market will also benefit of a series of attractive offers, offering certain facilities to the loyal clients (an extra day of treatment, feasts) but also some treatment tickets given through social insurance. The competition is sufficiently high for the traditional destinations, but it is inexistent for the new destinations. That's why the agency will be oriented towards the promotion abroad of these new offers. Another studied market group is the rural tourism, its offers being addressed to several categories of clients, mainly to the families from the urban area. We have noted that it is a form of tourism that can be taken into account on the internal market as well as on the external one (the Romanians

living abroad). The internal market is firstly oriented upon the customers from the great cities of the country, in our case Constantza. The citizens of Constantza want holidays in the mountains, in the rural areas as the seashore tourism is at their ease. In order to promote this kind of tourism, it is necessary a close collaboration with ANTREC (the National Association of the Cultural, Ecological and Rural Tourism). The association will offer the necessary commercial materials in order to attract customers, and the agency will conclude the offers. The areas preferred by the tourists are Alba, Brasov, Maramures, Sibiu, Suceava and Tulcea (fig. no.2).

The surveys realized by different institutes ordered by ANTREC proved that Christmas and Easter feasts represent peaks in the rural tourism, this being due to the inherited traditions across times and which were kept intact in some areas, the traditions being extremely convincing on the external market. The competition exists and it is strong enough for this kind of tourism, but the development of the rural tourism will create new locations, the most important being the way of promoting them in order to attract new customers. Moreover, an extreme importance must be given to eth accommodation conditions from these rural areas.

Fig. no. 2 The rural tourism
Source: The Statistics of ANTREC

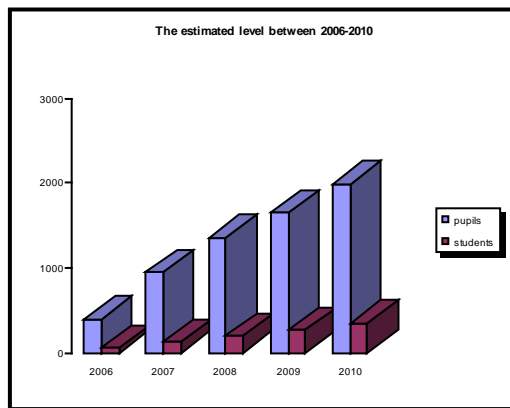


Another touristic offer that the agency proposed to take into account concerns the relaxation tourism for the great companies' employees. This form of tourism can be applied only in the companies where the unions have an influence in taking decisions by the company management and of course, in companies where the manager thinks about his employees' future performances, offering them some adequate sources of relaxation that will have as a result more careful implications in the objectives of the company.

There were several groups taken into account, represented by the staff of the agency Oil Terminal Constantza, the staff from Carniprod Tulcea and the staff Lafarge Romcim Medgidia (a total of 8000 employees), agencies that established contacts, this type of tourism being offered even to other agencies belonging to other districts from the country. Initiating this type of tourism relied on the fact that there are certain discounts concerning the tourism assistants (hotels, restaurants, pensions) and the personnel will benefit from the conditions established in accordance with the touristic agency. In the Dobrodjean area, there is not competition for this type of tourism. In 2004, the manager of the agency negotiated with the respective agencies as 10% of the personnel to benefit from this program, the estimations for the next four years being step by step to be attracted up to 85% of the staff.

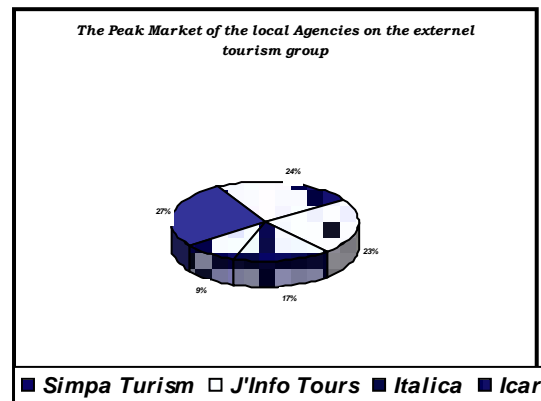
The thematic trips represent another type of tourism that the manger of the agency proposed to exploit, taking into account the fact that the touristic potential of the Danube delta is sufficiently attractive for any touristic market, internal or external. As far as the internal market is concerned, it had been aimed towards the general schools, high-schools but also faculties with a certain specialization, educational institutions that can require the organization of some special programs in order to exemplify courses (fig. no.3).

Fig. no 3 The Internal Market



The competition on this group is relatively reduced. In the case of amplifying it, there will be taken some measures to differentiate the offer. The agency is concerned with other products services where the competition won the trust of those customers interested in quality touristic services. In this respect, the manager of the agency must watch the predicted peak market. The balneary, summer, mountain offers as well as the external ones are on the list of touristic products of all the tourism agencies, the competition being defeated by a strategic price policy, this being also determined by the seasonal nature of the touristic expenditure. The analysis of the market took into account the demands on the external tourism, referring to the destinations chosen by the tourists from the area. The main destination for this tourism is considered to be Turkey and it will have to suffer in the next period due to the political instability as well as to the introduction of the visas in 2004, relying on the agreement between the governments of the two countries. In exchange, Greece and Egypt will remain Key-destinations for the Romanian tourists, Egypt being preferred during the Christmas feasts being known that during this time of the year, tourists prefer countries with an opposed climate than they have in their native countries. Nevertheless, Spain recorded noticeable reduction of the tourists' arrivals after the tragic events from 2004, March 11, and today, the measures to enter this country are more and more restrictive.

Fig. no. 4 the Peak Market of the Local Agencies



Taking into account the reduced number of tourists in the external area, it results a very high developing potential, and offering some touristic services for several income and preference categories can determine on short term attracting a great number of tourists in the external tourism.

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Stages of Organizational Change

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Abstract

Knowing the change process in order domination, if possible, it represents a characteristic of an efficient management organization that can ensure competitiveness. An organization is even more efficient, more competitive, as has the ability to continuously develop on multiple levels. This explains the fact that literature is increasingly approaching the concept of organizational development.

Organizational Change is a process that, regardless of the applied field, will require scrolling, in general, the same steps to move the situation in which the organization finds a desired future situation.

Key words: management, change, organisation

J.E.L. classification: M10

The general implementation model of change, all works for the conception, design and implementation of changes can be grouped into the following stages:

- Triggering change;
- Motivating change;
- Creating a vision;
- Finding a supportive policy;
- Change management;
- Support the change.

1. Triggering Change

Triggering the process of change occurs when there are signs that the owners or managers of organizations to improve the overall activity, or occurrence of problems that could affect the development organization. These problems may be less obvious, such as those relating to product quality or less obvious, such as those relating to the reduction of innovative spirit.

Step triggering conditions change trains carrying other stages of change and development, highlighting the main concerns of future specialists in change.

If you choose to change the use of specialists inside and outside the organization, the work included in this stage are more complex, because the need to collect preliminary information to assist in defining problems.

Identify the parties involved in the process of change.

In the process of change, are generally involved two parts, one that supports change and one that conceives, designs and implements change. A party may change throughout the organization supports a collective work or a department within the organization, part to be identified with very high accuracy, because it must be involved in the process and one that will not be affected by the change. The other side is represented by those who conceive, design and implement change and may be represented, as mentioned before, the specialists in the organization, from outside or by a joint team composed of experts from inside and outside.

The parties must determine what conditions is cooperation possible, and if so, are necessary: identify organizational problems, setting the party representative of the organization to solve problems and choosing the most appropriate specialists in change.

Identifying problems referral organization refers to deviations from organizational goals, which would have negative consequences on the effectiveness of exhibition activities and the use of production factors.

This stage is of great importance because the accuracy depends on the development stages to identify problems ahead. This process of identifying problems is very difficult because some problems are harder to spot due to insufficient performance

management methods practiced in the organization.

Once identified the problems facing the organization, change and organizational development specialists will come to collect preliminary information on its achievements. This preliminary information will be made in a very short time, through interviews with representative compounds of the organization. The data collected are necessary to correctly determine the two parties in the process of change.

Establishing representative part of the organization to solve problems they encounter. The representative part consists of those members who are directly involved in the process of change and who will be consequential effects of change. Identifying those people most representative organization involved in the process of change is different in terms of complexity, depending on the nature and scope of the problems identified.

The choice of suitable specialists for the change process is another activity to be performed for the change. Selection specialists in change must be made by certain criteria and assessments such as the consultant's ability to establish interpersonal relationships, the power of concentration and consolidation of issues, ability to inform the client of the problems involved, membership in a professional specialist . In selecting specialists and change are important information obtained from other clients who have benefited from their respective specialists.

In conclusion specialist in change management and organizational development must not only be a person with specific knowledge, methods and techniques that have the appropriate change, but to also take a certain personality and ability to create and use interpersonal relationships. In terms of specialization, it must address a neutral position, to use scientific knowledge in several fields, to handle the various scientific theories.

The shrinking process of change.

Once problems are identified and established the necessary organizational change parties involved in this process, it is necessary to reach an understanding between them, understanding that most often manifests in a formal contract stipulating the terms and conditions of work. The

contracting process includes the necessary elements of the change process, and includes the following objectives: to expect each Contracting Party to change the time and resources to this process and general rules to be observed between the two sides.

Needs part refers to how each party participating in the process of formulating their expectations change. In other words the organization by those they represent, require services from specialists in change, and they can follow to obtain some gains.

Time and material resources, financial and human resources necessary for carrying out the process of change is dimensioned depending on the complexity of change, the scope, the difficulty of implementing change within the organization and the degree of training and awareness of the experts used in the organizational change and development.

The general rules that must be respected by the parties in the change process, including various specifications to confidentiality works, the relationships of authority between those involved in the process of change, the imposition of measures of improvement.

2. Reasons for change

Any change, no matter what level takes place within a certain organization, requires a shift from a certain known state to another state that involves some unknown resistance both from individuals, as taken from the organization as a amsamblu people. Management task in this case (see fig.3.1) lies in motivating staff to change, which requires preparation for change and overcoming resistance to change especially.

Preparing change must have as its starting point the fact that success depends on a change that people feel the need for change. It is possible that at some point people do not want change because it involves changing behavior and not always easily accepted. Preparation that causes discomfort that "thawing" and move towards a different state that is desired is made with some difficulty because people accept the change more difficult level of organization is organizational development. Generally people have to suffer enough before to change the behavior. This is accomplished by creating an entity-level dissatisfaction where

it wants to change, using several methods such as:

a. The organization's sensitivity to pressure for change is driven by some endogenous or exogenous causes, such as increasing competition and rapid changes in technology. Organisations must be sensitive to such factors to prevent losses and forced to adapt the organization to these pressures. You can avoid this practice if the organization will increase relationships with other companies in the country and abroad, through visits to companies that use performance standards to be achieved.

b. Highlighting the difference between actual and desired state, which shows the need for change. Desired state towards which it wants to strive, may contain the organization's objectives, standards covered, as well as an overview on the characteristics of the state you wish to arrive by the proposed changes and supported the organization's management.

c. Dissemination of positive expectations on change has an effect on staff motivation in its attempt to engage in change, the transformation of service. We know that if staff is confident of success, he will engage with all their energy to promoting change even if it is necessary to change behavior.

Overcoming resistance to change is justified because the staff may be anxious for the transition from something known to something unknown. Individuals are not confident that their work can be appreciated in the future as it was appreciated until the triggering change. In this case staff need to be useful to think of their work in new conditions imposed by the change.

There are several methods of overcoming resistance to change, namely:

a. Understanding and supporting those who resist change, for various reasons which sometimes remain unsolved, can bring a plus in reducing resistance to change. To be convinced that this type of person to look upon things from a different perspective, that would allow him to understand more about the reality of change mechanisms. If people feel that those who propose change are closer to their emotions and feelings, they will begin to cooperate and thus will be less resistant to change and thus creates the conditions triggering the change.

b. Communication is another way that can overcome resistance to change, because when people resist change are uncertain. In the absence of adequate communication, there are all sorts of rumors does nothing more than to increase distrust of the consequences of change. However we will avoid the communication and thus reduce the consequences of mistrust in change.

c. participation and direct involvement of members of the organization not only at the implementation level, but also change the design, aims to substantially reduce their resistance to change. Determination of staff to have confidence in her, in its capacity to generate "new" is one of the basic arguments in reducing resistance to change.

3. Creating a vision

Vision describes the future state towards which wants to go change, and contribute to staff in the firm belief that change is based on some acceptable reasons, to be made, that change is necessary and worth the effort that the organization understands him do. When vision emphasizes that changes can not be implemented within the organization, it can lead to lower morale of organization members.

Specialists believe that a step change in any process of change management is to create a vision, encouraging managers to develop its employees' participation, that obviously will lead to support for change, creating a favorable mood. This process involves creating a description of desired future vision and to strengthen the belief and confidence to go in that direction.

Desired future description may include the following elements that can be given to members of the organization, partially or totally:

a. mission, which can be defined before describing the desired state that tends to express the rationale of the organization, including remarks about customers, technologies, markets, etc..

b. the expected results, performance description is that the organization wants to achieve on change, on product innovation, efficient manufacturing processes, increasing staff satisfaction, job security, etc..

c. Expected features are features that ensure the desired results and help define the desired condition for that organization.

Activation of the obligation to help change the description of the desired future state, and among employees is to create an emotional motivation for change. It is sometimes necessary to create different slogans that represent the essence of organizational change and engage staff in implementing a change as it was designed.

4. Finding a supportive policy

Organizations subject to change, it is generally characterized by a diversity of preferences and interests of individuals and / or groups that compose them. If workers follow good condition and very good work, be well paid, employers pursue diversification of the activities and efficient use of resources available to the organization at a time. Marketing department is interested in designing and developing new products while departments are interested in making effective production of the same products.

Under these conditions, both individuals and groups are concerned about the extent to which power is affected, the projected change in the sense that some people will decrease while others will gain strength. Those who gain power will be drivers of change while others will want the status quo. In this case we deal with a state of conflict of interest, which should be solved by those who lead change in the organization, by adopting a policy of supporting the change process.

Establishing a supportive policy is based on the following activities:

a. assessment of promoter strength change, which may be a manager in the organization or a specialist in change management. This assessment allows the promoter to change and set policy on the use of own power to influence others in the process. They are specialists (Greiner and Schein) indicating three sources of power of staff within the organization: knowledge, personality and support of others.

Level and quality of knowledge include specialty training and experience that a person has in that area. Personality as a power source comes from individual charisma, reputation and credibility. A

charismatic leader can inspire confidence and enthusiasm of subordinates. Support others who contribute to increase strength, promote change, facilitating access to certain information, using their relationship in favor of change.

b. identify individuals and groups with an interest in supporting change, such as trade unions, managers at different levels. Simply answer the question: "Who stands to gain and / or lost after the implementation of change?".

c. influence of interest groups, through which the proper motivation of a community as large as possible to achieve change. This can be used ways of influencing another, capitalizing on the benefits, using the system of relationships and overcome barriers to formal organizational system. Recovery of benefits that brings change is based on identifying specific needs of interest groups and informing them on their possibilities of meeting the change. Interest groups may be influenced by identifying and alliances, the Coalition and its use to impose change. Another method that can be used to influence interest groups to be positive change, is to overcome the barriers imposed by a formal organization, specify organization where it wants to implement change.

5. Change Management

Implementing change involves switching from an existing state organization to a desired future state. The transition is not instantaneous, but requires a certain state of transition in which the organization notifies the necessary conditions to reach the desired state. An extension of the transition will inevitably lead to a failure

The leadership change as a state of transition

5. Sustaining change

This stage refers to the situation after the implementation of change, when people still tend to return to its original state at this moment should be to focus on supporting change. This is done through the following activities:

a. provide the resources necessary for change, which are both financial and human, and have an extra character and are only necessary change process. Additional resources are incidental to the conduct of

training activities, consulting, data collection and for various meetings imposed by the change.

b. support the creation of a change, which is very necessary because it can happen that at some point to specific tensions experienced in the process of change primarily those involved in change. The creation of this support comes to help those who would be prevented to carry out the planning tasks to change. This support of change consists of a network of relationships between change agents and people involved and affected by the change.

c. Development of new skills that are required to change and is just knowledge, skills and behaviors of organization members. In many cases the change can not be achieved if such skills are cultivated among the members of the organization. Decisive role in developing these competencies are those which lead him to change and in many cases it takes very much time and resources on their part.

d. strengthen new behaviors by linking rewards to those behaviors that promote change.

Kurt Levin designed the leadership change in stages following:

- opening is to reduce the forces that try to maintain the current organizational behavior. This can be solved through dissemination of information on the difference between actual state and desired state. A propaganda in favor of the desired situation could increase the chances of success of change. change is the shift from an organization or department to another behavior, specific changes introduced into the organization.

- new balance involves the closure of the organization. Maintaining balance is resorting to new means and mechanisms to strengthen the new situation, such as organizational culture, norms, policies and organizational structure.

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The Implications of the Migration Phenomenon in Romania

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Abstract

In this paperwork we intend to analyze the connection between the behavior patterns of Romanian immigrants, as well as their impact; at the same time, we will try to analyze the way that these patterns are connected to the implications of the migrations phenomenon. Yet, the most frequent question is: after all, what makes the Romanians leave their country? And why our fellow citizens are treated rather differently abroad? Could it be the image that Romania created after 1990? Or is it just a xenophobic attack aimed at a small minority in our country, from people ?

Key words: migration model, economic crisis, migration behavior, cross-culture

J.E.L. classification: F22, Z1

1. Introduction

Recent research on migration and especially research focused on the psychology of cross-culture have shown that there are several acculturation strategies: (integration, assimilation, separation, marginalization) that immigrants embrace. At the same time, these strategies are understood differently by the host country [1].

2. The integration models impact on migration

Christelle Maisonneuve's and Benoit Testé's studies (2007) [2] combine the assumptions of the immigrants being affected by the acculturation strategy. These studies were conducted in France, a country that hosts many immigrants and that adopted an

assimilation policy; thus, the scientists will assess the adopted strategies.

For France, a very nationalistic country, the way that the immigrants are seen is very important: in some cases, even the host population characterizes them using a series of "warm" features, such as tolerant, sincere, competent, intelligent or trustworthy. Another group, the "rich" people group, characterizes them strictly from the professional point of view.

In France, the way the immigrants are seen or portrayed in the local media depends on their nationality or on the ethnicity they belong to, in the end, the whole perception being an entirely subjective one. This separates immigrants into two groups: Asians, European, Indians – characterized only from a professional point of view, and South Americans, Mexicans, Africans, Irish, characterized based on the warm dimension

The research shows that the arrival of the Italians, Spanish, Portuguese and Polish in France in the 19th century did leave a mark, even then; through time, the French population generated a series of social problems. Today, the former immigrants are completely integrated, being a part of the local population; though the previous problems are still brought up, the racism is no longer an issue today.

Cristina Sâmboan [3] analyzed two immigrant integration models, for France and The Netherlands. The author of the study "The Democratic deficit of the European Union from an identity point of view" says: "the immigrant integration policies adopted by the European states have shown, in time, two alternative approaches: an assimilation approach (that doesn't take into consideration the cultural diversity) and a multicultural approach (that encourages the display of

ethnic features), essential to the integration process”

In the same study, Cristina Sâmboan analyzes the European identity, based on two models that she herself calls the French model and the Dutch model (a failed pragmatism).

The first step that France has to take, is the acknowledgment of its multiracial complexity, perfectly dissimulated by the current political class, hiding behind “republican equality”.

The Netherlands is the complete opposite of France, and together with Sweden are probably the best examples for a multicultural model. The Dutch proved to be very open minded towards many problems of the minorities, being considered pragmatic by several countries. The Dutch approach developed in time, starting in the great colonies, and crossing the ocean in the 19th century; the Netherlands, due to historic circumstances, assimilated ethnic, cultural and religious (Christians, reformed, Catholics, liberals) communities, developing its own values.

Despite all these pragmatic policies of the social and cultural indicators, in the 21st century and mostly because of the economic, political, social and racial changes, the immigrant integration process in the Dutch society proved a big failure.

3.“The Romanian migration behavior”

What makes the Romanians choose such countries? Why France, Italy, Spain? The triggers of internal and external migration include a series of interdependent economic, social and ecologic elements, at micro and macro level.

Other factors that influence the migration behavior are: the cultural model (both family and community), education: foreign languages the immigrant knows, the profession the immigrant trained for in the home country, abilities acquired throughout the life, social and especially financial status, the way that population of various countries understand poverty (in our case, the Romanians), the economic crisis or even the “poor man status” – which for many gives an exclusion feeling, at least in our country in the last 20 years after the communism.

The migration is a well known phenomenon for many countries in Europe and even Africa, Asia and South and Central America, even from the Antiquity and The Middle Ages.

Motivation is the only thing that differentiates the countries: for instance, it is a known fact that the Polish were more motivated to migrate than Romanians, for a long time; as for the Irish, migration has become an aspiration, an almost unreal process, as a consequence of the tensed relations with the British in the latest years [4].

Other studies show that age and gender are also important motivational factors: statistics from the latest years proved that the migrating population is forms mainly of young people and men. The exception: the women from the Eastern Europe migrating to the Western countries (Italy, Spain, France, Germany).

According to Daniela Dănăcică: “another explanation for determining the migration behavior is that, in the New World Order, the societies belong to one of the following two categories: meritocracy and oligarchy. Meritocracy attracts the elites, and oligarchy generates the human capital flow for the meritocratic societies. In a meritocratic society, for a person to belong to the elite, he/she has to meet its requirements. This person must be highly intelligent, educated, with imagination, highly adaptive to the new technologies and developments. The oligarchic societies are always generators of human capital flow for the meritocratic societies” [5].

Thousands of Romanian immigrants, arriving in the Western Europe after 1989 created a series of problems for the local citizens who sometimes wrongfully accused them of violence, drug dealing, prostitution. If we analyze our country, we may say that the image that our fellow citizens have created abroad is not necessarily a “very clean” one, being seen by the locals as “public enemies”, as the main responsible with all the wrong things that happen in those places. The EU countries with the largest Romanian immigrant communities are Italy 29,51%, Spain 22,4%, Germany 13,57%, Hungary 5,80%, France 5,53%, Great Britain 4,61%, Austria 4,48%, Portugal 1,98%, Ireland 1,32% [6].

Many Romanian immigrants working illegally were present in countries like Italy and Spain before Romania's accession in 2007.

The intention of migrating or of staying home is influenced by a series of factors like language, cultural barriers, individual personal opinions (of the possible immigrant) on changing the location, leaving the family and friends, changing the country.

Studies and surveys show that Romanians prefer Italy and Spain, whereas UK, Germany and Austria are the least preferred countries. Sociologic studies on immigrant groups prove that there is a migration culture, in which the communication between the undecided, the ones remaining at home, and the immigrant group is very important. The undecided becoming more and more determined to emigrate proves that the existing contact between the immigrant and the one remaining at home is vital for making certain decisions [7].

It is imperative to define the Romanian emigrant profile, from the perspective of the migration phenomenon seen as an important social phenomenon with a significant impact on our country.

Following the studies on migration theories, the focus was set on the role of ethnic, religious networks, thus defining specific immigrant models or patterns, depending on the host country such as: the German model, the French model, the Italian model [8]. The German model emphasizes the role of the invitations from the Germans originating from Romania, for "installing in mobility" of tens of thousands of persons having no other possibility to travel in Schengen area. The French model is specific to a certain type of immigrant, whose social integration takes place "on the street" and it is based on various methods of income. The only way to survive for certain Romanian immigrants belonging to the roma ethnicity is selling old clothes, thrown away home appliances, begging, reselling subway tickets, washing car windows, singing on the subway or on the main streets of Paris.

The Italian model refers to the current Romanian strategy to go to Italy and find a job without complying to all the legal requirements. Within the Italian model, that group of clandestine immigrants looking for a job and wanting to become legal (they

share the same job throughout the year). In the Italian model, the women represent approx 50% of the total Romanian workers in Italy, the main reason being the unification of the family but also the large number of household jobs available. There are many theories for why Romanians choose Italy or Spain. One of the simplest explanations is the language spoken in these countries, Italian and Spanish being easy to understand, both being Latin languages, same as the Romanian; the Latin temper (very warm) is another reason supporting the choice.

The Romanian emigrant, more than any other, once arrived on the Promised Land changes his biography, is ashamed of his origin, of his homeland, his fellow citizens, his beliefs, and hides in the unknown [9]. This country identity loss makes many Romanian immigrants, even religious ones, become prostitutes, thieves, beggars, criminals, involved in human traffic activities. But the most profound effects, with deep implications are the cultural and social ones. Many of the Romanians going abroad to work and bring along their children, relatives, friends, form colonies, leading to real civilization clashes. After 1989, after communism, migration became a concerning phenomenon for state authorities. The Eurostat statistics showed that approx 96.929 persons left the country after the revolution; after Romania's EU accession, 1.700.000 persons emigrated.

Recent studies in Romania show that migration took various forms: it started as a way to reunite the family, then it was ethnic migration (roma requesting asylum in various countries in Europe) or the Hungarian people in Transylvania migrating to Hungary, or business migration (small border traffic), developed through the increase of student international mobility and accentuating after 2005 through the brain-drain (from various domains: medicine, IT, education, engineering) and ending with labor migration, especially the not skilled one: agriculture, construction, household jobs [10].

4. Scenarios for Romanian migration abroad

Migration became an extremely concerning phenomenon, with deep social, economic, psychological and demographic implications, especially after the massive Romanian departing mainly to the EU countries.

This happens especially with illegal migration (without valid papers), much too discussed prostitution cases (Romanian women forced to become prostitutes in Italy, UK, Spain, Germany, France), but also with the traffic of children, old persons with a visible handicap, deceived into begging by a series of networks, also present in Romania.

Anca Balcanu (2008) analyzed the Romanian immigrants in two of their favorite countries (Italy and Spain). The author used as bibliographic source several articles printed in newspapers in Italy, Spain, but also in Romania, and also relying on her own experience of being an immigrant in Italy, for a couple of years [11]. Since 2005 the Romanian community in Italy is a large and even important one, but the question is: "Why do Romanians choose Italy or Spain".

Since 2004 until 2007, the network migration was defining for Italy or Spain, meaning that, some of our fellow citizens, once arrived in the destination country, were looking for a job, without being concerned with legal issues. After the Romanian immigrant had found a job, then he would become interested in settling the legal aspects.

There are certain arguments for continuing the process of decreasing the definitive migration, in the future, slowing down the rate of temporary work migration and for the return home of some part of the Romanians working abroad. One of the domains that proved to be most attractive for the Romanians working abroad was the construction sector, an area severely affected by the decrease of economic activity, with negative consequences on the job market.

Most of the Romanians left the country to substantially improve the financial situation of the ones left at home and, at the same time, to live a decent life. With the economic crisis, here comes the big question: should the Romanians come back or stay in their

destination countries, severely affected by crisis?

The choice between remaining in the western countries and returning home and becoming unemployed is a true dilemma for the now hopeless Romanian immigrant [12].

Under these circumstances, the Romanian immigrants who chose to remain in the destination country focused on other domains: forestry, sheep raising, or other services (in barbershops, restaurants, hotels, tourism).

The impact of migration on the economic growth also has a series of positive consequences for the origin country (Romania), the ones returning home having, in the end, leadership experience and other skills acquired through the various professions or jobs they had [13].

The economic crisis grew deeper in Spain in constructions, the sector that for a long time was considered to be "the engine of the Spanish economy", the decline of the sector generating the crash of the real estate system, many people losing their jobs, among them, our fellow citizens [14].

This adds to the French campaign against Romanian Roma immigrants, but also to the recent events in Italy against Romanian immigrants, especially the killing of a Romanian woman by a young xenophobic Italian, at the end of 2010, in a subway station in Rome.

Another argument is the labor force deficit in our country, caused, partly, by massive emigration of skilled people in various fields: construction, healthcare, education, textile, shoes, commerce.

Recent Eurostat studies, quoted by the National Statistics Institute show that migration phenomenon will still go on for approx. 10 years; until then, our country is facing low birth rate, high death rate and high aging process, an Europe-wide trend.

For the next years, specialists estimate that the main target countries for Romanians will be the countries in the western and southern part of EU, and studies show that, in the next five years, the migration to Italy and Spain will slow down, and our fellow citizens will focus on Germany, Ireland, Belgium, Sweden even France. The money the emigrants sent in the country after 2002 contributed rather insignificantly to the economic growth.

As an answer to the media debate about Romanian emigrants Silași and Simina (2008) consider that the fear towards the immigrants from Romania, after 2007 is not justified, and maybe too exaggerated by foreign press [15].

While the European media (mainly the British, French, Italian and Spanish) complain of the threat of Romanian and Bulgarian emigrants, scientific reports say that the countries of origin of the immigrants receive an important economic support from the EU countries. At the same time, Romanian media and entrepreneurs talk about the Chinese invasion and the lack of labor force in constructions, industry and agriculture.

Labor market in Romania, between 2007 and 2009 was a destination attractive enough for much poorer non EU countries. If we were to create a scenario, did not take into consideration the economic crisis and introduced a variable: economic growth in Romania based on increased investments and new jobs, and if the ones gone abroad didn't return, Romania would become an immigrant country.

5. Conclusions

From a country – source of immigrants, Romania will become a destination for citizens in the eastern countries – including central Asia, the Asians looking for better wages and working conditions than in their country, but also for benefits coming from working in an EU member state.

The latest statistics on the Romanian employers show that in our country the companies will have several other options: either to employ skilled Romanian workers or to employ foreign workers at much lower wages.

Europe faced in the last years major challenges: accession of 12 new states, the ratification of the European Constitution, the common budget for 2007-2013, several social movements with ethnic motivations, a new agenda for security, justice or labor force mobility for the new member states. Among the most debated topics were the liberalization of the labor force market for the new EU citizens and the accession of new member states to Schengen area.

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Divergent Economic Growth and Employment Conditions within the Euro Area

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Abstract

We present evidence that the process of euro adoption and the creation of the Economic and Monetary Union has enhanced the economic growth of the Euro zone and has determined better conditions on the labour markets.

Still, these developments are not homogenous across countries. There are important differences in the rate of GDP growth, the increase in labour productivity or employment conditions. Moreover these conditions tend to be persistent across time, weakening the belief that once the euro is adopted, countries tend to converge economically.

Key words: UEM, divergent, growth, productivity, employment

J.E.L. classification: E23, E24

1. Introduction

Twelve years after the start of the third stage of EMU, on 2nd of May 1998, and the introduction of the common currency on 1st of January 1999, the euro has become one of the most recognized symbols of Europe. It is associated by the majority of European citizens with the remarkable results that took place in this short period of time, being identified as the main reason for the ensuing economic stability, trade increase and accelerated financial integration that happened within the borders of the Euro area. From the eleven states that initially adopted the single currency, the number increased at seventeen currently, and the final goal is that in the future all the countries that belong in the European Union to participate also in the Economic and Monetary Union. The European Union, through its 27 members, represents the most powerful economic entity

in the world [1], surpassing the United States of America in the share of total world GDP.

At the moment of euro adoption, the desire was to achieve two main goals [2]: first, it was hoped that a more stable macroeconomic environment will develop, through the elimination of the inherent exchange rate risks and the increase of political credibility; second, it was expected that the economic efficiency will increase, through the elimination of the costs associated with currency transactions, the positive effects of price transparency on competition and through the acceleration of economic and financial integration.

After more than a decade, reaching a high level of macroeconomic stability is probably the most important result of the single currency introduction. The coherent monetary policy conducted by the European Central Bank, policy that was specifically targeted at inflation containment, achieved the consolidation of future inflation expectations, with remarkable effects. The average annual inflation in the euro area during the first ten years of euro existence was around the desired target of 2%, compared with 3.3% during the '90, or 9.3% and 7.5% during the '70 and respectively '80 [3]. Unfortunately, during the last years, inflationary pressures have emerged in the Euro area, mostly because of the negative effects induced by the international price increases of food and energy. It is hoped that the European Central Bank will contain these pressures, with minimum spill over effects in the real economy.

If the goal of high level of stability was met, unfortunately the optimism concerning the economic growth fuelled by euro introduction was not founded. In the first ten years, the annual average GDP growth was around 2%, at the same level with the average growth recorded in the previous decade. Moreover, the average GDP per

capita growth remained at the same level recorded in the United States of America [4], thus maintaining the economic disparities between the two economic powers.

The process of financial markets integration was accelerated after the introduction of the single currency. The monetary markets were fully integrated, while the cross-country financial transactions increased after 1999. On the other hand, even if the state bond yields converged a lot after the euro introduction [5], currently, in the midst of the economic crisis, the differences are yet again increasing, reflecting the elevated perceived risks that some countries possess. Reducing the economic disparities between countries was another aspect that was facilitated by joining EMU. The macroeconomic stability, the low interest rates, the implementation of cohesion policies or the possibility of accessing structural funds, all created the perfect conditions for accelerating this convergence process. Thus, it is no surprise that the majority of European countries are striving to meet the objectives needed in order to adopt the euro currency also. In this process, euro became in a short period of time the second most important international currency. Euro represented 25.9% of the total international currency reserves in the first quarter of 2009, compared with only 18.3% in the last quarter of 2000 [6]. This increase hurt mostly the American dollar, which diminished its quota from 71% to 64.9%, during the same period.

2. Divergent economic and productivity growth in the Euro area

The euro introduction spurred many positive effects, which in the end increased the economic development of the euro area. These effects were most visible in the area of GDP growth, which was mostly determined by the increased competition and the economies of scale. Nevertheless, the difference of about 30% between the American living standard and the European one persisted. This fact can be explained by the different growth rates experienced between the big and small economies of the Euro area. If the annual growth rates from the small European countries surpassed most of the time the average annual growth rate recorded in the United States of 3%, the big

European countries – especially Germany, Italy and Spain – lagged behind this figure.

If in the decade preceding the euro introduction the annual GDP growth rate in Germany was around 2.5-3%, after the single currency adoption, that rate decreased to 1.5%, while in the case of Italy, the annual GDP growth rate stood at 1.5% before and after the euro adoption [7]. In the case of Germany, this was determined by the incomplete process of East Germany integration, which in turn determined the existence of a weak internal demand and increased wage pressures coming from the eastern workers. On the other hand, Italy was disadvantaged by the existence of an industrial base that entered frequently in competition with the existing base from other emerging countries. As a result, Italy lost in the last years important market share, with immediate effect on its economic performance.

The case of Spain, the fourth biggest economy of the Euro zone, is a special one. Here, the economic growth was determined mainly by a boom in the construction sector, a phenomenon facilitated by the reduction of the interest rates and the increase in immigration. Because it was not based on trade, this specific sectorial growth determined a worsening of the current account, and this situation started to stabilize only in the last period, when Spain's economy started to cool down. Still, the negative effects are still present, the official unemployment rate in Spain currently exceeding 20%, with advanced talks of external financial assistance taking place.

Regarding the small countries, Greece and Finland had an accelerated growth after the euro adoption, while the economy of Ireland grew at a fast pace before and after the introduction of the single currency [8]. Until 2008, the year when the global crisis had a tight grip on the world economies, the growth rates from these three countries were superior to the ones from the United States of America or Great Britain. It must be noted that other countries did not fare so well, and it is worth remembering Portugal, which after the euro adoption, registered a weaker economic performance. In this case the economic unbalances that accumulated in the decade before it entered the EMU – increased current account deficits, high individual debt

and increased fiscal deficits – played an important role.

As a comparison, the growth of GDP from the central and Eastern Europe was even higher than the average recorded in the EMU [9], in the first years of euro introduction. Moreover, the GDP fluctuations from Poland, Slovenia and especially Hungary is more correlated with the GDP fluctuations from the Euro zone as a whole, than the GDP fluctuations of Greece and Portugal. This is a highly positive fact for the countries desiring to switch (or have already switched) to euro currency in the near term, because in their case the stabilisation costs associated with the adoption process are thus smaller.

If the economic development of the Euro zone, analysed through the GDP growth, was a satisfactory one, the increase in labour productivity was far from optimal. In the period 1989-1998, the average yearly increase of labour productivity was 1.5% and during the period 1999-2008, this decreased at 0.75% - compared with the United States of America, where the average yearly increase of productivity stood in both periods at 1.75% [7]. The countries that determined this situation were Italy, which after 1999 did not increase its labour productivity, and Spain, which after 1999 experienced even a decrease in its labour productivity, even if in the '70 and '80 this country was engaged in an accelerated process of catching up with the other big European economies. The situation in Spain is just a stark reminder that even in the case in which the real convergence takes the form of a gradual process, the dynamic response of the macroeconomic variables can be disruptive to the economy [10]. Moreover, the unrealistic expectations of the economic participants regarding the future increase of productivity solely as a result of the euro adoption can generate major crisis situations, as it was seen.

The sub optimal results registered in the field of labour productivity, when compared with the United States, were determined by the differences existing in just a few economic sectors, mainly the information technology and communications (IT&C), real estate and financial services [11]. In the case of IT&C sector, this benefits from the bigger size of the companies existing in the US, which thus can afford bigger investments in

R&D; for the real estate and financial services, deregulation played an important role in their faster development when compared with Europe. Nevertheless, the risks associated with these deregulations were much higher, and the consequences can be clearly seen today.

The notable exceptions from this trend were the Nordic Countries belonging to the European Union. Denmark, and especially Sweden and Finland registered high labour productivity rates, superior to those from the first four economies of EMU – Germany, France, Italy and Spain – and equal to those registered in the USA. If in the case of Sweden and Finland the growth of the productivity rate was based on the production part of IT&C, as well as the services that use IT&C, in Denmark the high rate of productivity growth was based just on the services that used IT&C. Regarding the production sector of IT&C, Denmark was behind Germany and France. The IT&C sector is characterized by a very fast technological progress, increased competition, frequent downward price movements and a high increase of productivity rate [12], and not many countries can excel in this particular economic sector. The increased competition from the financial and product markets, high investments in research and development, a highly skilled workforce and the availability of venture capital were all prerequisite conditions for the success that these countries experienced.

At the firm level, it was discovered that the main contributors to the increase in productivity rates were the large (250-999 employees) and very large (more than 1000 employees) firms, especially in the periods with high productivity growth [13]. Also, in the old firms, with a lifespan of more than 20 years, the productivity levels tend to increase faster. Regarding the technological level, firms that activate in sectors less technologically intensive have a smaller contribution to the increase in productivity, a fact that can explain the widening gaps between the industrialised countries and the countries that have not still succeeded to introduce the advanced technologies on a wider scale.

3. Divergent employment conditions in the Euro area

After the euro adoption the European labour markets were also – at least theoretically – opened. Still, at over a decade away from this event, the labour mobility on this market can be considered at best moderate. There are a lot of factors [14] that can account for this fact, among which it is worth mentioning:

- Legal and administrative barriers;
- Cultural and linguistic differences;
- The costs associated with moving in another country;
- Problems from the real estate markets, especially high prices and high rents;
- Limited possibilities to transfer pension benefits from another country;
- Lack of clarity regarding the international recognition of professional qualifications;
- Lack of transparency regarding the vacant positions.

The evolution of the European labour market can be characterized as a positive one, especially after the euro introduction. During the period 1996-2007, the increase in the number of employed persons accelerated, over 21 million new jobs being created [15]. This fact contributed to a 3.9% reduction in the unemployment rate, so in the spring of 2007 the unemployment rate stood at 7.5%. Also, there was an increased participation on the labour market of certain working categories during this period: women, with an increase of 9%; migrant workers from the new EU states, or states situated at the periphery of EU, with an increase of 7.4%; and old age workers, with an increase of 10.5% [15]. The yearly rate of new job creation after the common currency adoption was impressive, from an estimated 0.5% yearly before the euro, to 1.25% after this event. This increase took place in all countries, the only notable exception being the Netherlands, which saw its rate of new job creation reduced in half after entering UEM. On the other side the speed of job creation in Spain was impressive, from a 1.5% annual average before euro to over 4% annual average in the first ten years after the adoption. Still, after the emergence of the global crisis, this explosive development

transformed itself into a vulnerability, at present, as already mentioned, the unemployment rate in Spain exceeding 20%, with all the negative consequences that it involves.

Another perceivable event that happened in the Euro zone was the increase in labour quality, determined by the increase in the participation of workers with tertiary education. Even if this increase was higher in the '90 compared with the '80, still, after the euro introduction, the speed of labour quality increase slowed, probably reflecting the impact of an increase in job creation, which attracted on the job market workers less qualified [16]. This increase in labour quality accounted for 30% in the rate of labour productivity growth in the euro area.

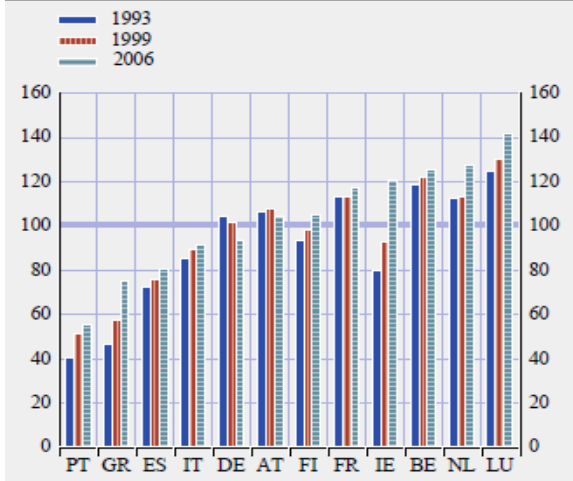
However there are some negative aspects regarding the process of labour market integration, and probably the most important is the increased income inequality. The economic integration determines this increase in inequality, because workers are subject to international competition, and the unions that activate at the national level are weakened. Moreover, there is a tendency for reducing social assistance, because the supranational mechanisms impose on the member states austerity measures needed to reach fiscal stability [17]. Again, the most affected by these measures are the less developed states, with a poor population that is dependent on this social help. The economic crisis demonstrated that in these states the measures implemented in order to reduce the fiscal imbalances - salaries and pensions reductions, increased taxation - had a direct impact on the less wealthy categories of population.

At the state level, these differences between wages persisted over long periods of time, weakening thus the belief that entering the Euro zone will automatically lead in time to wage convergence. Moreover, when analysed even on sectors of economic activity – agriculture, industry, trade, transportation, financial services – the differences from country to country remain [18], even if in the same country the sectorial wage increases experienced different speeds during the period 1993-2006.

Figure 1.

Differences between nominal wages in the Euro zone (Euro zone level=100 for each year considered)

PT – Portugal FI – Finland
GR – Greece FR – France
ES – Spain IE – Ireland
IT – Italy BE – Belgium
DE – Germany NL – Netherlands
AT – Austria LU – Luxembourg



Source: European Central Bank

At the Euro zone level, the theory which states that wage levels tend to be the same for workers with equivalent qualifications and working in the same industry is not valid. In this case the connection between wage and productivity is not so tight, being influenced by specific factors as the unions` bargaining power or the market share of the employing firm [19]. If this market share is consistent and the firm has a dominant position, it also has a higher incentive of giving higher bonuses to its employees. Thus, in this way the employees belonging to companies which operate in big, mature economies have an advantage, because in these countries exist the big majority of companies that dominate the European marketplace. At a sectorial level, it was determined [20] that the highest wages belong to the extractive industry, the oil industry, nuclear and chemical, public utilities and insurance and financial industry. The lowest wages are in the textile, leather and footwear industries.

The reforms from the Euro zone labour markets were extensive, especially in the period before the introduction of the single

currency, and resulted in the creation of additional jobs. Unfortunately, after the euro adoption, the initiatives were directed just at certain economic sectors or at small groups of participants. Moreover, it cannot be affirmed with certainty that the budgetary costs of these measures justified the benefits. The most important initiatives [7] were in the field of taxation, unemployment benefits, reforming the national labour institutions and trying to increase the mobility and flexibility of the labour market.

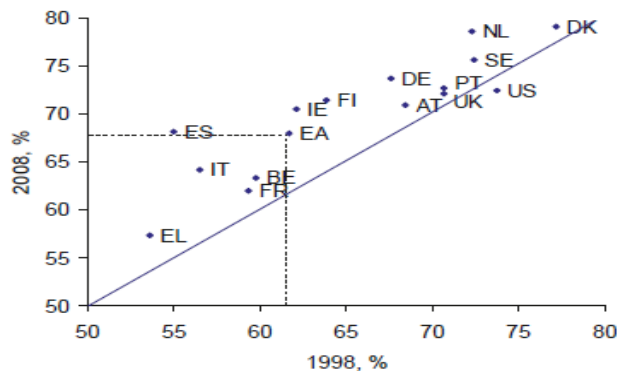
- Wage related taxes decreased in the majority of European countries. Tax reductions were aimed at individuals with low incomes, long term unemployed, young and old workers;
- Almost all countries adopted measures targeting the unemployment. These included stricter rules for reporting vacant jobs, sanctions for non-complying with these rules, and more efficient control mechanisms;
- The legislation concerning part-time and flexible time employment was upgraded. Temporary working contracts were also better regulated and the process of converting temporary contracts into permanent ones became easier.

The increase in employment in the Euro zone was impressive, suggesting the fact that the reforms from the labour market were well implemented. The number of the employed persons grew on average with 1% annually in the period 1998-2008, the average employment rate growing in this period from 62% to 68%. All the Euro zone countries experienced a growth of the employment rate in the period 1998-2008. In the same period the US economy experienced a small decline in the employment rate. It is worth mentioning that there still are major differences between countries – if in Greece the employment rate in 2008 was 57%, in countries like the Netherlands or Denmark this figure was close to 80%.

Figure 2.

Evolution of employment for different countries
1998/2008

EL – Greece DE – Germany
ES – Spain AT – Austria
IT – Italy UK – United Kingdom
FR – France SE – Sweden
BE – Belgium NL – Netherlands
EA – Eu Area US – United States



Source: European Central Bank

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Conflicts of Interests between Actors Involved in the Corporate Restructuring

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Abstract

The article aims to highlight conflicts of interest that can occur between different actors that are involved in operations of corporate restructuring. They highlighted two main theories explaining the relationship between shareholders and managers, namely the mandate theory and agent theory. To resolve conflicts that may occur between participants in the mergers and acquisitions have developed codes of corporate governance to harmonize the interests of those participants. The paper stresses the impact of restructuring operations both financially and socially from the opportunity to keep the place held company that was acquired. Experience of various corporations require greater caution in starting operations said that in view of the results that will be achieved on medium and long term.

Key words: M&A, mandate theory, free rider, defensive strategy.

J.E.L. classification: D92, F23, G34, O16

1. Introduction

It is considered that the force that gives impetus to economic processes in line with the trend of globalization is the multinational corporations. Modern Corporation is no longer in the foreground to achieve a certain level of profit but also increase its accountability to managers, shareholders, directors, employees and even managers. How the corporation relating to these categories of actors can have a major impact on performance and organizational culture of that corporation.

Classification of mergers and acquisitions is covered in the literature in a complex differ significantly from one author to another. In addition, classification of mergers and

acquisitions in the shape of fusion or absorption, in legally term, there other grouping, in terms of: participating companies, attitude of management team towards restructuring, activity, motivations that justify this operations, etc.

In general for studies on mergers and acquisitions (M & A), analysts exclude transactions where the state is participating in these operations are considered "privatization." This approach is sometimes challenged because privatization transaction always involves the participation of a private entrepreneur, who actually made the purchase. It is recalled that the first approach eliminated from analysis greenfield investments, focusing on existing businesses.

Among the main reasons that were based on mergers and acquisitions of the 1990s, we can mention a few: debt financing, "one-stop shopping" financial engineering, distribution, diversification and economies of scale.

One-stop shopping "is an incentive to restructure operations in the idea to build a supermarket of financial services to customers. Directors of the merging companies have regard primarily economic issues other transaction, paying attention to possible synergistic effects. Although many such effects are not expected to materialize for gaining in all the companies, participants in such transactions do not leave discouraged.

Another justification given is that with the acquisition of other companies, products outlets can be extended so that a part of a company's suppliers and customers become customers or suppliers and other company.

The majority of companies who participated in the restructuring operations in the '90s were warranted by the emergence of economies of scale, data in most of the reduction in the number of employees with the formation of a new corporation. Many companies participating in the reorganization

transaction as "white knights" have regard to a financial incentive, namely the tax benefits they may bring further large gains.

2. Mandate theory

Mandate theory explains the relationship between owners and managers, stressing the need for separation power of initiation and implementation of decisions made on the degree of control of decision making. The relationship between shareholders and managers is defined as a contract whereby the principal employ a person, named agent to perform certain tasks, leaving the right to take decisions. It is possible that the agent does not fully comply with established rules and therefore need a check made by the principal.

The principal will always follow specific clauses in the contract to consider pay agent so as to be boosted to effectively coordinate and on the other hand clearly establishes control procedures on the latter. In the case of the agent, it is concerned to take those decisions to settle the principal and which is in line with expectations.

A first method of showing the relationship between principal and agent is dominated leadership in the planning, the overall activity of the corporate vision is influenced by shareholders, knowing her best work, even if based agents and plans developed.

An effective relationship between the two parties in the planning is dominated by organizational culture in which all members of all operational units communicate and are dominated by the same principles of organization and management and working to benefit the corporation as a whole.

Predominantly operational planning states that the main role is for agents who needs to know very well the entity where they operates so that decision take by them bring positive results to the corporation. They must be informed of every detail of the corporation and be able to clarify any aspect of the decisions taken to help shareholders understand that they have been taken in the interest of the latter.

Practice generated new mechanisms that compel managers to act in the interest of shareholders.

A first way to resolve the conflict between shareholders and managers is the managers

incentives based on performances, which motivates them to act so as to maximize the company's share price on the market. Incentive schemes for managers take the following forms:

- Management Incentive Plan as "performance shares," consists in offering shares to managers based on performance evaluation obtained by the company: earnings per share, the rate of return on assets, rate of return on equity;
- Options for managers to acquire shares of the company in a future time, but at a price fixed today. This incentive management was practiced in the years 1950-1960 but fell into disgrace in 1970 after options proved to be unprofitable;
- Provide bonuses to managers base on profit made by the company.

Another way to resolve the conflict between managers and shareholders is the power of the Board decision that has important powers in the control of managers. In some countries, the Board has veto power and retain power to revoke its chairman.

Another way of solving disagreements shareholders-managers is to vote by proxy. In practice this operation is difficult because one shareholder fails to gather sufficient votes from other shareholders to change management team. Usually found in the transaction involved a shareholder who owns a small percentage of the capital.

The presence of the reference shareholders is a more effective control of managers. They are fully motivated as the company invested significant amounts to be profitable and therefore putting pressure on managers materialized in important decisions and effect.

Takeovers of companies by buying shares - another way of solving conflict - especially when held capital of the company is undervalued due to a succession of wrong decisions of the management team. Usually, following the acquisitions, some managers are fired and those who remains, lose their independence that they had in corporations before the takeover.

On the operations of state enterprises privatization, they have emerged as a response to the need for change within the system, aiming to find owners animated by the desire to ensure a rational use of

resources and improve the profitability of their businesses. Change of the ownership schedule will not modify the attitude of managers if the new owners will not have power, motivations and resources to control their activity and to supervise them to act in the interest of corporation.

Therefore, subject to privatization it is not only legal transfer of ownership of business assets but also a transfer of decision power, control and sanction for new owners, and creating an institutional infrastructure and appropriate mechanisms capable ensure an effective corporate control.

As seen from the experience of countries with developed market economy, development and improvement of corporate governance mechanisms was determined mainly by the difficulties that arise in relations between shareholders and managers due to different interests and objectives pursued by the shells, and different time horizons had to each of the two categories of "actors". Relevant issues, adds that are usually when there are many small shareholders holding equity shares in the company is too expensive for each of them to do the analysis necessary to ensure that managers act in their interest each shareholder prefers to be "free rider" (free rider), or to receive certain benefits without paying.

For Romanian privatized enterprises, the issue of corporation control and of suitable mechanisms for its performance is more important, taking into account: ownership structure and behavior resulting from mass privatization process, lack of adequate mechanisms to protect minority shareholders, maintaining in some of the privatized companies of significant holdings of state, reduced performance of many enterprises, the presence in the Romanian economy has a stock market system and over with an unattractive development, capital market but with the emerging character.

3. Impact of the privatization on power structures within the corporation

Privatization program in most countries in transition aimed at creating a new class of entrepreneurs and thereby ensuring effective control of shareholders on corporate managers resulting from the reorganization.

Managers are those who know best the corporation and they have knowledge and experience, being invested with necessary decision authority. They, usually must be those who supporting change at all levels and must take all necessary measures to support those measures that follow restructuring through privatization.

Many times, managers are opposing to privatization, giving two reasons: ore disagree with the propose of the Government, or they are pursuing own interests and a possible reorganization could affect the position within the organization.

The opposition of managers are based often on the following factors: political, professional incompetence and luck of initiative for some managers.

Political factor. Some managers were satisfied, especially in communist countries with the old regime and they not accept new reforms within corporation owned by state.

In some countries, managers don't have all the information they need to take right decisions asked by an economy being in transition, especially for those countries who faced a centralized economy. Besides, the possibility to lose their jobs at the same time with the privatization, the managers take attitudes to stop all measures that takes into account restructuring of the ownership.

Other reasons that are discussed when talking about privatization is the legislative framework which could provide the conditions necessary for the carrying of changes regarding ownership of the new corporation. Managers that come with this reasoning, actually trying to hide the benefits they have in the state enterprise through control rather low and the legal framework with many flaws and shortcomings.

Regarding the attitudes of employees and unions they usually show passive until the start of operation by public offering. Their greatest fear is of losing jobs and benefits they were inside before the corporate reorganization procedure. Experience from other corporations that have directly led to improved wages and working conditions for them to look with suspicion on the future possibility of obtaining a higher income than that received in the period before privatization.

Risks that might arise from misunderstandings and different goals of stakeholders can be:

- Onset of labor disputes aggressive, often escaped the control of unions;
- The manifestation of aggressive behavior towards privatization originators;
- Creating confusion and uncertainty among employees.

4. Cultural barriers between corporations involved in restructuring operations

In line with much of the recent studies, acquisitions fail due to cultural differences between companies participating in the transaction.

The main motivation for mergers is costs reduction but this is not the main effect of those operations. Restructuring operations can be influenced by cultural types in three ways. (Terrence D., 2000).

First, it's about an effect called "look over your shoulder". Employees will follow every time which will be departments that will disappear after the merger and that will affect their jobs. After the merger is announced, teams of the both companies will start to ask which part of ax will fall first. Look over your shoulder and gossip about who shall leave company and who shall stay, are parts of experiences of such operations.

Secondly, is the effect "winners and defeated". A party participating in the transaction will win while the other, usually the target company almost always lose their jobs in the new company. Winners are those who adapt together. How did it always, take decisions without consulting and impose their own desires. As a result, the losers are withdrawn one by one, using their skills and knowledge elsewhere where their opinion matters to the company.

Thirdly, we are dealing with an effect of cultural isolation that occurs when those who work in the new company realizes that it differs significantly from that for which they previously worked. The cultural differences are more pronounced, with the more difficult for newly established corporation to start up with high expectations. In this case, how management companies involved will know their responsibilities and communicate așeptările will limit the negative effects that

may likes because different perception on the functioning of corporate.

If the executives realize that cultural issues can be an obstacle in obtaining the expected results, they could build a new culture within the new company combining the best features of the merged, creating a stronger company and with remarkable results.

Studies on the success or failure of acquisitions warns that friendly acquisitions are generally more open in terms of successful integration of the two corporations. Managers of participating companies are open to negotiation are more flexible to better effect change and realize mutual understanding and make greater efforts to adapt their goals and visions.

In contrast, hostile mergers provide an overall framework for adaptation unfavorable, given the misunderstanding between the two firms top managers who are dissatisfied with the operation and success will follow their own interests and not those relating to obtaining positive results for corporate. Grievances that may arise as implications and departure of employees base due to clashes between different corporate teams engaged in corporate.

In practice of mergers and acquisitions involving entities from different countries were observed following methods to deal with cultural barriers (F. Trompenaars, 2004), namely: "a dominant strategy (in which the controlling impose its vision), leading to a defensive strategy to resist domination by the other strategy tolerance (both parts interact as true partners) and ignoring the differences between the views of participants.

Dominant strategy, defensive and of removal share an essential feature, representing lack of respect, which may have as result the impossibility of reconciliation between two types of cultures that meet within the new corporation. Dominant strategy can only attract an defensive attitude from those who feel neglected and can lead to failure of the merger or acquisition. Before the synergies effects appear.

Many corporations have adopted early merging activity tolerance approach so that each mode pursue their responsibilities. But this lasts until the enterprise is faced with the need to make strategic decisions that may affect the future of those involved, since the

pronounced differences will occur. Stakeholders should examine their own shortcomings and issues so important that they have other partners that may be used in the corporation to create new value.

5. Conclusions

Should be considered not so much the impact of these operations on the main players involved in their running and their effect on employees, who very often are those that give impetus to corporate activity and will increase its value. Taking into account the overall economic situation, characterized by a crisis of liquidity and investors, the impact of mergers and acquisitions can be a disaster on hundreds or even thousands of employees.

Perhaps too much emphasis on economic and financial implications eliminates a primary objective of these operations, namely that of increasing social welfare and establish favorable working conditions for employees at the lowest hierarchical level.

With the outcome of such strategies should be given special attention and measures are taken to stop them even if these intentions are sometimes justified and substantiated. Imperfections and shortcomings in the law of mergers and acquisitions can provide the favorable application of such measures may lead to job losses of employees with an effective work to reduce the value of the firm, becoming unattractive not only for raider, and for other providers would be desirable to invest in the corporation in question.

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Foreign Direct Investments on the Economic Crisis Background

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Abstract

The article aims to highlight the EU directives issued to protect the interests of different categories of actors that are involved in restructuring operations and the operations against the background of the current economic crisis event. A further issue highlighted in this paper is on the state of mergers and acquisitions in Romania and their medium-term trends. Even if the current economic situation reduced resources for funding, however, many corporations realize that restructuring operations are a method necessary to implement for exiting the crisis. Thus, shareholders prefer to invest alongside other partners to strengthen their financial position in the market where it operates.

Key words: restructuring, FDI, M&A, III Directive, transnational corporations

J.E.L. classification: D92, F23, G34, O16.

1. Introduction

Restructuring operations primarily considering mergers and acquisitions taking place to achieve economies of scale and to save or development of certain businesses. The procedure for such operations is quite complex and must take into account both the financial aspects and those linked to corporate social responsibility towards employees taking part in the restructuring.

Watson Wyatt has implemented a model applicable in carrying out mergers and acquisitions, emphasizing the most important phases of an operation of financial reorganization, emphasizing in each of these, the objectives that represents basic issues that must pursued in each phase.

According to Galpin & Hemdon (2000, p. 8), any merger or acquisition should follow the following process: strategy formulation,

market and location of a target company, the financial aspects of its analysis, negotiation of conditions of corporate reorganization and integration involved in that operation.

2. EU Directives on mergers and acquisitions in order to protect the interests of stakeholders

Under Articles 13 and 14 of the Third Directive, it lists some guidelines concerning the protection of creditors but are made vague. They explain that the laws of the Member States of the European Union must adopt a system of adequate protection for the interests of creditors will participate in merger companies before publishing the conditions necessary to carry out the operation in question.

Regarding the restructuring of these operations recorded in the European Union following table provides a summary of their evolution from 1987 to present.

Table no.1 Cross-border M&A's (valued at over \$ 1 billion, 1987-2009)

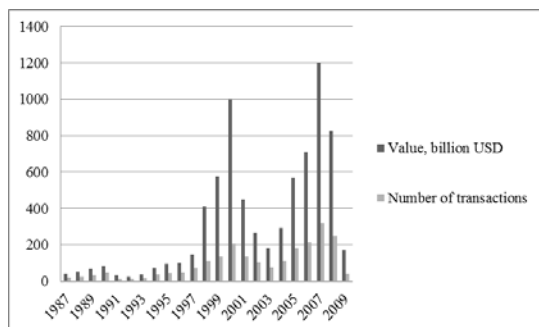
Year	Number of deals	%	Value	%
1987	19	1.6	39	40.1
1988	24	1.3	53	38.7
1989	31	1.1	68	40.8
1990	48	1.4	84	41.7
1991	13	0.3	32	27.0
1992	12	0.3	24	21.0
1993	18	0.5	38	30.5
1994	36	0.8	73	42.5
1995	44	0.8	97	41.9
1996	48	0.8	100	37.9
1997	73	1.1	146	39.4
1998	111	1.4	409	59.0
1999	137	1.5	578	64.0
2000	207	2.1	999	74.0
2001	137	1.7	451	61.7
2002	105	1.6	266	55.0
2003	78	1.2	184	44.8

2004	111	1.5	291	51.5
2005	182	2.1	569	61.3
2006	215	2.4	711	63.6
2007	319	3.0	1197	70.4
2008	251	2.6	823	68.3
2009	40	1.2	171	67.2

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

In the series of data presented it appears that the period considered, 2000 has seen a substantial increase in the number of mergers and acquisitions transactions that took place after their declining until 2006. 2009 was marked by an overwhelming change of foreign direct investment due to global financial problems have worsened, the number of transactions reaching the years 1990-1995.

Graphic no. 1 Transnational mergers and acquisitions over 1 billion USD (1987-2009).



Source: www.unctad.org

As observed from the chart, the years 1991-1993 showed a decrease in high value transactions made possible by the collapse of communism, many local companies being privatized in favor of more foreign companies but with a very low cost.

3. Theories on conflict of interest between shareholders and managers

Traditional theories dealing with the issue of relations between managers and shareholders watched first as persons who manage corporation taking into account only their own interests, acting and taking decisions which are detrimental to shareholders and all other categories of corporate stakeholders. Managers were seen as those categories of people which not creates value to the corporation but hinders

the achievement of high performance and creating a positive image corporation.

This vision has not taken into account the beneficial impact it can have on corporate and business managers can create value precisely because of decisions taken by them.

In contrast, modern theories take account managers need freedom of action while reducing the role of authoritarian control mechanisms even though this may come at the expense of shareholders by making decisions on investing to reduce the risk of replacement managers. In light of these theories, managers do not seek protection of their interests but concentrate on achieving high performance at a corporate level to earn a reputation on the job market so that potential employers have a positive image with regard to their powers.

In recent years increased the role of small shareholders, which resulted in changing relations between them and managers, for shareholders. If in the case of corporate restructuring and development, small-shareholders were not opposed but had as one option, the sale of shares today have formed groups to represent them and protect their interests, supported by financial specialists.

At corporate level, an effective governance system must consider each entity involved in the group without diminishing the role of categories of stakeholders and without granting privileges to others.

Approach to relations between actors involved in the specific activities of corporations varies depending on the differential patterns adopted countries or groups of countries. Thus, issues of discipline managers in Europe and Japan implies a pluralistic model in Dan Vasile's conception (2004, p.82) in which the interests of employees play an important role, while for U.S. companies require a one-tier model, the essential link is the ownership.

Also, managers can make decisions to invest depend on which performance information they have, so eventual removal from office to bring major corporate losses, stranded. If shareholders wish to remove the management team they can manipulate the information so that potential competitors do not learn about that job availability.

Often the separation of ownership and control resulting effects are diminished by

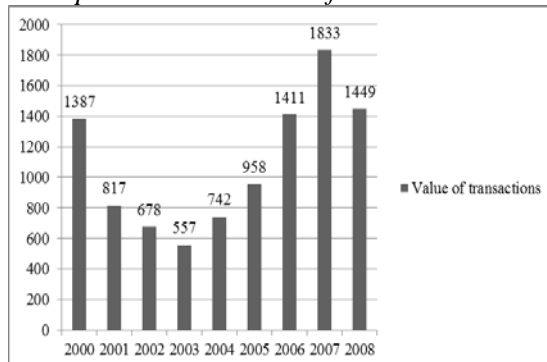
the fact that managers often have the actions of their corporations and are interested in obtaining a higher level of profit, so that dividends are an appropriate size. Knowledge of quality relationships between managers and shareholders in the privatized corporations are important, mainly for some aspects, such as providing an overview of how the change of ownership has led to a high degree of incentives of managers and employees about efficiency of the entity in which they work.

Attitude towards shareholders is primarily aimed at managers distrust that they have because managers are often interested to reinvest a portion of profit while shareholders are considering a dividend increase.

4. The level of Foreign Direct Investment

According to estimates, global FDI flows in 2008 declined by 21%, reaching 1.4 trillion USD. This trend is due to start global economic downturn, tightening credit conditions, falling corporate profits and uncertain prospects for global growth in the short term. The effects of global crisis varies between regions and countries, thus printing a different impact on the geography of FDI flows.

Graphic no.2 Evolution of FDI worldwide



Source: Data processing after UNCTAD, WIR 2004-2008;

Preliminary data for 2008 reveals that in many developed countries attracted FDI flow has significantly decreased by 33% compared with 2007, due to deepening problems facing the crisis of financial institutions and money market liquidity. Reduced revenue of transnational corporations from developed

countries and lower bank loans unions have significantly limited investment funding.

In developing countries and those in transition, preliminary data for 2008 indicate a modest increase of 4% of FDI flows from the previous year, compared with 20% growth registered in 2006 compared with 2007. In 2008, Africa attracted FDI flows to exceed 60 billion recording a growth rate of 16.8%, amid slowing economic growth worldwide and the negative impact on the region.

Table no.2 Transnational M&A in Romania (millions of USD)

	Sales		Acquisitions	
	Year	Value	Year	Value
RO	1990-2000	293	1990-2000	
	2006	3324	2006	-
	2007	1926	2007	-
	2008	1073	2008	4
EU	1990-2000	122.206	1990-2000	148.284
	2006	335.738	2006	265.714
	2007	526.486	2007	538.536
	2008	224.575	2008	302.826

Source: UNCTAD, World Investment Report 2009

In 2006-2007, the Romanian economy faces a number of issues arising from the transition process and amplified by: delaying completion of privatization, slow restructuring of economic sectors of activity, a relatively small number of banks, insufficient training of managers, difficulties in functioning in a competitive market.

Other reasons that gave rise to the acceleration of the process of the economy are: the existence of a small number of entrepreneurs to develop well-founded marketing studies to provide reliable information on the current situation and perspective on various internal and external markets, low level of technical situation of R & D units.

5. Prediction about the level of foreign direct investment in the medium term (2010-2012)

In the medium term, there are three scenarios that forecast developments in foreign direct investment in the next 3 years (2010-2012). The level of mergers and acquisitions depends on many factors, such as the global economic downturn, low efficiency of the financial policies of states in recession, in response to the global economic crisis (in particular those initiated to stimulate transnational investment). One of the problems is ambiguous when referring to the level of mergers and acquisitions will increase again, since they are major components of FDI.

Scenarios that show how they will evolve in the next period are: Scenario V (optimistic) scenario U (base) scenario L (pessimistic).

Scenario V optimistic forecast a rapid increase in the level of mergers and acquisitions in the second half of 2009 due to increasing investor confidence through effective government policies, a new wave of industrial restructuring and investment due to the existence of liquidity in some companies or financial institutions. As seen today, this scenario does not reflect reality, considering that both the EU and global level of investment continues to know a prominent decrease.

U scenario requires that the medium term, FDI will increase only in 2011, bringing the motivations: recession will last at least until the first half of 2010, the value of mergers and acquisitions remains limited because of low prices of the shares undervalued.

Scenario L (pessimistic) concludes that the restructuring operations will decline in 2012 because it believes that corporate leadership is skeptical about the effectiveness of investments in this period of crisis.

6. Conclusions

Some conflicts occur between managers and shareholders are due to ambiguous demarcation of the role they have each of the structures involved in corporate management.

Therefore, harmonize all these interests can't be made by itself but, as practice proves firms from countries with advanced market economy through an appropriate system of corporate governance which involves on the one hand, controlling insiders (employees and business managers) and, secondly, the outsiders (strategic investors, shareholders, unpaid, banks, state financial intermediaries, customers, etc.) undertaking the work and aims to prevent and avoid event conflicts of interest between different various stakeholders that can have harmful effects on company performance will be formed and, in general, the whole business community.

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Mathematical Approach of an Oligopol Model

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Abstract

Modern analysis of strategic interactions through game theory has allowed to make some concepts clear. The equilibrium cannot be explained by the process of behaviour study. Each firm should guess the choice of the other firm, just like in a game of type "scissors-leaves-stone". The game theory eliminates this arbitrage showing that people act rationally, making decisions strictly individually. Three elements are taken into account: players, strategies and results. The two firms are the two players, the gains are the profits of the two firms and the strategies are represented by the product amount the two firms can produce. Within the present paper, an algebraic model will be developed which is in condition to offer to the interested ones a new perspective on (1) how the interaction between firms in a Stackelberg model can be studied and, (2) the way this framework can be extended to a talking about getting into an industry.

Key words: globalization, economic integration, competitive advantage, cluster, regional development.

J.E.L. classification: C38, C69

1. Introduction

The plus value of the present paper comes from two different sources: (1) the development of a framework to offer a different way to explain a simple solution to Stackelberg mathematical model. The same framework can allow a discussion with regard to getting into an industry – a subject which usually needs a fair value of sophisticated techniques. (2) The article

achieves this thing in an algebraic framework which is to be accessible to all those interested.

The oligopol is a market structure characterized by a limited number of firms which makes the researchers to approach this structure from the perspective of entry barriers. Due to this thing, the oligopol will gain benefits on long terms because the new firms are prevented from getting onto the market (e.i. automotive, steel, chemical etc. Industry). The causes of entry barriers are natural and legal.

The firms' behaviour is in connection with their position on the market which has to be protected against the potential competitors. The measures taken in this situation are strategic. The threat of a prices war or of a market flood with goods, when the new supplier does not succeed in getting onto the market, is another choice.

The oligopol is characterized by non-cooperant situations among firms, where from the interest for the mathematical modelling of non-cooperant game theory. The firms can promote two strategies:

competition by quality: oligopol of Cournot and Stackelberg type;

competition by price: oligopol of Bertrand and Edgeworth type.

The present paper is not meant to replace the presentations from the contemporary books (Carlton and Perloff (1994), Mansfield (1997), Varian (1996), Schotter (1997), Eaton and Eaton (1995), Salvatore (1997)). However, it proposes to inform and improve the way the Stackelberg model can be explained, the Stackelberg model being a sequel of Cournot model which takes heed of the asymmetric behaviour of two firms. Moreover, the paradigm developed in the paper can be extended to a general talking

about different ways of a firm to get onto market from the perspective of the new more and more difficult economical conditions. The talking with regard to the entry can be motivated by emphasizing the institutional decision factors or governmental regulations with regard to providing information which can decide if the competition between firms is simultaneous or successive. For example, a firm can possess a licence that allows it to get into industry first, whilst another firm can get into industry only after the first firm's license expiry. The Cournot model is characterized by the symmetric model of firms, meaning that both firms accept to have the same proportion on the market, they are interchangeable.

2. The models analyzed

2.1. Cournot Model of Oligopoly

Two firms that produce an homogeneous product are taken into account, in quantities q_1 and q_2 and with identical functions: $C_i(q_i)$.

Total production is:

$$Q = q_1 + q_2$$

The model assumptions are:

- I_1^C
- the request is pure and perfect;
 - the function of global request is monotone-decreasing and known before:
 $Q = Q(P)$;
 - the price distribution is known for each quantity offered by the market:

$$P = P(Q) = P(q_1 + q_2);$$

- I_2^C
- the output quantity produced represents a strategic variable;
 - the markets are up to mature markets where a producer cannot follow a price policy different from that of competitors, the customers being used to the existant various prices. An example in this direction is the automotive industry where each customer appreciates the

price of a automobile function on the category;

- I_3^C
- the product is perfectly homogeneous, meaning perfect interchangeable;

- I_4^C
- each firm's target is its profit maximizing, adjusting itself to market conditions function on the quantity that each of them gets on the market.

The maximizing program of Firm 1 is:

$$\begin{aligned} & \text{Max } \Pi_1(q_1, q_2), \\ \Pi_1(q_1, q_2) &= q_1 \cdot P(Q) - C_1(q_1) = q_1 \cdot P \\ & (q_1 + q_2) - C_1(q_1) \end{aligned}$$

The Firm 1 profit depends on the quantity produced by Firm 2. In order to make a good decision, Firm 1 must forecast the production decision of Firm 2.

According to the same reasoning, the maximizing program of Firm 2 works:

$$\begin{aligned} & \text{Max } \Pi_2(q_1, q_2), \\ \Pi_2(q_1, q_2) &= q_2 \cdot P(Q) - C_2(q_2) = q_2 \cdot P \\ & (q_1 + q_2) - C_2(q_2) \end{aligned}$$

In order to determine the equilibrium, each enterprise will maximize the profit for a production level given to the competitor. The equilibrium will check up on the conditions:

partial derivatives of first order must be null:

$$\frac{\delta \Pi_1(q_1 + q_2)}{\delta q_1} = \frac{\delta P(q_1 + q_2)}{\delta q_1} \cdot q_1 +$$

$$P(q_1 + q_2) - \frac{\delta C_1(q_1)}{\delta q_1} = 0$$

$$\frac{\delta \Pi_2(q_1 + q_2)}{\delta q_2} = \frac{\delta P(q_1 + q_2)}{\delta q_2} \cdot q_2 +$$

$$P(q_1 + q_2) - \frac{\delta C_2(q_2)}{\delta q_2} = 0$$

partial derivatives of the second order must be negative:

$$\frac{\delta^2 \Pi}{\delta q_i^2} \leq 0$$

The conditions of first order express the optimum production of Firm 1 function on the anticipation in choice made by Firm 2. These restrictions form the reaction function

of the firm which defines the firm's reaction deferring to the different conjunctures with regard to the possible choice of the other firm. So, for each firm the reaction function is written as following:

$$\frac{\delta P(q_1 + q_2)}{\delta q_1} \cdot q_1 + P(q_1 + q_2) =$$

$$\frac{\delta C_1(q_1)}{\delta q_1} \Rightarrow q_1 = R_1(q_2)$$

$$\frac{\delta P(q_1 + q_2)}{\delta q_2} \cdot q_2 + P(q_1 + q_2) =$$

$$\frac{\delta C_2(q_2)}{\delta q_2} \Rightarrow q_2 = R_2(q_1)$$

Functions $R_1(q_2)$ and $R_2(q_1)$ represent the functions of the best answer to the quantity offered by the other firm. The equilibrium is a particular case of these reaction functions. Thus, the first firm will determine the quantity that maximize its profit function on its costs, the second one, knowing the requirement, will determine the quantity to offer dependent on the quantity offered by the first firm. This will have an impact on the reaction function of the first firm which will have to adjust the offered quantity.

In order to find the equilibrium, q_2 has to be replaced through reaction function of Firm 2 which depends on q_1 :

$$q_1 = R_1(R_2(q_1)) \rightarrow q_1^*$$

Then, q_1^* is replaced function on reaction function of Firm 2 and q_2^* is found.

The equilibrium (q_1^* , q_2^*) is a Cournot – Nash equilibrium. Most often the couple (Q^*, P^*) is represented by

$$Q^* = q_1^* + q_2^* \text{ and } P^* = p(q_1^* + q_2^*)$$

The Cournot model allows to explain the equilibrium existence, starting from the adjusting process of a firm to another. For the beginning, just one firm is considered on the market to establish the quantity level which maximizes its profit and then, the second firm enters the market. It is assumed that the quantity choose produced by Firm 1 is known and Firm 2 will adjust itself to this situation, and will establish the quantity considered optimum to maximize its profit.

Firm 1 will react to what Firm 2 will do. It results a process of adjusting process in several stages. Each firm will observe and study the behaviour of the other firm.

2.2. The Stackelberg Model

Consider two firms I_1 și I_2 that produce quantities q_1 și q_2 with:

$$Q = q_1 + q_2$$

And identical cost functions: $C_i(q_i)$

The assumptions of the model are:

I_1^S – the competition is pure and perfect (consumers atomicity);

- the global request function is monotone-decreasing and known in advance, $Q = Q(P)$; the prices for each offered quantity are known.

The reversed request function is $P = P(Q)$.

I_2^S – the strategic variable for each firm on the market is the output quantity produced;

I_3^S – the product is perfectly homogeneous, and so, perfectly interchangeable;

I_4^S – each firm has as target the maximizing of its price;

I_5^S – Each "leader" holds a complete information with regard to the reaction curve of the other firm. The "follower" firm will seek to maximize its profit considering the situation created by the "leader" firm.

The working mechanism of the model is the following:

The "leader" firm is active while the "follower" firm is passive on the market. The leader will choose, first, its production level and then, it will establish the quantity that determines its profit maximizing, considering the quantity the follower firm will choose as reaction to its own choice. The leader assumes that the "follower" will want to maximize the profit, but he will accept the leader production choice. This will allow the leader to know in advance the "follower's" production and will take it into consideration when establishing its own level of production.

The target of each firm is to maximize its profit function on the quantity it chooses to sell on the market. The choosing of production level is made in a non-cooperant manner. The maximizing programs are as follows:

$$\begin{aligned} \text{Max } \Pi_1(q_1, q_2); \Pi_1(q_1, q_2) &= q_1 \cdot P(Q) - \\ C_1(q_1) &= q_1 \cdot P(q_1 + q_2) - C_1(q_1) \end{aligned}$$

$$\begin{aligned} \text{Max } \Pi_2(q_1, q_2); \Pi_2(q_1, q_2) &= q_2 \cdot P(Q) - \\ C_2(q_2) &= q_2 \cdot P(q_1 + q_2) - C_2(q_2) \end{aligned}$$

In order to calculate the equilibrium, the reaction function of the "follower" must be calculated. The leader firm is maximizing its profit by knowing the "follower" firm's reaction:

$$\frac{\partial \Pi_2(q_1, q_2)}{\partial q_2} = 0$$

It results:

$$\frac{\partial P(q_1 + q_2)}{\partial q_2} \cdot q_2 + P(q_1 + q_2) -$$

$$\frac{\partial C_2(q_2)}{\partial q_2} = 0$$

or other represented:

$$\frac{\partial P(q_1 + q_2)}{\partial q_2} \cdot q_2 + P(q_1 + q_2) = \frac{\partial C_2(q_2)}{\partial q_2}$$

The reaction function for the "follower" firm is:

$$q_2 = R_2(q_1)$$

Knowing the reaction function of the "follower" firm, it has to maximize the "leader" firm's profit:

$$\begin{aligned} \Pi_1(q_1, q_2) &= P(Q) \times q_1 - C_1 \times (q_1) = \\ &P(q_1 + R_2(q_1)) \times q_1 - C_1(q_1) \end{aligned}$$

This expression can be used to draw the izoprofit curves which are composed of all points (q1,q2) that reach the same profit level. The curves represent combinations of q1 and q2 which provide a constant level of profit for the "follower".

Maximizing the profit for Firm 1 is ensured by relation:

$$\frac{\partial \Pi_1(q_1, R_2(q_1))}{\partial q_1} = 0$$

Computing, the above relation becomes:

$$\frac{\partial P(q_1 + R_2(q_1))}{\partial q_1} \times \left(1 + \frac{\partial R_2(q_1)}{\partial q_1}\right) \times q_1 +$$

$$P(q_1 + R_2(q_1)) - \frac{\partial C_1(q_1)}{\partial q_1} = 0$$

$$\frac{\partial P(q_1 + R_2(q_1))}{\partial q_1} \times \left(1 + \frac{\partial R_2(q_1)}{\partial q_1}\right) \times q_1 +$$

$$P(q_1 + R_2(q_1)) = \frac{\partial C_1(q_1)}{\partial q_1}$$

Thus, q_1^* will be directly obtained

The answer of the "follower":

–introducing q_1^* in the reaction

function of the „follower” q_2^* is obtained;

–the market equilibrium is one of Stackelberg type (Q^* , P^*), with:

$$Q^* = q_1^* + q_2^* \text{ și } P^* = P(q_1^* + q_2^*)$$

The profit curves represent the set of combinations q_1 și q_2 which determines the same profit level. $\Pi = f(q_1, q_2)$.

3. Dixit-Spence Model

The Stackelberg model from previous section may be used as a starting point to introduce the idea of entry discouragement. Obviously, the first strategic variable as well as the output quantity produced by the asymmetrical behaviour are not enough to discourage the entry, because the residual requirement is not enough for a "follower" to enter the market and to make profit. So, the question arises – what should an existant firm do so that to warn other firms that want to enter the market?

Usually, the first model to introduce is Bain-Modigliani-Sylos-Labini. In the first stage, it is chosen the firm that gets out of the market even after its product entry. In the second stage, the firm decides upon the getting out way from the market. According to the BMS-L model, this getting out way is the same with that one the firm decided to use before coming back. However as we know the BMS-L model is not subgame perfect since once entry has occurred it is not profitable to produce the preentry output but

rather accommodate entry and behave as a Cournot duopolist.

For a detailed analyse of this model, it is necessary to use the ideas of Schotter (1996, pp. 409-11). The threat of expanding output to the point where entry is not profitable for the entrant and maintaining that output even if entry occurs is a non-credible threat.

So, what would it be a credible threat? In this situation the Dixit-Spencer model is needed.

As everybody knows, in case of Dixit-Spence model, the firms should invest in capacity and technology in order to hold a great concurential power, even more than in case of Cournot standard model or of Stackelberg duopol.

The development of this excess of capacity can determine the production increase from the moment of entry, which would ensure a perfect equilibrium to that firm which would want it to happen.

In the first stage, the traditional model Dixit-Spence refers to those decision taken with regard to the firm capacity when the entry on the market is considered. In the second stage, the firm chooses the quantity it will produce, followed by the obtained potential after entering and the decision to enter or not on the market. Thus, the firm, during the third stage will know how to answer to the market oscillations by adjusting its own production.

Let's assume that a firm chooses a production capacity of Q^* , so that for each output less than Q^* , the firm to be able to produce at the level of zero marginal cost like before. But for each quantity bigger than Q^* , the cost per unit becomes $\frac{1}{4}$. For a firm wishing to entry the market the cost per unit is $\frac{1}{4}$ because there are not clear information about the capacity size of the real production. So, the entry cost function is:

$$C_p = 0 \text{ for } q \leq Q^*$$

$$C_p = (1/4)q \text{ for } q > Q^*.$$

Having simple requirement of $C=1-Q$. The first question is – how much is the output if the input proves to be unprofitable? The answer is simple – the established price must be equal to medium cost. At this moment, the firm must wait a potential entry if it does not get a zero profit. Because C_p is

of $\frac{1}{4}$, fixing a price is equal to the medium cost, for that firm to be efficient it is needed a capacity of $\frac{3}{4}$ unit. The incumbent firm should install capacity of $\frac{3}{4}$ unit but produce its monopoly output of $\frac{1}{2}$. Confronted with this capacity of $\frac{3}{4}$ unit, the entry becomes nonprofitable, because in case the firm that gets this market ratio does not produce $\frac{3}{4}$, than, the residual requirement is $C = \frac{1}{4} - Q$ and even the intention to get out from this residual market is 0.

The incumbent firm can now costlessly expand output till $\frac{3}{4}$ unit making such entry unprofitable. Thus in this model the incumbent firm installs just enough capacity that will make entry unprofitable and then in the equilibrium of this game, entry does not occur and the incumbent firm continues to enjoy monopoly profit. If the incumbent does not have installed capacity then it cannot deter entry by a potential entrant. In this case produces its optimal output as the Stackelberg leader which would be $\frac{3}{8}$ and that of the follower would be $\frac{3}{16}$.

4. Manipulating different entry ways

We can speak about a large variety of models with regard to a firm entry on the market. How is this idea of different entry ways motivated? Aoki and Prusa (1997) point out that institutional factors and governmental regulations of a country can determine, by the information provided, major changes of the game by detrmining an unloyal competition.

In the U.S. context then a firm with a patent may enter an industry first to be followed by others when the patent expires. But in the Japanese context since the patent is thrown open to a firm's rivals before it is granted to a firm, it is not inconceivable to think of more than one firm entering a market simultaneously to be followed by others at a later date. Such differences in patent law could explain how there could be different entry sequences into a market.

Other said, I can develop these problems such as:

(1) we assume firm 1 that wishes to move and decides to get out; firms 2 and 3 observe firm 1 intention and will try the same thing. We calculate the outputs produced by each firm.

(2) we assume that firms 1 and 2 act as Cournot duopol and decide upon their production. The firm 3 observe both firms tend to get out an makes a decision on its production. We calculate the output of each firm.

As for the problem (1): when firm 1 decided to get out from the market, it behaves just like part of a monopoly and, consequently, it influences the entire market $C = 1 - Q$ and chooses a getting out of $\frac{1}{2}$ monopoly. So, firms 2 and 3 face a new curve of form $C = \frac{1}{2} - Q$ on the new market. They produce $\frac{1}{3} * \frac{1}{2} = \frac{1}{6}$ each.

Similarly, for the second problem (2), firms 1 and 2 are duopol and each of them will produce $2 * \frac{1}{3} = \frac{2}{3}$ from the market. So, in this situation, firm 3 faces a market requirement $C = \frac{1}{3} - Q$. When firm 3 decides to get out of the market it can act as a monopolist and chooses the monopoly type getting out in the residual part of the market, which is $\frac{1}{2} * \frac{1}{3} = \frac{1}{6}$. Again, it is easy to check if this getting out makes the Stackelberg model.

The most speciality books offer an adequate cover of the monopoly models as well as the oligopol type, such as Cournot or Stackleberg. However, we do not find many information about firms' entry models but about firms' entry discouragement, as Dixit-Spence model does. Thus, a simple discussion about discouraging firms when enter the market is a plus of the lectures approaching this subject.

5. Conclusion

In this paper I have provided a simple algebraic framework for teaching the Stackelberg model where firms move sequentially instead of simultaneously. This framework provides a different way of thinking about the Stackelberg model. The framework can be extended to undertake a discussion of various modes of entry.

Moreover the model has the added advantage that it takes topics which can be technically sophisticated and provides an intuitive and computationally simple way of dealing with them.

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Opinions on the Importance of Knowledge Management

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Abstract

Many practices attempting to manage individual and corporate learning have over time converged into what is now labelled 'knowledge management'. A number of disciplines have been involved in this evolution, ranging from psychology to management. This diversity has culminated in the development of a range of terms such as 'the learning organization', 'intellectual capital management', 'intellectual asset management' and 'knowledge management'.

From these beginnings it is easy to conclude that the modern conceptualization of knowledge management is an umbrella for capturing a range of organizational concerns. Irrespective of the precise terminology, there fortunately is common understanding that knowledge management encapsulates a more organic and holistic way of understanding and leveraging people within work processes for business benefit.

Key words: knowledge management, competitive advantage, innovation.

J.E.L. classification: M10

1. Introduction

While knowledge management has become rather fashionable in the 1990s, recognition of its importance precedes current-day interest. Edith Penrose in analysing the economics of the firm commented on the difficulty of managing the process: 'Economists have, of course, always recognized the dominant role that increasingly knowledge plays in economic processes, but have, for the most part, found the whole subject of knowledge too slippery

to handle' [1]. Herbert A Simon insightfully declared that knowledge is more than technology: 'In the period ahead of us, more important than advances in computer design will be the advances we can make in our understanding of human information processing, of thinking, problem solving, and decision making . . .' [2].

Moreover, interest in knowledge management was not just confined solely within the domain of academic discourse but alluded much more popularly, as the quote from H. G. Wells highlights: An immense and ever-increasing wealth of knowledge is scattered about the world today; knowledge that would probably suffice to solve all the mighty difficulties of our age, but it is dispersed and unorganised. We need a sort of mental clearinghouse for the mind: a depot where knowledge and ideas are received, sorted, summarised, digested, clarified and compared [3].

2. Towards new approaches for competitive advantage

Scholars and observers from diverse perspectives, sociology, economics and management science, agree that managing knowledge is a fundamental driver of organizational progress in the modern business environment. Harvard sociologist, Bell [4] presented one of the earliest analyses of the changes that might accompany the increase in knowledge use. Stanford economist, Romer [5], published the first quantitatively rigorous treatment of how the use of knowledge affects economic growth. Management guru, Drucker [6], provided a historical perspective of how recent economic changes could be framed within a business context.

The trend over time has been for knowledge-based firms to move towards precognition and adaptation. This is in stark contrast to the traditional emphasis on optimization. This trend is amplified by two facilitating factors: speed and interconnection. All these elements intertwine for future organizational success. Speed, in the form of transmission of information and knowledge, quicker decision making and innovation cycles, together with interconnection of information systems, workers, organizations and economies, facilitates precognition and adaptation. Castells [7] summarizes the shift as follows: 'What characterises the current technological revolution is not the centrality of knowledge and information but the application of such knowledge and information to knowledge generation, information processing, communication devices, in a cumulative feedback loop between innovation and the uses of innovation.'

Companies are facing up to this new reality. The modern business economy does not favour organizational competencies that have provided historic business success. The new era demands new formats and new strategies, and managing learning and knowledge rests central within these.

3. Traditional concepts

Organizations exist because collaboration of resources can yield higher outcomes than an individual alone. Argyris and Schon [8] note that a collection of individuals becomes an organization when the individuals start to act for the good of the organization. The organizational collective is awarded identity by the actions of the individuals it comprises.

Henri Fayol, in the early twentieth century, was the founder of the administrative school of management. He divided the company into six functional departments: technical, commercial, financial, security, accounting and managerial. These divisions came about prior to modern thinking on marketing and sales. Fayol [9] was one of the first people to demonstrate the concept of an ultimate system of operation for an organization. At about the same time a German psychologist, Max Weber, developed a series of rules for efficient organization [10]. He proposed that

a hierarchy should be developed, and positions in that hierarchy should be awarded on merit. Additionally, he suggested that organizations should be divided into parts, with a clear specification for each part. Both of these theories have merit but are somewhat outdated, having been formulated in an era when the turbulence and turmoil we see daily in business today was virtually non-existent. A particular weakness in companies basing their structures on the edifice of these theories is that they become cast in an inflexible mould, finding it difficult to change in the face of external forces.

The business historian and analyst, Alfred D. Chandler, argued in the 1960s that the structure of an organization governs the effectiveness of its use of resources. Therefore company strategies should reflect not only the use of resources, but also the specific goals the company is trying to achieve. Igor Ansoff, the strategy theorist, built on this notion by suggesting that the use of resources was to be maximized prior to the matching of business opportunities with organizational resources [11]. In short, he believed in maximizing strengths and minimizing weaknesses. However, both these approaches produce a company with distinct strengths that are difficult to change if the market moves on (as it inevitably does). Some of Ansoff's later work focused on 'paralysis by analysis', showing such organizations to be too rigid and slow to adapt to change.

In the 1980s, Porter developed a framework for the analysis of competitive strategy [12]. It focused on the view of an organization as an entity driven by reactions to its external environment. Porter identified five forces relevant to company success or failure and suggested that strategy should be formulated by the organization to deal with these. The five forces are:

- The potential of new entrants to the market.
- The bargaining power of customers.
- The threat of substitute products.
- The bargaining power of suppliers.
- The activities of existing competitors.

Each factor can affect profitability, and this profitability determines what is the most effective and appropriate strategy. In later work, Porter linked internal, or corporate,

resources with the external environment by explicating the concept of the value chain. The value chain is the chain of business operations that the organization must control and configure to construct a coherent competitive strategy. It includes management of such things as such as logistics, marketing, production and sales, and support functions such as human resources and technical infrastructure. Porter argues that a firm gains competitive advantage by performing these value-chain activities more cheaply, more effectively or in a better way than the competition.

4. Developing knowledge management and learning as core competencies

It is the management of internal or corporate resources that with which we are most concerned. While market economic theory takes the view of scarcity of resources, organizational theory assumes that the same external resources are available to all. Therefore, only better internal resources can make a difference to achieving a competitive advantage over the competition, i.e. internal resources must perform better than the competition. Internal resources are assets such as the human resources or machinery belonging to a particular organization. These assets must perform its task more effectively than the competition.

Prahalad and Hamel [13] extend this view in defining the notion of core competencies, which are responsible for competitive advantage. Moreover, to build and sustain competitive advantage the core competencies must be difficult to imitate, non-substitutable, durable and non-transparent. Some of these core competencies are not independent – other factors come into play when you depart from the theoretical world and move into the real world: Itami [14] stated that irreversible assets were divided into tangible and intangible sources of profits; Collis [15] built on the work of others in identifying organizational capability as the firm's dynamic routines that enable it to generate continuous improvement in efficiency or effectiveness, and that it embodied the firm's tacit knowledge of how to initiate or respond to change. From this perspective, the organizational capability of managing knowledge and learning is deemed a core

competence.

It is in the science of developing core competencies that organizational learning and knowledge management is most intimately associated. In order for a resource to yield competitive advantage the firm must utilize it in a unique way, or have some unique knowledge about its function. A prime example of a company attaining a competitive advantage is the development of a new product that is patentable. Once patent protected, the product can produce a profit stream. If we look back at how that product was developed we can see that a systematic analysis of a market or a customer need produced the concept or design for that product. There are several systematic ways of generating such concepts or ideas in line with the customer's requirements. It is the basic premise of organizational learning that such insight or process is applied to other aspects of the organization's function in order to generate a better or more efficient way of operating. The process described in this example, at a theoretical level, can be described as the management of knowledge for marketplace advantage.

5. Conclusion

In sum, we can conclude that knowledge management is as a complex, multi-layered and multifaceted concept. This is demonstrated by the number of differing opinions about the essence of knowledge management, which is reflected by the fact that there is no universally agreed definition of knowledge management. Nevertheless, most agree it is something to do with the systematic management of knowledge to achieve business benefits. On the basis of the discussion, we propose that knowledge management is the coming together of organizational processes, information processing technologies, organizational strategies and culture for the enhanced management and leverage of human knowledge and learning to the benefit of the company. Knowledge management is not a separate management function or a separate process. Knowledge management consists of a set of cross-disciplinary organizational processes that seek the ongoing and continuous creation of new knowledge by leveraging the synergy of combining

information technologies, and the creative and innovative capacity of human beings. To bring about business benefits, knowledge management has to be aligned to the company's strategic thrust. Indeed, if knowledge management is a 'new' organizational paradigm, it is only so in the sense that attempts are now being made to systematically manage it.

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Emotional Intelligence in Leadership

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Abstract

Emotional problems are the most common problems encountered in our century. If you ask someone which would be the biggest dissatisfaction in his life, probably the overwhelming majority of responses will revolve around relationships, communication difficulties, and the inability to resolve certain relational conflicts. Anxiety, panic attacks, addictions, obsessive or depressive tendencies, anger, can be added to the above list. By developing skills related to emotional intelligence, we can control these problems and we can turn them in our favor. It is an undeniable truth that emotional intelligence may facilitate our way to success in any field.

Key words: emotional intelligence, leader, organizational performance, labor quality.

J.E.L. classification: M 59

1. Introduction

The range of emotions felt increases with the age (at least during childhood and during the period between childhood and maturity). The lack of communication causes the onset of conflicts. The education of the emotions can lead to an improvement in the results of the scholars, of the students, and further in the career of the individuals. This education should begin as soon as possible in order to gain constructive emotional capacity. This is necessary because the rehabilitation of the emotional capacity is more difficult.

Through this paper we intend to analyze the importance of the emotional intelligence

in leadership. Firstly we will make a foray into the literature in the field of the emotional intelligence, identifying its origin, defining the concept, and presenting the components of the emotional intelligence. In the second part of the paper we will focus on analyzing how emotional intelligence guides the leader in the organization.

2. The Origin of the Concept. Definitions

The term "emotional intelligence" was for the first time used in a classical academic formula, in a doctoral thesis in the U.S.A in 1985 by Wayne Leon Payne, Ph.D. from Union Institute, Cincinnati. In his opinion the emotional intelligence is a skill that involves a creative relationship with feelings of fear, pain and desire. This doctoral dissertation introduced a new term which after 15 years was about to change the theories about leadership, about the manager's role or how he interacts with the people he leads.

The concept of "emotional intelligence" is published for the first time in the papers of John D. Mayer and Peter Salovey (1990, 1993). They are considered the parents of the new intelligence the emotional one. The above mentioned authors are the first authors who treated seriously the subject and defined for the psychological world the new term. Little publicized, the subject of their work is taken into account only in the medical world.

In 1995, "The Time" published the famous article "What's Your EQ?" signed by Daniel Goleman, a journalist at this newspaper, where over time he wrote articles about the

brain and human behavior. Emotional Intelligence became known after the publication of the book "Emotional Intelligence: Why it CAN matter More Than IQ " in 1995.

Although the term is relatively new the components of the concept, can be traced back to the statement of Socrates (470-399 BC) "Know yourself ", in the Bible, in both Old and New Testament "Do not do to others what you do not like" and "Love your neighbor as yourself" can be seen as elements of emotional intelligence.

Researches on emotional intelligence are relatively recent, debuting around the 90s. In the work of Mayer and Salovey (1990) the concept of emotional intelligence is defined as the ability to control the own emotions and feelings, the ability to differentiate between them, and the ability to use this information to guide the own way of thinking and actions. With this definition, the two authors wanted to highlight the positive interacting between emotion and thought.

Another important direction regarding the emotional intelligence is the one offered by Daniel Goleman. In his opinion the concept of emotional intelligence means:

- to be aware of what you feel and what others feel and to know what to do about it;
- to know how to discern what is right and wrong for you and to know how to pass from bad to good;
- to have emotional awareness, sensitivity and leadership capacity to help you to achieve the happiness.

David Goleman in "Emotional Intelligence in Leadership" shows the importance of the emotional intelligence in leadership claiming that "the primary responsibility of the leader is to induce positive feelings [...] creating resonance - a reservoir of positive elements"[2].

3. Components of the Emotional Intelligence

Analyzing the studies conducted over 25 years by Reuven Bar-On., emotional intelligence components are grouped as follows:

a) Intrapersonal appearance:

Awareness of own emotions - the ability to recognize own feelings;

Optimism (assertiveness) - the ability to express thoughts, beliefs, feelings, in a constructive manner;

Respect - account for yourself - the ability to respect and accept what is (at the basis) good;

Self-realization - the ability to get involved in the search for goals, goals that have a certain meaning and a specific meaning for you;

Interdependence - the ability to direct and control yourself in your own thoughts and actions, the ability to be free of emotional dependency.

b) Interpersonal aspect:

Empathy - the ability to be conscious, to understand and appreciate the feelings of others;

Interpersonal relationships - the ability to establish and maintain positive reciprocal interpersonal relationships;

Social responsibility - the ability to demonstrate your implication as a taxpayer and constructively member of the social group whom you belong or you have formed.

c) Adaptability

Problem-solving - the ability to be aware of the problems and to define problems in order to generate and implement potentially effective solutions;

Reality testing;

Flexibility - the ability to adjust your thoughts, emotions and behavior in order to change the situation and conditions.

d) Stress control:

Tolerance to stress - the ability to withstand stressful events and situations without you stumble and also the ability to cope actively and positively;

Impulse control - the ability to resist or postpone the impulsiveness and to chase the temptation which determines you to act in hurry.

e) General provision

Happiness - the ability to feel satisfied with your own life, to have fun alone and with others, to feel good;

Optimism - the ability to see the bright side of life, to maintain a positive attitude despite the adversities.

According to Goleman any individual can raise the own degree of emotional intelligence through education and exercises, but some components of emotional intelligence are treated as personality traits and therefore could not change during the life of the individual.

Currently, there is a disagreement whether the emotional intelligence is more an innate potential, or whether it represents a set of abilities, competencies or learned skills.

Daniel Goleman (1998) sustains that "unlike the degree of intelligence, which remains the same throughout life or the unchangeable personality, emotional intelligence competencies are based on the learned skills .

Emotional intelligence is the personal ability to identify emotions and to manage them in a effective way in relation to the personal goals (career, family, education etc). Its finality is to achieve our goals, with minimal inter and intra-personal conflicts.

The way each uses his emotional intelligence depends the success or failure on his career. Even if a person has sufficient knowledge and intelligent ideas, if he fails to manage his emotions and feelings, may face difficulties in trying to build relationships with others or a successful career. People with a high degree of self-discovery realize that their feelings affect both themselves and the others. Developing emotional intelligence allows valuing of the intellectual skills, of the creativity, ensuring success in both personal and professional domains.

Leaving aside the complicated definitions, the ability to be emotionally intelligent is found to be twice important as technical and intellectual skills. It is more difficult to understand what a person wants to express through a nonverbal code, especially if we take into account the introverted persons which have difficulties in expressing their inner states and becomes a real challenge to interpret them. In some areas, a gesture considered highly politeness is seen elsewhere as a terrible offense, every little detail has its significance. For example, the high thumb raised and the rest of the fist close is for Americans "OK", while in Brazil is perceived as an insult.

4. Emotional Intelligence. Managerial Competencies

In the second part of the paper we intend to highlight how the adjacent areas and competencies of emotional intelligence affect leadership within the organization.

As Goleman points out in his study *Emotional intelligence in leadership* the basic role of the leader is emotional, this basic dimension of management conducting to the success of the corporation [2].

The study explains why to use a management model based on emotional intelligence, and also provides ways for leaders to use their emotional intelligence.

This study shows that the actions of the leaders have a significant influence in stimulating people loyalty, enthusiasm and motivation.

The research that led to this model, is based on hundred interviews with managers at different levels of the company, employees, rectors from around the world on leadership issues. In this study Goleman presents a new class of leaders who lead using human relationships.

His work is an examination of how emotional intelligence affects the performance. The first part of the paper defines the parameters of emotional intelligence and leadership, followed by a study on the influence of these parameters on the efficiency of decision taken by leaders within the organization. The four parameters of emotional intelligence of the leader are: self-awareness, self-control, social consciousness, managing relationships.

The first two parameters refer to the skills and personal abilities of the leader, while the last two relate to social skills of the leader, meaning the manner in which they manage relationships

I. Self-Awareness

Emotional self - awareness. Leaders who have good emotional self awareness are able to talk openly about their emotions understanding how feelings affect them and how emotions affect their job performance.

Correct self-evaluation. Leaders with self-awareness know their strengths, their limits and the correct self-evaluation allow them to know when to ask for help.

Self-esteem. Confident leaders can assume difficult projects with a safety that makes them stand out in a group.

II. Self-control

Self-control. Leaders who posed a good emotional self-control, keep their calm under stress, in crisis situations, managing to guide the emotions and impulses in a positive direction.

Transparency. Transparent leaders are able to recognize open when they made a mistake or a wrong act.

Adaptability. Adaptable leaders are those who adapt to the permanent changes encountered in the internal and external environment of the organization proofing flexibility when dealing with new data or events.

Ambition. Ambitious leaders are driven by the desire to overcome their record, they impose themselves challenging but achievable targets.

Initiative. Efficient leaders, meaning those who have the necessary resources to control the driven organization, excel in matters of leadership.

Optimism. In the opinion of the optimistic leader any obstacles are rather opportunities than threats.

III. Social consciousness

Empathy. Empathetic leaders are able to understand different people with different training, or from different cultures. These leaders also listen carefully and understand the point of view of others.

Organizational Consciousness. A leader with a strong social conscience will be able to detect power relations, unwritten rules that operate within human groups under his coordination.

Solicitude. Leaders who master this competence shall be made available to others when needed, carefully observe customer satisfaction to ensure that they get what they want.

IV. Managing relationships

Inspiration. Inspired leaders are able to formulate a mission in a manner that will determinate the group to perceive their work more exciting.

Influence. Leaders with power of influence have the ability to persuade key people or to find the appropriate people necessary for certain activities.

The management of the conflicts. Leaders who have this competency are able to listen the point of view of all parties and then to find a common denominator to gather all sides.

Teamwork and collaboration. Leaders who spend time forming and strengthening close relationships, build the spirit and the identity of the group.

No matter what leaders aim - to create strategies or to mobilize teams to act-their success depends on how they act. Trying to explain the effectiveness of our real leaders we will find that they are using emotions. Best leaders are different from others because they understand the important role played by emotions at the workplace and their impact on tangible aspects (eg. business results) and intangible aspects (morale, motivation, people dedication).

5. Moods and Organizational Performance

In any human group, the leader has the ability to influence the emotions of all. If human emotions are channeled to enthusiasm, performance is born, if the leader awakes in people anxiety, they will lose the efficiency, disciples waiting for empathy from leaders.

Emotions and moods have real consequences on carrying out activities within the organization. When people are in a good mood, they see the positive side of the situation contributing to the success of the business but if they are indisposed they stop on the negative side. Negative emotions (anger, anxiety, feelings of worthlessness) seriously affect the climate work.

When people feel good do their best to achieve the objectives of their organization, are more creative. For example, optimistic insurance agents are able to insist more, despite the denials, than their pessimistic colleagues and therefore have better sales.

The success of the leader depends on its attitude to forward the group an enthusiastic and cooperative mood.

6. Concluding Remarks

The old model of leadership had a functional purpose, not related to emotional or personal dimension, people were considered to be interchangeable parts. Such impersonal management records today more and more failures.

Resonant leaders could be a way to replace the old style of leadership, embodied by authoritarian old-fashioned figures.

Representatives of the new style of leadership, excel in the field of human relations, the single quality which remains indispensable in the permanent changing business environment.

Excellent leadership is seen through the mergers of corporations across the national borders, by redefining the connection networks of clients and suppliers by excusing the whole layers of managers.

Gifted with emotional intelligence, leaders know when to work, when to be visionary, when to listen and when to dominate. This type of leadership creates a flexible climate, ultimately leading to the creation of the added value.

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Economic Sizing Stock Production in the Economic Entities

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Abstract

The stock production is the amount of resources that is the result of a request and an offer of a way of organizing the supply activity with raw materials and must ensure the necessary materials in the production process between two consecutive supplies activity. His need is determined by the inconsistency in time and space of the production and consumption of resources, by the existence of different rates of production (consumption), by some uncertainties regarding the supply activity. These are arguments that impose within the economic entities the existence of resource stocks materials, such as safety stock – in order to eliminate the uncertainties regarding the consumption process, the quantities delivered and the time of delivery or speculative stocks – in order to eliminate negative influences of rising prices.

Key words: current stock, stock security, stock preparation and conditioning, seasonal stock

J.E.L. classification: M 19

1. Introduction

Economic agents form their stocks of material and products in order: to ensure uninterrupted supply of sub-units of consumption, satisfying customer requests in strict accordance with the claims they issue, to ensure optimal conditions of operation of each business unit.

Owning stocks require specially designed and equipped spaces, storage costs expenses with the insurance of the stocks, etc.

Stocks for production include: basic and auxiliary raw materials, components and subassemblies of the future finished product, materials and spare parts, packaging and packaging materials.

2. Main categories of the stock production within the economic entities

Stocks are the quantities of material that accumulates in warehouses and storerooms of the economic units in a certain volume and structure for a period of time, with a particular purpose.

Stock are actually the result of supply and trading activities. It is recommended that each economic unit calculates a series of stock materials such as:

- current stock
- safety stock
- stock for preparation or conditioning stock
- seasonal stock

2.1. The current stock

The current stock is the amount of raw materials required for continuous production process between two successive supplies activities with raw materials and materials from the supplier. Current stock size is determined by the following formula:

$S_c = C_{mz} * T$, where:

S_c = current stock

C_{mz} = average daily consumption of raw materials and materials; average daily consumption is determined by dividing the actual need for materials and raw materials to meet production program at the number of days during that program.

T = the average time between two consecutive provisions (in days), this time is provided in the supply contracts signed with the suppliers.

2.2. The safety stock

The safety stock is the quantity of material that must exist in the unit in order to be used in the production process when current stock is depleted, and there are delays in its integration due to disturbances in the deliveries from suppliers, or due to a consumption growth rate during the period beyond estimated limits.

Safety stock is an additional accumulation of material in stock and therefore a financial asset fund involved in their purchase.

This type of stock is provided for setting up basic raw materials, materials that are a condition for the continuity of the productive activities of the enterprise and the provider is located at a relatively large distance from the client that does not solve supply problems rapidly.

The safety stock is also used in the retail sales activity in order to honor promptly the demands of the clients. In determining this stock are taken into account the time for several activities like: the time for making on order, the time for transportation and the time related to activities such as unloading, receiving and storing materials. The formula for calculating the safety stock is:

$$S_{sig} = C_{mz} (t_1 + t_2 + t_3), \text{ where:}$$

Ssig = safety stock

Cmz = average daily consumption of raw materials and materials

t1 = time to establish connection with suppliers and preparing by them a lot of delivery

t2 = time to transport materials from the supplier to the beneficiary

t3 = time to unloading, receiving and storing materials

2.3 Stock for preparation or conditioning stock

The stock for preparation or conditioning is the amount of material accumulated and stationed for a period in dedicated facilities, necessary to those economic units where the materials must be subjected to prior preparation activities before coming into the production process.

Usually preparation operations are performed at the supplier, so that the beneficiary can use the materials immediately, but there are cases in which these activities through the contract are assigned to the consumer or although the activities have been performed at the provider, during transportation the physico-chemical parameters were not maintained.

At the end of the preparation activities the materials are included in the current stock in order to be used for its intended consumer set. The formula for calculating the stock for preparation is the following:

$$S_{pr} = C_{mz} * t_{pr}, \text{ where:}$$

Spr = stock for preparation or conditioning stock

Cmz = average daily consumption of raw materials and materials

tpr = time to prepare the material

2.4. Seasonal stock

Seasonal stock is the amount of material that accumulates in the deposits of the units in order to ensure the continuity of the production process in case of seasonal conditions of production, supply or transportation.

For example the economic units that use raw materials such as iron ores, nonferrous metals, coal, limestone, wood imports, their stocks are seasonal because the shipping with these materials is interrupted during the winter. That is why these stocks are also called winter stocks. The formula for calculating this type of stock is the following:

$$S_{sez} = C_{mz} * t_i, \text{ where:}$$

Ssez = seasonal stock

Cmz = average daily consumption of raw materials and materials

ti = time of interruption (in days) in the supply of this material

Besides these types of stocks are distinguished other categories of stock such as:

- strategic stocks of conjecture or speculative stocks are the material resources acquired when it is considered that the

acquisition price of these materials is most favorable and in future it will have a tendency to increase

- stocks in course of transportation represents the amount of material found in means of transport during their travel from providers to beneficiaries.
- internal transport stock is the amount of material that accumulates in manufacturing workshops in order to cover claims for consumption during the release and transportation period of materials from the central warehouse to consumer's destinations.

Stock production is expressed in:

- natural units (tones, kg, paces) - this expression serves to estimate the physical potential production, of works or services that can be realized with the stoked quantity;
- values (ROL thousand, mil. etc); this expression allows through summarizing to express the total stock;
- in days: this expression outlines the period for which the physical stock covers up the consumer's demand;

3. Economic sizing stock production in the economic entities

Economic sizing stock is an act of great importance for improving the financial situation of units from different industries.

In the following part of the paper I will illustrate how to determine the current stock in a economic entity from the milling and bakery industry.

In determining the current stock (Scr) it can be used several ways, depending on the purpose and elements to be taken into account. For example the static method is based on the effective ranges between supplies from providers in the previous period (Ief) and the actual quantities of materials into warehouses (Qefi).

The formula used to determine the current stock in physical expression is:

$$Scr = Cmz * I, \text{ where:}$$

Sc=current stock

Cmz=average daily consumption of raw materials and materials; average daily consumption is determined by dividing the actual need for materials and raw materials to

meet production program at the number of days during that program.

I = the average time between two consecutive provisions (in days), this time is provided in the supply contracts signed with the suppliers.

Average daily consumption is calculated by dividing the necessary materials to meet production program (Npl) at the period for which this is taken into account.

$$Cmz = Npl / \text{reporting period} \text{ or } Cmz = Npl / 360$$

The average interval between the two supplies is determined using the weighted arithmetic average:

$$I = \frac{\sum qefi \times Iefi}{\sum qefi}$$

Qefi = effective quantity entered the warehouse of the company;

Iefi = effective range between two successive entries;

Σ qefi = sum of actual quantities.

In order to analyze the evolution of the current stock of the main resource needed for the manufacture of bakery products - flour, during a month I will use the flour sheet store. The flour sheet store is used to determine the planned need of flour (Npl). In this direction, table no.1 presents the manufactured production quantities (Qp) and the consumption regulations (Nc) for flour.

Table no.1

Material	Flour type 650
Nc/1000kg finished product	785kg
Qp	80.000 kg
Np	62,8 mil kg
Cmz	174.444 kg

Table no. 2 - Flour type 650 sheet store

Date	Amount entered	Amount outstanding	Final stock	Date	Amount entered	Amount outstanding	Final stock
01.05	150		150	17.05		55	67
02.05			150	18.05			67
03.05	100	65	185	19.05	150	140	77
04.05			185	20.05			77
05.05	95	85	195	21.05			77
06.05			195	22.05	200	170	107
07.05			195	23.05			107
08.05	100	103	192	24.05	165	170	102
09.05	80	45	227	25.05	100	120	82
10.05			227	26.05			82
11.05			227	27.05			82
12.05	220	300	147	28.05	300	315	67
13.05			147	29.05	200	205	62
14.05			147	30.05	50	75	37
15.05	90	115	122	31.05			37
16.05			122				

The interval between two successive supplies (I) at the resource-flour type 650 is determined (based on the sheet store) using the following formula:

$$I = \frac{\sum qefi \times Iefi}{\sum qefi} = \frac{2060t}{2000t} = 1,03days$$

$$\sum qefi \times Iefi = 150 \times 1 + 100 \times 1 + 95 \times 2 + 100 \times 0 + 80 \times 2 + 220 \times 2 + 90 \times 3 + 150 \times 2 + 200 \times 1 + 165 \times 0 + 100 \times 2 + 300 \times 0 + 200 \times 0 + 50 \times 1 = 2060t$$

$$\sum qefi = 150 + 100 + 95 + 100 + 80 + 220 + 90 + 150 + 200 + 165 + 100 + 300 + 200 + 50 = 2000t$$

Knowing the necessary planned (Npl) for flour type 650 which is 62.8 million kg / year and the interval between two successive supplies (I), which is 1.03 days, it can be determined the current stock in the month under review, with the following relationship:

$$Scr = Cmz \times i = \frac{Np}{360} \times 1.03 = \frac{62800t}{360} \times 1.03 = 180t$$

As shown in the sheet store there is a situation not very satisfactory regarding the meal entries. At the beginning of the month there was an inflow of 150t of flour type 650, amount that was situated below the current stock (which was 180t). But in day 3 - due to inputs (100t) more than the actual stock consumption (65t) the effective stock is above the current one: with 5t at 03.05., with 15t at 05.05 and 47t at 09.05. Overstocks continued until day 11 – inclusive, after that due to inputs lower than actual outputs the

company obtained on effective stock under the current stock.

Overstocks existing at several material resources, is a result of the improper material inputs in relation with the outputs for consumption. Regarding the existence of overstocks for 5 days, drew a series of negative phenomena: high maintenance, storage, conservation stocks, low quality of the material stored for a long time, immobilization of financial funds.

This situation affects the overall activity of the company, resulting the decrease of the efficiency and profitability of the business. Thus, these funds could be used in other more productive purposes or investments, leading ultimately to the development of the company activity.

4. Conclusions

The stock production is the amount of resources that is the result of a request and an offer of a way of organizing the supply activity with raw materials and must ensure the necessary materials in the production process between two consecutive supplies activity.

Economic agents form their stocks of material and products in order: to ensure uninterrupted supply of sub-units of consumption, satisfying customer requests in strict accordance with the claims they issue, to ensure optimal conditions of operation of each business unit.

Stocks for production include: basic and auxiliary raw materials, components and subassemblies of the future finished product, materials and spare parts, packaging and packaging materials.

Stock are actually the result of supply and trading activities. It is recommended that each economic unit calculates a series of stock materials such as: current stock, safety stock, stock for preparation or conditioning stock, seasonal stock

Economic sizing stock is an act of great importance for improving the financial situation of units from different industries.

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Goods Distribution and Logistics in the Current Economic and Financial Crisis

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Abstract

This article aims at assessing the impact of financial crisis and economic recession on goods distribution and logistics, the consumption behaviour of the behavioural changes made by the members of marketing channels. There have been observed the reactions of economic units, the strategies and tactics used in an attempt to maintain the level of sales, as well as the preparation of organizational and logistic capacities in order to make survival possible in this hostile environment.

Key words: financial crisis, decline in purchasing power, investment sluggishness, impulse buying decision for low value products, moderation buying decision.

J.E.L. classification: M31

1. Introduction

The conventional relationship checked over time between unemployment rate and inflation rate has been a concern to avoid economic overheating which leads to generating financial imbalance in the economy.

The financial overheating generated by the hanging up of rational measures in granting consumer credits, as well as a financing explosion through the use of some toxic products in credit facilities and giving guarantees have led to the creation of a speculative balloon "irrational exuberance" which finally generated the financial crisis through the emptying of capital reserves.

The lack of financial resources, through decimating the capital of financial institutions, the use of toxic financial tools have led to the economic decline both at the level of financial institutions (the bankruptcy

of some commercial and investment banks) and at the level of companies which carry on their activities in various economic fields.

Therefore, there has been a decrease of confidence in financial institutions, as well as the entrepreneurs' indifference who, due to a lack of crediting, cannot meet the conditions of running their businesses, financial blockade, being unable to restart the business cycle.

In a declining economy, regaining the appetite for business is crucial, since this decline is characterized by the lack of financial funds, restriction in granting credits, entrepreneurs entering the market, most of them being declared insolvent, stagnation or even suspension of activities.

Restoring confidence by starting off the economic mechanisms will require the use of a package of measures ready to generate demand and increase business confidence. These measures alone cannot change the situation, but we can also mention:

- The infusion of capital in the financial system for recapitalization;
- The system of financial stimulation of economic units in using economic capacities, the easy access to getting credits and the elimination of their distrust or indifference;
- The stimulation and expanding of public, local and central expenses favouring durable projects on urban and rural infrastructure, road and highway networks, and other systems which could stimulate production, distribution, and especially provide for the increase in demand and the stimulation of expenses;
- Creating new jobs and falling unemployment, using available or downsized labour force as a result of recession and bankruptcy of economic units;
- An effective control of the inflation rate to prevent economic overheating. The objective of the central banks is to maintain a

refinancing interest rate with a view to stimulating investments and providing for rational measures in economy, without creating speculative balloons.

During economic crisis, with its main component, i.e. the financial crisis, a contraction of the activities of goods distribution and logistics has emerged, generated by austerity measures, decrease in purchasing power (30-40%), the bankruptcy of some suppliers, traditional traders, distributors who compose marketing channels, suspending the activity of some intermediaries within logistic channels, such as carriages, forwarding firms, and so on.

2. Consumer behaviour under the impact of financial crisis and economic recession

The phenomena generated one after another as a result of crisis, appeared during 2009-2010 have as immediate effect the decrease in the purchasing power of the population, some research estimated over 30-40% [1], a drop in salaries and pensions, an increase in unemployment rate and inflation rate, a modification of fiscal legal provisions: VAT, excise tax, and so on.

Under these conditions, the purchasing behaviour experiences a new consumption behaviour as follows:

- Over 90% of the population reduces its purchasing power, especially pensioners;
- Over 30-50% of the population will reduce consumption to satisfy their basic needs, preferring cheap products, with discounts and own brands;
- They will no longer buy in large quantities, and will reduce the buying frequency, even when basic products are concerned;
- Given the tight budget per family, generated by the economic recession, the household budget will concern only the buying of products of prime necessity and sustenance. Very few families, around 7%, maintain their expenses budget for extra necessities;
- A significant and increasing weight will be represented by in-house consumption, especially with the rural population;
- Psychological changes related to buying decisions. Since the expenses budget of the population is continuously threatened by the

decrease in purchasing power, this will determine the buying decision to be taken before going shopping, whereas impulse buy will aim only at low or average value products;

- The major factor in the purchasing decision of the population is represented by price, promotions, free gift with each purchase, or attractive prices using packing, keeping the price, but offering larger packages.

Thus, the economic crisis will leave its mark upon the buying behaviour, which means that the buying decision will leave its psychological mark generated by the budget allotted to purchases, taking into account the changing times, the volatile income, without making an allowance on quality, health and certain consumption values.

3. Forms of influence on goods distribution and logistics under the impact of financial crisis and economic recession

- Taking into account the hard access to capital resources, a first restriction in the activity of goods distribution is the rigorous budgeting of making up the range of goods through selecting or carefully maintaining the suppliers (indigenous producers or importers), who introduce new products under well-known brands or deliver existing products with discounts, or presented as own brands.

- Another shortcoming is the lack of capacity to provide liquidity necessary for the acquisition of goods in bulk which keep sales over the breakeven point, and this led in many cases to the blocking of distributors' activity.

- Difficulty in making up the consumption lines due to the suppliers who changed the produced range of goods.

- The suppliers were subject to great fluctuations in meeting commercial terms and conditions, namely the unexpected change in prices, the reduction of payment terms, the request for payment instruments, guaranties, with a negative impact on the marketing channel in providing for the flow of goods and the making up of the consumption lines or the stock on hand able to ensure the breakeven point of the economic processes

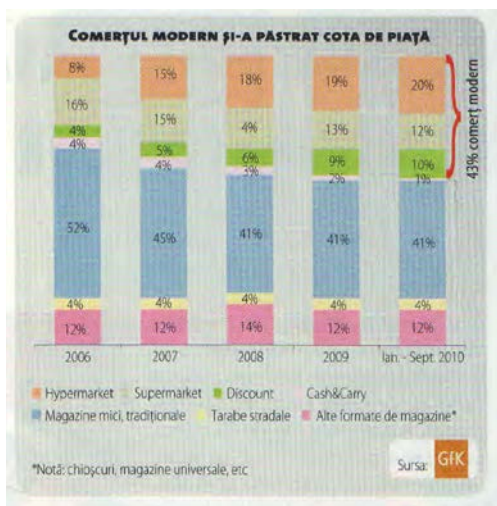
and activities specific to distribution and logistics.

- The producers' effort concentrated less on product innovation and more on the avalanche of products with economic price both for well-known brands and the big retailers' own brands with a view to maintaining sales. Here we can appreciate the concept of packing, namely innovation in the packing of larger quantities, at the same price, with an impact on the economic price.

We encounter a reconfiguration of the logistic and marketing channels through the rapid expansion of modern supply chains, like hyper and supermarkets, in comparison with the traditional supply chain which will experience difficulties in having access to supply sources and goods purchasing from suppliers.

Even if during the 2009-2010 economic crisis the expansion of major hyper and supermarket chains was held at a constant level, the analysis of the period 2006-2010 showed that this expansion registered an increase in market share from 32% to 43% [2].

Figure 1. Modern trade kept its market share



Source: Revista Magazin Progresiv, ianuarie 2011, pag 60-61

Under the impact of economic crisis and aggressive policy to maintain the turnover of the big retailers, who will lay down more and more disadvantageous conditions on their suppliers, these will be forced to become more receptive towards the traditional, proximity marketing channels.

Under these conditions, suppliers will be supported by traditional traders to promote famous brands.

The biggest difficulty faced by the distributors, the wholesalers, in this period of economic recession, is to keep the balance between the sales and the returns from the customers, this being the main requirement for maintaining the financial stability of the participating firms within the marketing channel. The cash flow blockages on the market are numerous, with an impact on insolvency, especially in traditional trade.

Retailers reach full maturity since they look for cost optimization and the use of modern display technologies in their stores which could beat the competition and offer appropriate customer service.

In this period of recession, sales management at the level of middlemen will rely on prudence rather than expansion, both from the market opportunities perspective and the decrease in purchasing power.

The objectives set by middlemen as a result of improving the situation generated by the crisis are the maintaining of technical, organizational and operational capacity together with the development of logistic divisions.

Under the conditions of information technology and communication (IT&C), we shall encounter changes within the marketing channel, as well as the logistic one, so as to pass to a management of distribution chains based on an analysis of value and essential competences which could reduce the overall cost to a minimum and lead to an appropriate customer service.

The majority of promotion activities within the marketing channel aimed at shelf promotion since, during crisis, buying decision will depend on product availability which has a direct and rapid efficiency compared to the promotion of brand image with a long-term impact.

Moreover, merchandising firms continued to proliferate providing shelf arrangement and display with professionalism and respecting quality standards, through consultancy support and real time in-house service.

4. Conclusions

We notice a reduction of the economic activities and processes within the marketing and logistic channels.

The consumption behaviour, and especially the buying behaviour are under the impact of the customer's moderation decision. At the same time, we acknowledge the maturity of the participants concerning the distribution and logistic systems, in the sense of managing, optimizing, consolidating and maintaining the operational and financial capacities in order to succeed in overcoming recession and be able to use the opportunities

offered by the market. Therefore, both the consumers and the economic units return to the traditional values, becoming more prudent in managing sales, wisely controlling budgets, and to a rational behaviour.

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A Multiple Regression Model for Country Risk Assessment for European Countries

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Abstract

This paper proposes a multiple regression model for country risk assessment using the main economic-financial and political variables starting from the existing major risk rating systems. It is based on data provided by international organizations such as the International Monetary Fund, the World Bank, the Eurostat, etc. as well as by previous research papers of a large interest among the experts in this field. The model offers a complementary instrument for quickly, promptly assessing the country ratings based on the most relevant characteristics employed by prestigious agencies such as Standard and Poor's, Moody's, the Institutional Investor, etc. The model results are consistent with the ratings provided by these agencies, confirming its usefulness for country risk research.

Key words: *country risk ratings, economic risk, financial risk, political risk, non-recursive regression model*

J.E.L. classification: C51, G24

1. Introduction

As the economic and financial development of a country and the difficulties that it faces may have different origins, the concerns with finding appropriate definitions and measurements for country risk have been numerous. At present country risk is largely addressed as "the probability that a country will fail to generate enough foreign exchange in order to pay its obligation toward the foreign creditors" (Kosmidou et al., 2008, p.1). The existing literature on this topic acknowledges both financial/economic and

political components of country risk. According to the degree to which some of these components are emphasized, country risk is viewed either from the financial/economic perspective only, or from the combined financial/economic and political perspectives.

In response to the increased demand for the evaluation of creditworthiness, a lot of agencies such as Moody's, Standard & Poor, Fitch, the Institutional Investor, Euromoney, Dun & Bradstreet, etc. have developed expertise in estimating country risk. These estimates are presented in the form of ratings (or scores) and are generally viewed as indicative of possible future default.

The wide acceptance of several of the major rating systems indicates that, while they may not be perfect, they provide the currently best-known evaluation of country risk. It is therefore reasonable to base the design of any new rating system on one of the existing ones.

Starting from these overall considerations this paper proposes a new model of rating system based on a multiple regression model that captures the main characteristics involved in the assessment of risk.

The paper is organised as follows. Section 2 presents the model built-up for the country risk estimation, using economic and political independent variables. In Section 3 the variable selection is discussed considering three main criteria, namely significance, availability and uniformity of data across countries. Then, as a result of applying these criteria, the economic and political variables incorporated in the model are systematically analyzed. Section 4 deals with the econometric results interpretation, emphasizing the model robustness tests and

the most statistically significant independent variables. In Section 5 the consistency with the main agencies' ratings is investigated, proving very high correlation levels not only with Standard & Poor's but also with Moody's, The Institutional Investor, etc.

2. The model

This paper is aiming at identifying the main factors essential for country risk evaluations in order to build a country risk rating system based on a new multiple regression model, able to provide results which are consistent with the assessments of the prestigious agencies, while requiring less time and effort. To achieve this goal, we derive a non-recursive model of Standard & Poor's ratings, specified by the following regression equation:

$$Y = \alpha + \sum_{i=1}^9 \beta_i X_i + \beta P + u \quad (1)$$

where the dependent variable Y is the country risk rating given by Standard & Poor at the end of December 2008 (or, more precisely, a numerical representation of Standard & Poor's ratings), the independent variables X_i are economic variables and P is political variable (see section 3) and u is the error term. In view of the desired non-recursive nature of the model, the independent variables do not include directly or indirectly ratings of previous years.

Twenty three European countries were considered in our model: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom, Croatia, Serbia.

3. Variable Selection

The selection of the variables involved in country risk assessment is often subject of criticism due to the subjectivity and arbitrariness involved in this process (Bilson et al., 2001). The selection of variables for our model was based on three main criteria.

The first criterion - *the significance of the variables* - is essential for achieving an accurate estimate of a country's

creditworthiness. As a consequence, an extensive literature review was conducted prior to defining the set of candidate variables for inclusion in our model.

The second criterion - *the availability of complete and reliable statistics* - is important in order to avoid difficulties related to missing data that could reduce the statistical significance and the scope of our analysis.

The third criterion - *the uniformity of data across countries* - ensures comparability. For instance, we avoided the use of the unemployment rate statistics disclosed by the World Bank because the underlying data are analyzed and compiled according to definitions which differ from country to country.

Based on these criteria of relevance, availability and uniformity, the following *ten economic/financial variables* were incorporated in the model: gross domestic product per capita, inflation rate, trade balance, international reserves, fiscal balance, exports growth rate, debt to GDP, financial depth, and exchange rate, unemployment rate, alongside *one political variable* - corruption level. These variables were deemed to be relevant for our research owing to their capacity to shed light on different issues related to the assessment of the country risk.

Dependent variable

- **Standard & Poor country risk ratings (foreign currency sovereign ratings.)** - The risk of default is generally defined by Standard & Poor as the probability that a sovereign obligor fails to meet a principal or interest payment on the due date and in full. Standard & Poor's ratings are based on the information provided by the debtors themselves and by other sources considered reliable.

Independent variables

- **Gross domestic product per capita** - The sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. The Gross domestic product per capita was selected as a measure of the relative wealth of a country and its level of development.

- **Inflation rate** - The change in the national price level between two periods. The inflation rate used in our study is based on the consumer price index and is the annual

percentage change in the cost to the average consumer of acquiring a fixed basket of goods and service. High inflation rates indicate structural problems in the country's finances and may lead to sovereign economic crises, as governments hike interest rates sharply in order to strengthen their countries' currencies. Should a country be unable or unwilling to pay the current budgetary expenses, it must resort to inflationary money financing. High inflation rate results in a substantial consumers' purchasing power reduction and increases political discontent.

-Trade balance- The balance of trade in goods expressed as a percentage of *GDP* (purchasing power parity-PPP). This is the difference in value between a country's total imports and exports (including information of oil and non oil exports, consumer goods, capital goods) measured in current U.S. dollars divided by the value of *GDP*. Considering the trade deficit as a main cause of current account balance deterioration, this indicator reveal higher risks for the sustainability of international financial position.

- Unemployment rate- The percentage of the total labor force that is unemployed but actively seeking employment and willing to work.

- Exports' growth rate- Annual growth rate of exports of goods and services based on constant local currency. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labor and property income as well as transfer payments. Countries having a high export growth rate are expected to be more creditworthy. Indeed, exports are the primary source of foreign currency inflows and therefore have a significant influence on the capacity of the country to finance imports and service debt obligations.

- International reserves- This variable refers to gross international reserves, expressed in terms of the number of months for which the existing reserves can cover the cost of imports of goods and services. It gives an indication of the short-term capacity

of an economy to meet its imports obligations. International reserves give an indication of the short-term capacity of an economy to meet its imports obligations. The higher the value of RES, the lower the risk of default and the higher the creditworthiness.

- Fiscal balance- Fiscal balance is approximated by the ratio of central government financial balance (surplus or deficit) to *GDP*. The central government's balance represents the yearly fiscal balance. Fiscal balance and debt stocks of governments are crucial indicators when analyzing sovereign risk. The ability of governments to extract revenues from taxpayers and users of services is a key factor that helps to determine whether governments will be able to make full and timely payments of interest and principal on outstanding debt.

- Debt to GDP- It refers to the general government debt. The general government debt as defined by the IMF (2001) includes the consolidated budgets of the central, state/regional, and local governments, along with the social security system and other extra-budgetary funds engaged in noncommercial activities. Excluded are lending and refinancing and the assets/liabilities of commercial state-owned or guaranteed enterprises, except for any net financial transfers made as subsidies to these enterprises. This balance, i.e., the difference between total revenues and total expenditures, determines the net borrowing requirement of general government, which can be met only by running down financial assets or borrowing net new resources from the public and, thereby, adding to debt. Debt to GDP gives an idea of the ability of a country to make future payments on its debt. If a country were unable to pay its debt, it would default, which could cause a panic in the domestic and international markets. The higher the debt-to-GDP ratio, the less likely the country will pay its debt back, and the higher its risk of default.

- Exchange rate- It is defined as the ratio of the current value of the exchange rate to the moving average of the real effective exchange rate over five years (2004 to 2008). Exchange rate indicates the dynamics of changes in the exchange rate, by specifying whether the trend is up (>1) or down (<1).

- Financial depth- It is represented by the ratio of the domestic credit provided by

the banking sector. Financial depth is used to measure the growth of the banking system since it reflects the extent to which savings are financial. Households accumulate claims on financial institutions that, acting as intermediaries, pass funds to final users. Correlated to the development of the economy, the indirect lending by savers to investors becomes more efficient and gradually increases assets relative to the GDP. Viewed from this perspective, the ratio of domestic credit to the GDP reflects the financial depth of the country's financial system.

- **Corruption**- It is a good indicator of the "respect of citizens and institutions for the rules which govern their interactions" (Alexe et al., 2003, p.11). It includes business, political and police corruption.

The statistical data on the economic and financial variables considered in this paper come from the International Monetary Fund (World Economic Outlook database), from the World Bank (World Development Indicators database) and Eurostat while those about the ratio of debt to gross domestic product come from Moody's publications and unemployment rate from Central Intelligence Agency and Eurostat. Values of political variable are provided by Kaufmann et al. in two papers that are joint products of the Macroeconomics and Growth, Development Research Group and Governance, Regulation and Finance Institutes which are affiliated with the World Bank. All values refer to the end of 2008. The Standard & Poor country risk ratings were used for the twenty three countries considered in our model (at the end of December of 2008) and the results were very good.

4. Econometric results

We run the regression specified in the equation (1). The parameters of the regression model were estimated using Ordinary Least Squares (OLS) and the results are shown in Tables 1 and 2. The econometric results given in this section have been obtained using the SPSS statistical package and Excel.

The model exhibits an excellent fit, with the coefficient of multiple determination *Rsquare* being 92,28%, and the adjusted *R-square* 84.5%. Table 1 below details how the regression equation accounts for the variability in the response variable, while the Table 2 is giving the estimated coefficients (standard errors in brackets) and it also indicates whether the corresponding independent variable is statistically significant (at the confidence level of *1-p*).

Table 1 : Analysis of variance

	Sum of Squares	Degrees of freedom	Mean Square	F-stat
Regression	1342,14	11	122,10	11,94
Residual	112,204	11	10,22	
Total	1454,40	22		

Predictors: (Constant), *Financial dept*, *International reserves* *Inflation rate*, *Trade balance*, *Exports' growth rate*, *Gross domestic product per capita*, *Exchange rate*, *Fiscal balance*, *Debt to GDP*, *Corruption*, *Unemployment rate*

Dependent Variable: S&P RATING

Table 2: Regression results

Variable	Coefficient (Standard error)
Constant	7,153
Financial depth	0,015 (0,002)*
International reserves	0,113 (0,048)**
Inflation rate	-0,021 (0,029)
Trade balance	-0,009 (0,015)
Exports' growth rate	-0,011 (0,027)
Gross domestic product per capita	0,00037 (0,00018)***
Exchange rate	-0,031 (0,004)*
Fiscal balance	0,113 (0,051)**
Debt to GDP	-1,763 (0,483)*
Unemployment rate	0,062 (0,034)****
Corruption	-0,554 (0,121)*

*Significant at 99% confidence level ** Significant at 95%*** Significant at 90%

The regression results described above indicate that the proposed regression model has an excellent fit with the data.

Table 2 presents the regression coefficients. Eight independent variables are highly statistically significant (financial depth, international reserves, gross domestic product per capita, exchange rate, fiscal balance, debt to GDP), while unemployment rate is less significant (at 85% confidence level).

5. Consistency with the ratings of the agencies

In addition to analyzing the correlation level between Standard & Poor's ratings and those of the proposed regression model, the latter has to be compared with the ratings of other agencies, e.g. Moody's and The Institutional Investor. We present below the results of these comparisons, based on Moody's and The Institutional Investor ratings issued at the end of December 2008 and in March 2009 respectively. We shall start by presenting a brief description of the rating systems of Moody's and of The Institutional Investor.

Moody's sovereign ratings are defined, as "a measure of the ability and willingness of the country's central bank to make available foreign currency to service debt, including that of central government itself" (Moody's, 1995). Similarly to Standard & Poor, Moody's uses a nominal rating scale, which contains the same number of categories as Standard & Poor's ratings. A large proportion of countries receive the same rating from Moody's and Standard & Poor, and when they are different, the difference is usually not more than one notch.

The Institutional Investor country risk ratings were first compiled in 1979, and are published now regularly, in March and September of every year, for an increasing number of countries, which reached 145 in 2008. The Institutional Investor ratings are numerical, ranging from 0 to 100, with 100 corresponding to the lowest chance of default. The Institutional Investor relies on evaluations of the creditworthiness of the countries to be rated, provided by economists and international banks, each respondent using their own criteria. Responses are aggregated by The Institutional Investor,

greater weights being given to responses from institutions with higher worldwide exposure.

The correlation levels between the ratings given by the non-recursive multiple regression model and those given by Standard and Poor, Moody's and The Institutional Investor are reported in Table 3.

Table 3: Correlation between the non-recursive model and other ratings

	Our model	S&P	Moody's	The Institut. Investor
Our model	100%	94,53%	93,24%	89,52%
S&P		100%	96,24%	93,83%
Moody's			100%	96,31%
The Institut. Investor				100%

It can be seen that the very high correlation levels between the ratings given by the non recursive regression model and those given by Moody and The Institutional Investor underline the relevance of the proposed model.

6. Conclusion

This paper has attempted to examine, by means of a new non-recursive model, the relevance of selected common economic-financial and political variables and indicators employed by prestigious agencies for assessing the country ratings. We found that the most important variables in terms of statistical significance refer to financial depth, gross domestic product per capita, exchange rate, fiscal balance, debt to GDP and international reserves. The econometric results of our application demonstrate that the proposed regression model has an excellent fit with the data employed, supporting its usefulness for various research studies dedicated to country risk analysis.

We have not found any significant differences by comparing the ratings produced by our model with the S&P ratings.

7. Acknowledgement

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Trends Regarding the Romanian Banking System

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Abstract

The Romanian banking system has made a significant progress over the transition to a market economy. This can be explained by the fact that the Romanian banks embraced banking strategies which had as purpose a performance improvement. In spite of this fact, they still have to cross a long way in order to catch up with the EU banking in terms of development and performance. This paper consists of a synthetic presentation of the main stages of evolution in the Romanian banking system from 1990 until now.

Key words: banking system, stages of evolution, the Romanian National Bank.

J.E.L. classification: G21

1. Introducere

The road covered by the Romanian banking system is one dominated by deep European reforms. The Romanian banking system reform started in the late 90's when the transition from a one-bank system to a composed one took place. Hence, this new system structured in two levels consisted in the Romanian National Bank and four specialized banks (Romanian Bank for Foreign Trade, the Bank for Agriculture and Food Industry, the Investment Bank and the Home Savings Bank). A plateau was occupied by the Central Bank, which became the sole organ of the issue. The Central Bank became responsible by law for the establishment and management of the monetary and credit policies, the licensing,

regulation and supervision of banking companies.

The second tier was entrusted to commercial banks, established as joint stock companies with the right to carry a wide range of operations, with the condition of fulfilling the requirements set by the Central Bank in terms of regulation and supervision. There are 3 stages to distinguish within the banking reform:

First of all, it's the period from 1990 until 1997, when the foundations of the two levels system were laid in accordance with the specificity of the market economy characteristics. At that time, three important laws were issued: the Banking Act, the Act on the Central Bank's status and towards the end, the law on privatization of banks in which the State is a shareholder. In the second stage, after 1997, the Central Bank acted to improve its banking laws in harmony with the European standards. Also, it initiated a process of improving and strengthening the banking system. This was an essential process needed indeed after the serious problems which existed during 1998-1999, when economic recession hit the banking system's weak links. The third step can be assimilated to the European Union integration and it reveals the impact this accession had on the banking sector.

2. Stages of development of the banking system in Romania

Until 1997, in terms of the structure of assets, the banking system has been characterized by a pronounced focus on the

four main state banks - Agricultural Bank, the Romanian Commercial Bank (BCR), the Romanian Bank for Foreign Trade (Bancorex) and the Romanian Bank for Development (BRD). This has been a tendency to blur, however, due to the emergence of new private banks. Thus, as a percentage of total assets at a system level, the balance of the four banks decreased from 83 percent in 1991 to 62 percent in 1998.

Another feature of the banking system during 1990-1997 has been to maintain a high degree of segmentation - reflected by a priority guidance of the state banks to finance the public sector, of the ones with Romanian private equity to finance domestic private economic agents while foreign banks worked mainly with large foreign companies which were present in our country.

The reform moved on and the transformations were consistent. In order to ensure a healthy economic base of the banking system and its functioning on a competitive basis, the Central Bank adopted a policy of cautious approval, which was a favorable setting to a relatively small number of banks. Even though these banks weren't many, they were strong, with solid capital. The general enthusiasm towards establishing new banks should be taken into consideration when assessing accurately the position of the National Bank of Romania in the issue (a phenomenon recorded in other post-communist countries), and on the other hand, the insufficient knowledge of the risks of the banking industry within Romanian societies.

All this time, an ongoing concern of the National Bank of Romania was to increase the efficiency of supervision in credit institutions and to primarily orient towards performance measurement and analysis of the dynamics of the situation of each bank. At the same time, we aimed to verify the compliance of the prudential indicators set out in regulations and of the measures to prevent the impairment of the financial situation of the banks concerned as well as the establishment of legal sanctions applicable when not respecting the rules.

In the 90's, the experience has shown that, apart from the existence of an adequate framework for prudential regulation and supervision, the health of the banking system requires mainly the proper functioning of the economy in general. Structural failures,

recorded in the real sector of the economy - especially the high degree of indebtedness to state of a large number of enterprises and service providers and the decline of the 1997-1999 period were reflected in the quality impairment of the banks' loan portfolio, especially of those banks of large exposure. The cases of the Agricultural Bank, the Bancorex Bank and the Column Bank became notorious-like. This trend was reinforced by the legislative framework, favorable to the debtor. Of course, it was about sanctioning inefficiently the non-payers and about cumbersome procedures for recovering the money by law enforcement. Another negative aspect was the absence of a liquid market which made not possible the capitalization of the guarantees on loans. The modest results regarding the restructuring of the real sector, together with the instability of the consumption price, of the interest rates and of the exchange rates have affected the behavior of commercial banks. Their appetite for lending to the real economy was low, but it increased the share of income from investments in government securities and foreign exchange. There were still strides to be done before we shall see the retail banking developing, in Romania.

Between 1990 and 1997, a prominent feature of the functioning of commercial banks has been the interference of the political factor, by means of special laws or decisions of government, under which were granted preferential loans to support energy and agricultural sectors. In this way, the rational allocation of resources for financing the economy has been distorted, a phenomenon that peaked in 1995 and 1996.

The solution to protect banks from such influences and to ensure sound corporate governance was provided by privatization. Although through the stand-by agreement for the period 1994-1995, the Romanian authorities have already pledged to the IMF to privatize the two companies with majority state-owned bank within a year, concrete results have only appeared a few years later. The stagnation of the privatization process had as reason the interests previously mentioned. Since 1997, when this economic orientation was given up, the economic policy has led to substantial changes in the banking system.

The preferential credit, accumulated especially in Bancorex and the Agricultural Bank, was considered a bad loan. It was time for banks to no longer be regarded only as a source of money, but to become effective instruments of the economy. Management teams and shareholders (either private or public) that showed unsafe behavior, practicing risky lending policies and showing negligence in the management of the banks, were faced with a hardship in November, which they were not used to. Such a conduct has had serious repercussions on several commercial banks from 1996 until the 1998-1999 banking crisis when the situation culminated.

The Central Bank's position was nuanced. As a general rule, the Central Bank sought to avoid crisis and the system used for this purpose, the whole arsenal of means provided by the banking law, including exercising the role of lender of last resort, obviously, with the risks in terms of moral hazard and the difficulty in terms of controlling the budget deficit. However, funding problematic banks in order to avoid systemic crisis was conceived such as to affect as little as possible the monetary policy, which was focused on ensuring macroeconomic stability.

While preventing the contagion phenomenon at a system level, the price of this balance policy between two contrary objectives consisted in the disappearance of some. In the second stage, after 1997 the Central Bank acted to improve banking legislation and to align to the European standards. At this stage, the deed directions were influenced by two major moments: the banking crisis during the years 1998-1999 and the invitation of Romania in Helsinki (December 1999) to start EU accession negotiations. It initiated a process of strengthening and improving the banking system. This was absolutely necessary because of serious problems in the years 1998-1999, when economic recession hit the weak links in the banking system seriously. The main threat to the viability of a banking system was, at the time of 1998, the failure of large banks, the state capital (Bancorex and Agricultural Bank).

In 1999, the National Agency for Bank Asset Recovery (AVAB) was founded and it took over the bad loans from these banks and

off-balance sheet assets from the same category in order to successfully carry out the restructuring process. The improvement procedures on the banking system led finally to the elimination of nonviable entities, getting in time to a correct assumption of the function of intermediate. Since the restructuring of the banking system outran the restructuring of the real economy, banks, in a first stage (2000 - 2002) have adopted a reserved attitude towards lending to the economy which has drawn complaints from the authorities and the public. The Central Bank intervened in this situation trying to explain that the prudential attitude they have shown is due to the large volume of bad loans accumulated by 1998. Subsequently, the lending activity has evolved both qualitatively and quantitatively. The restructuring activity, which has as purpose to clean up the banking system, was based on the banking supervision function and it was conducted from various points of view: legal, regulatory, organizational and from the point of view of the efficiency in checking and sanctioning banks.

However banks have remained the most important financial intermediaries. In the late 2000, the Romanian banking system holds more than 90% of total assets of domestic financial system. In addition, the opening of the European Union required the intensification of regulatory harmonization with EU directives and the principles of the Basel Committee, so that currently the domestic banking legislation is aligned with European standards.

After BRD, Bancpost, the Agricultural Bank and the Commercial Bank of Romania have been successfully privatized by the taking over of the majority shareholding by foreign financial institutions of enhanced reputation. Hence, foreign capital became dominant in the Romanian banking market.

Romania thus falls under the globalization trend although, in this case, "regionalization" would be a more correct term to use because the foreign capital currently in the Romanian banking market comes from European Union's countries. From this perspective we can say that we are more integrated than other countries such as Sweden, Ireland, where more than 50% of the banking system is national property. In future, it is possible

for strong Romanian banks to show up and to act as key players in the system.

European financial market trends begin to make their presence felt on the national banking market. Thus, European banks' tendency to become larger has been observed even in Romania where they developed a process of concentration through mergers and acquisitions. An example is the merger between HVB Tiriac Bank and UniCredit Romania Bank and deploying new business entity under the name UniCredit Tiriac Bank. Simultaneously, there is a specialization trend very well illustrated in SME financing by ProCredit Bank, the housing banks created by Raiffeisen Bank and UniCredit Tiriac Bank, and in credit for cars created by Porsche Bank.

Also, it is very important the fact that once with the accession to the EU and the market liberalization, a number of 207 foreign institutions have notified their intention to provide and conduct banking business in Romania. The percentage of assets held by banks with majority private capital in the Romanian banking system in the total assets at the end of 2009, 92.7%, while banks with majority state owned or held a share of only 7.3%.

After the accession to the EU, the link with modern banking practices provided by the banks with foreign capital together with the increasing customer requirement led to rapid uptake and development of services involving advanced technology.

Composition of the banking sector ownership in early 2009 was as follows:

Table 1. The structure of the banking system ownership

	2008	2009
Banks, Romanian legal persons	32	31
<u>Banks_with_majority state-owned or fully state-owned which of:</u>	2	2
With a majority state-owned capital	1	1
With a fully state-owned capital	1	1
<u>Banks with privately owned capital, which of:</u>	30	29
With a majority domestic one	3	4

With a majority foreign owned one	27	25
<u>Foreign bank branches</u>	10	10
<u>Total number of banks and foreign bank branches</u>	42	41
<u>CREDITCOOP</u>	1	1
<u>Total number of credit institutions:</u>	43	42

Source: The National Bank of Romania

Due to technical progresses, Romania has been able to overcome relatively quickly the period of checks and paper-based instruments and to subscribe to the phase of the electronically processed tools, phase that took decades to other countries. Thus, in addition to the accelerated growth in the number of users and volume of transactions conducted by electronic means of payment in a few years, became the exception rule in Romania gaining more ground in the internet banking being in accordance with the development trends in the European Union and even global e-banking services and e-finance. However, the widespread appeal of information technology allowed the introduction of a new concept in Romania – self banking - which on one hand, satisfies customer demands for banks to have flexible working hours and on the other hand, enables them to reduce the operational costs, this being a very important element in the context of fierce competition.

An expression of the increasingly important role played by information technology in the development and modernization of banking services is the Electronic Payment System (EPS) - although with some delay - to reduce settlement time, reduce costs, fees, interconnectivity with the European system TARGET And increases system security.

The influence of the process of regionalization is the trend of innovation shown by local banks, reflected in the continued diversification of product range offered to customers, either by opening branches with a distinct profile (insurance, brokerage, leasing), or by providing new products (credit property, credit for vacations, etc...). In some areas (ex. leasing), commercial banks took advantage of the relatively weak regulation and supervision, in order to maximize profits in a mature market failure. As regulatory authorities take

measures and surveillance will remain fewer "loopholes" for the extraction of rents (rent-seeking).

The global economic and financial crisis, manifested intensively in 2009 represented the main negative context in which both the real and the financial sectors operated, in Romania. Due to stable levels of liquidity and solvency indicator, the banking sector has absorbed these shocks better, but the financial performance was much reduced and the risk of growth of bad loans was emphasized. In the short term, the perspectives of the banking sector and of the financial banking system generally depend largely on restoring the confidence, the success of sustainable economic recovery and international developments.

3. Discussions

Looking ahead, the development of the Romanian banking system has some predictable ways and others in which developments may be less reliable. In the category of predictable falls the significant reduction of the bank intermediation costs. First of all, I refer to the reduction of the cost for transfer payments, once with the introduction of the Electronic Payment System (EPS) in order to get an approach of these costs to the level of costs in the European Union. As far as the cost of the large payments is concerned, it will cut several times per unit of payment. Another area where in the period ahead, the reduction of intermediation costs will be highlighted is that of household deposits. The contribution of commercial banks for the establishment and operation of the guarantee fund then deposits in the banking system was substantial. The Fund has created a great asset, allowing the lifting of the guarantee limits on the European level of coverage. And I think it would be time to think about reducing the contribution of commercial banks. Another measure is related to minimal obligatory reserves in lei. Fighting inflation had to be taken with various instruments, which the National Bank of Romania has used the most, but high costs were unavoidable, for financial intermediation in general and local currency lending in particular.

The reduction of reserve requirements is a process that has already been initiated, it will continue in the next period and it will result in both cost savings and commercial banks to avoid a dangerous mismatch between main savings in lei and the majority credit still in currency.

Another trend that is obvious and it will continue for a considerable time, along with the development of the Romanian economy, of the increase of competition in the banking sector, the emergence of new banking products and further remonetization of the economy and the extent of disinflation is the non-government credit share in GDP growth.

Also, another definite issue is the narrowing of interest margins under the pressure of the competition in banking system. It makes sense to be so, because on efficient markets the profit function is obtained from volume rather than from margins. It is obvious that neither can Romania avoid this process. The winners will be those who will understand earlier the logic of the competitive markets, which applies everywhere in the world.

Within the category of evolutions less certain is the number of banks that will be operating in Romania during 2012-2015. There are contradictory views regarding this issue. On one hand, they say the number of banks will be reduce and this is supported by the argument that, at the moment, half of the existing banks in Romania, have less than 10 percent of assets. It is obvious that something needs to happen here. They will either increase their market share or merge or be acquired.

It is less certain that this will reduce the number of banks, as it happened in 2004, there may be new categories of banks (banks specialized in house acquisitions, car purchases). On the other hand, those who believe that banks will not decrease the number come with the argument that the degree of financial intermediation (number of inhabitants per one unit banking) is still small. For example, in Switzerland, there is a bank to 1500 people. This argument is not sufficient because the number of banks may fall, but their territorial network (branches, agencies) can expand strongly.

As for the number of banks in Romania, during 2012-2014 (when the euro will be adopted), this will be the result of complex

processes in which, not least, the competition among banks as well as the major policy market players will play an important role on the development of regional networks and their credit profile. In the future, quality of service offered by the Romanian banking system will be more important than the number of banks. The global economic and financial crisis, manifested intensively in 2009 represented the dominant negative context in which the real and financial sectors operated in Romania. Due to stable levels of liquidity and solvency indicators of banking sector has absorbed these shocks better financial performance, however, were much reduced and the risk of growth of bad loans is emphasized. In the short term, prospects for the banking sector and the national financial system-generally depend largely on restoring confidence, the success of sustainable economic recovery and international developments.

4. Conclusions

The above being given, we can define the main objectives of the banking system in Romania as following:

- providing financial intermediation based on a modern and robust banking system structured effectively supervised, properly regulated so as to dispose of local imbalances and to ensure macroeconomic stability;

- to assess and to monitor the financial stability in order to enhance the capacity of efficient allocation of resources, to absorb potential shocks, preventing adverse effects of shocks on the real economy;

- to increase the administrative capacity of the central bank in ensuring the stability of the financial system in order to support its primary objective of ensuring price stability;

- to strengthen the quality of the surveillance process: adaptation of the National Bank's regulations to the specific risk profile of each credit institution, greater emphasis on the role that institutions play in managing banking risk management;

- enhanced surveillance will be based on prudential indicators calculated on a consolidated basis: credit institutions, Romanian legal person, is supervised by the Central Bank if it has subsidiaries or participations in credit institutions and / or financial institutions in Romania or abroad. The credit institution, being a Romanian legal person, is supervised by a competent authority in another EU member state, whether it's a credit institution subsidiary in that country;

- the promotion of attractive investment vehicles for institutional investors (especially pension funds, mutual funds and insurance institutions).

- to create conditions for an efficient banking management regarding long-term investments.

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The Global Economic Crisis... Is This the Beginning of a Large Recession?

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Abstract

This paper analyzes the impact that the global crisis has on the labour market both in Romania and in Europe. The financial crisis is felt in Europe in most of the economic sectors (automotive, chemicals, transport, Real Estate) and everything suggests that the negative effects will extend to other areas. Romanian industry's crisis plan was backed by the global financial crisis. The measures which will be taken by the affected countries are very important in terms of restoring a balance in the future labor market.

Key words: the global crisis, the labour market, the average monthly earnings, the employee.

J.E.L. classification: G01

1. Introduction

The crises can be defined as a situation characterized by pronounced instability. Furthermore, it's accompanied by volatility and an increasing uncertainty. In crisis situations, people are in a constant state of anxiety and uncertainty about the future, displaying fear and even panic. The self-preservation instinct urges them to behave irrationally and sometimes this is emphasized even more obvious because of the fact that each of them has a cognitive ability and an information filter. Hence, they understand the phenomenon in their own way and then they translate it into a conduct related to a particular market. (Pop, 2002).

The problem found at defining the crises is the incapability to determine the degree of volatility or the one of market-driven destabilisation so that such a phenomenon

fits a crisis category. How high should the inflation, unemployment or the fall in GDP of a country be, in order to establish its entry into a crisis? The recession is established conventionally at two successive quarters when dealing with the GDP decrease of a country or region. National Bureau of Economic Research (NBER) defines crisis as a significant decline for several months in the economic activity and it's reflected in a lower GDP, a lower individual income, the reduction at the levels of employment and a reduced industrial production and consumption .

Unfortunately a crisis occurs only when its effects influence a large number of people /companies, even though shortages may exist in a latent and not so visible, slowly damaging our existence. Crises are not hard to predict (their causes are quite clear), but one that will make such a prediction would be hard to be believed in by most of us much too little concerned about global warming or monetary expansion and mostly concerned about a way to better capitalize our position as privileged. (Bacescu & Fota, 2009)

2. The current crisis vs. great recession

In the 30's, the German social expenses were decreased by the great concern which the state had on inflation and its determination in driving fiercely a deflationary policy with the purpose of supporting the brand. In 1931, Employer's Association required employers to reduce wages and social charges. Unions claimed an increase in the unemployment benefit. The unemployment insurance seemed responsible for its dissolution, although it was designed to support social coherence. The increase in the number of

unemployed made funding not possible, but the system was partially rescued by government intervention, although this turned out into a decrease in expenditures. An important part of German world moved to a different path than the one expected by Weimar and it joined the Communist Party. (Miron, 2002)

As in Germany, the crisis of 1929 tested the English help system of the unemployed. Observers say that while this system was a handicap for a recovery nevertheless was it a privilege to the unemployed. Even in 1931, sharp reductions in income affected the aid for the unemployed as well as the social sector. In 1935, a Means test was introduced for those who had the right to control resources. In this period, the English social policy didn't come across great changes apart from a few steps over housing (Greenwood Act) and pensions. In France, the social protection policy persisted between the two world wars which were of high priority for the French. In 1939, the Family Code was passed having the effect of strengthening the aid to families with more than three children. (Revue politique d'Economics, 1998)

The economic crisis which states are going through in today's economy resembles increasingly the Great Depression of the '30s. It's the first time after many years, when the world economy is facing recession. Maybe it's the first time after many years when we deal with a crisis located in developed countries, not only in developing countries, but one spread worldwide.

As during the Great Depression of the '30s, world trade collapsed, capital evaporated, and the banking system no longer worked. Deflation is an increasing threat in the conditions under which companies reduce production, wages and prices. Leaders from around the world are struggling to halt the decline. It is a situation similar to that of 1929-1930. The current downturn could leave a lasting imprint on the economy and society, just as happened during the Great Depression. Following the crisis of the '30s, Americans have abandoned shares while their resources were overstretched and they have sought government support. Now, another generation would be able to draw similar lessons from the dramatic collapse of their lives. This will leave a trace on the collective psyche, and people will become

more conservative in lending activities, credit and investments.)

Mark Zandi, chief economist at Moody's Economy.com, says that in the '30s, the unemployment rate rose to 25% and the economy contracted by more than a quarter. No economist predicted a return to extreme harsh conditions in those years, but today's economy contracted at an annual rate of 6.2%. In the last quarter of 2009, it decreased by 7% in the first months of 2010. The unemployment rate climbed to 8.1% in February, a maximum of 25 years. Some industries are already in severe recession. The auto industry sales declined by 55% from the peak reached in July 2005. The production of cars and trucks fell in January 2009 at an annual rate of 3.9 million, the lowest level since 1967 and 67% below January 2005. Financial services industry is also seriously affected. Since the crisis started in mid-2007, institutions around the world have accumulated losses of 1.200 billion dollars. Announced layoffs have exceeded 280,000. (Bacescu & Fota, 2009)

Mark Gertler, professor at New York University, states that there has been a significant disruption of the financial system, just like in the '30s, when more than 10,000 banks had collapsed. Overwhelmed by the losses, banks accumulate capital instead of resume lending. Only two or three times a century can such a blockage occur and it can generate a spiral in which the weakness in the economy and financial industry are fuelling each other being very difficult to beat. However, particularly worrying is the collapse of the labour market. Dow Jones Industrial Average fell by 54% from the peak reached in October 2007. On a similar period, 1929-1931, the index has lost 55%. It decreased by 89% since its peak in 1929 before starting to recover in mid 1932.)

The current economic downturn is global alike the one during the Great Depression. IMF says it will be the first time since the Second World War when the United States and other industrialized countries will suffer a simultaneous decline in savings. World trade registered a rapid decline while the credit crisis reduces funding for exporters and importers. The volume of trade in goods registered an annual decline of 22% in the fourth quarter 2009 (according to the CPB Netherlands Bureau for Economic Policy

Analysis), while the decline in the period 1929-1932 was 35%. Government's officials reacted more quickly than their counterparts did so during the Great Depression and they tried to find solutions to end the crisis. The problem is that the economy appears to fall faster than strategic effects are seen. Regardless of how the way it is defined, the further deterioration of the economy will probably leave lasting traces. Savings rate has already climbed 5% in January 2009, the highest in almost 14 years. (Bacescu & Fota, 2009).

3. The Crisis in Europe and Romania

European industry feels the effects of international financial crisis in most sectors (automotive, chemical, transportation, real estate) and everything seems to indicate that negative effects will extend to other areas. In late 2008 BASF, the chemical industry world leader has temporarily suspended work in 80 factories, a move that affected 20,000 employees, while the French group Rhodia has reduced production by 40% in three plants in France. European Chemical Industry Federation estimates a drop in production in the chemical industry, except pharmaceutical sector, up 1.3% in 2009. European steel producers could show the financial results decreased by 43% in 2009, according to U.S. investment bank JPMorgan estimates).

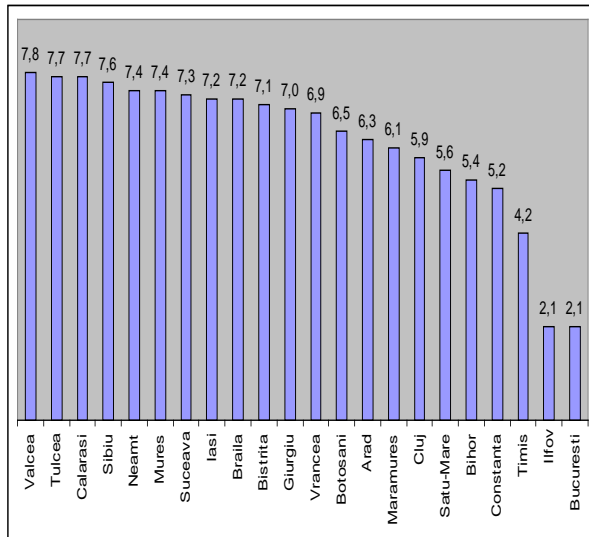
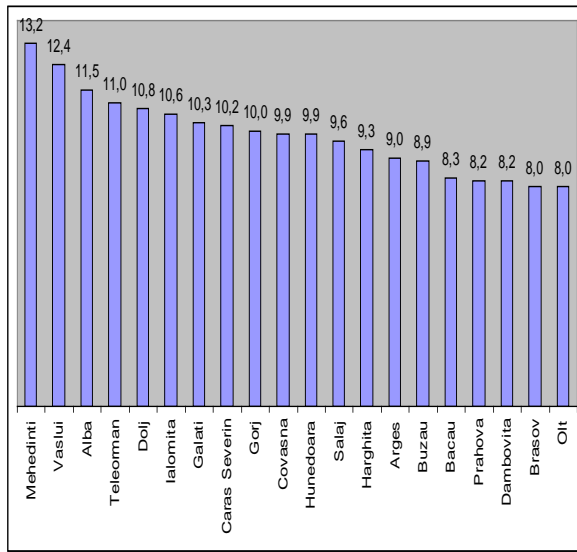
Since 1999, for the first time since its founding, the euro area economy has entered recession. The Organization for Economic Cooperation and Development (OECD) appreciates that no economic growth is expected before 2010, expecting instead an increase in unemployment. Also, reduction of credit contributed to lower construction in Europe, and any estimate of an improvement before 2010 would be hazardous, according to a study conducted by the world leader in credit insurance, Euler Hermes. After a general decrease in demand, the air transport companies registered in September 2008, the first decrease in international passenger traffic in the last five years and the most severe decrease in the transport of goods in the past seven years, according to an announcement of the International Association Airlift).

Romanian industry's crisis plan was backed by the global financial crisis. HR specialists agree that the economy's fall will have a direct impact on wages and job number. Companies are reluctant to fill vacancies. The unemployment rate was 8.3% in February 2010, according to the National Agency for Employment (NAE). At determining this figure, it was taken into consideration the return back home of Romanians abroad, which, however, prefer to live on the unemployment benefits received from abroad.).

According to the Trade Register in Romania, in 2009, approximately 140.000 companies have suspended work, this figure representing an increase of 1009.59% from 2008. Companies that opted for volunteer dissolution increased by 472% and volunteer removals increased by 173%. The closure of these companies has resulted in the unemployment of 56.000 people. A calculation showed that the state has lost about 100 million lei only by failures to receive taxes from wages.

The image number 1 illustrates a top ranking concerning the unemployment rates, in counties in Romania in October 2009. The highest unemployment rate was recorded in the County Mehedinti (13.2%) and lowest in Bucharest and Ilfov (2.1%). NEA Director said that the main areas affected by economic crisis and which are reflected on the employees are the constructions, durable goods field and the ones of current use.

Figure 1. Top ranking concerning the unemployment rates in Romanian counties



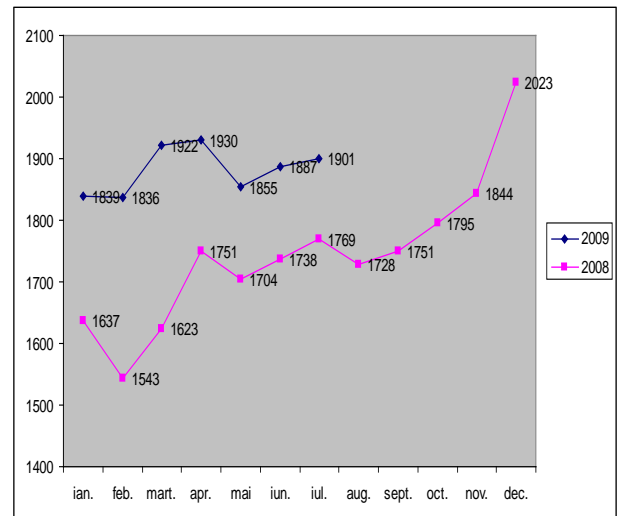
Source: own graphic representation taking into consideration: <http://www.wall-street.ro/articol/Economie/75141/Topul-judetelor-cu-cele-mai-mari-rate-ale-somajului>

From October 2009 until the present, unemployment rate has always been changing. For February 2010, there is the top 10 counties in Romania with the highest unemployment rate: Mehedinți County-14.6%, Vaslui County-14.2%, 13% Alba County and Teleorman County, Dolj County-12.9 %, Ialomita County -12.8%, Covasna County - 12.4%, Galati County - 12.3%, and Gorj County, Harghita County - 11.5%, Caras Severin County -11.1%, Hunedoara County and Salaj County - 10.9%.)

In Romania, the employment among workers with higher education increased at the expense of people with secondary education, whose employment fell by 3.4%. But there are some categories in which it is difficult to find jobs, as graduates or unemployed persons and it's about the areas of unstructured activity. If pre-crisis rate stood at 20% of young people, today there is a high level of long-term unemployment, which is about 50% of the unemployed.)

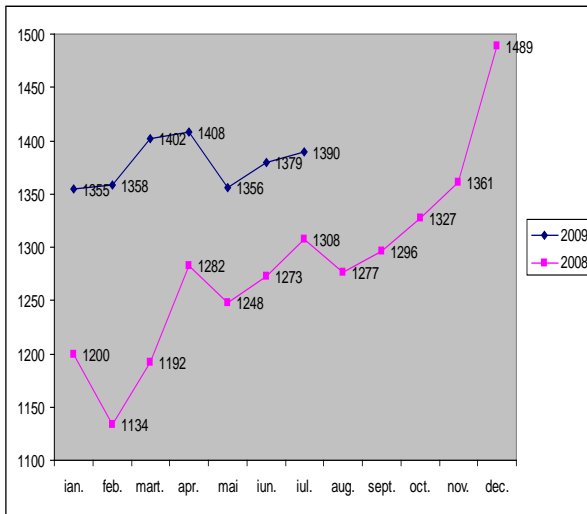
In 2008, since the growth, average real wages have decreased and have continued to decline in 2009 (evolution depicted in Image 2 and 3), the main reason being the increase in unemployment, which puts pressure on remuneration levels. Real wage decline is due partially to reduction of working time between 2007 and 2009.

Figure 2. Average monthly gross earnings and the total net earnings per economy in 2008 vs. 2009



Source: Press release INSSE of 4 January 2010

Figure 3. Average monthly total net earnings in 2008 vs. economy. 2009



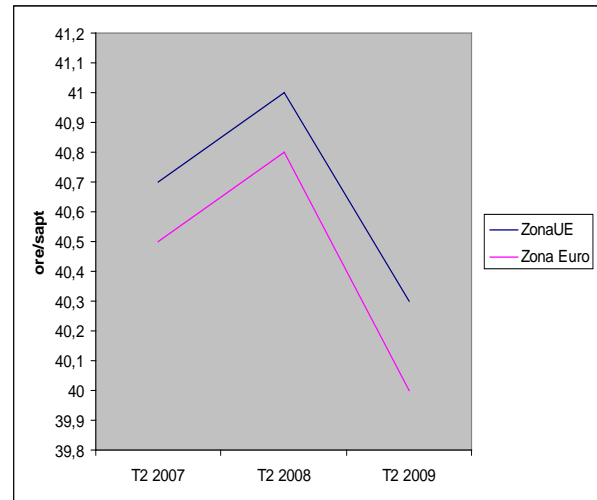
Source: Press release INSSE of 4 January 2010

The main problem is the relationship between financial crisis and the real economy. It is still present and repeated in the influence on consumers and investors. As the international economic shocks in the financial sector have affected every sector, human resource departments are about to record a decrease in the next permanent recruitments and a significant increase in the recruitments of a temporary nature. To overcome such a period, a company must maximize the efficiency of work and labour costs are automatically reduced. Employers will think more carefully on their business plans, and employees will be more reserved about changing the workplace. Overall, analysts say that this crisis has a beneficial effect: we learn to make savings. (Bacescu & Fota, 2009)

Romania will record as well the consequences of the crisis. Some of the foreign investments have already frozen and it's mainly about Spanish real-estate developers who began to diminish the work in Romania. Some of them have closed yards and went home. Companies will be thinking twice before hiring and they will be revising their budgets. Employment began to decline in the EU and the euro area as a result of economic crisis. The number of employees has decreased, but the occupancy rate was smaller than the restricting economic activity. The working hours were reduced and as a consequence, the full-time employees work 0.7 less hours per week in the EU and 0.8

less hours per week in the euro area. Image number 4 shows this fact. Part-time EU work rose from 18.3% in the second quarter of 2008, to 18.8% in second quarter 2009 and from 19.6% to 20% in the euro area. 22 member states registered increases of this activity, while Romania was among the four countries that experienced decreases in part-time work from 0.1% to 10% in the total employment.

Figure 4: Performance of full-time work during 2007 - 2009



Source: own graphic representation

According to a Eurobarometer survey published by the EC, six out of ten Romanian people consider the economic crisis as the main challenge facing the currently developing countries. Poverty is the second major challenge in the opinion of 55% of the Romanian people, the third place is occupied by poor governance (18%), followed by the food crisis (17%). Across the EU, the situation is quite different. Poverty is the main problem (50%), while the crisis is in second place (35%), followed by the food crisis (27%). Europeans agree that the development is important (about 90% EU, Romania 82%). The survey is clearly showing that citizens expect their governments and the European Commission to strive in order to gather funds for development. The percentages are similar (61% European, Romanian 52%) even regarding the EU's positive contribution to debate on global development.

Although the living of Romanians working abroad changed as well as their earnings and the gains sent to country were halved, few have opted to return to the country. In addition, in 2009, 350,000 Romanian people gave up working abroad, most preferring to engage in agriculture, hotels, restaurants or medical field, according to the National Agency for Employment (NAE). The countries Romanian people preferred are: Germany, France or Denmark. Romanian drain will continue this year, mainly due to lack of job offers on the local market and job insecurity or low remuneration in comparison with the European employers offer, according to recruiters.

Romanians still cling to their jobs from outside for strictly financial reasons. In Spain, where, according to the National Institute of Statistics, almost 800,000 of our compatriots live, a laborer may get between 400 and 800 euros, while those with secondary education earn 800-1200 euro per month. For employees with higher education niche, foreigners offer salaries much higher than in Romania. For example, in Germany a specialist has 5000-6000 euros gross win, while a sales manager in Belgium reached 1,500 euros, and a site director receives 4,500 euro in France. In Romania, in the province, the salary of unskilled workers didn't go for 300 euros and 250 euros in 2008, after a year of crisis. Similarly, an employee with higher pay and a maximum of five years experience stops at the threshold of 500-600 euros on average.

4. Conclusions

Even though it's not the first time the world economy faces recession, however, it is the first time we deal with a crisis located in both developed and developing countries. The collapse of key market sectors, at the beginning, has left the "wounds" deep into the global economy but this was somehow recovered. Moreover, as it was expected, the "air bag" of countries with strong fiscal positions faced better the crisis than that of developing states. Developed countries could use their investment in infrastructure and social sector in order to combat deflation, while less developed states confronted much more difficulties and, furthermore, in their case, the crisis is far from being finished.

At the beginning, the crisis was about survival and getting enough cash to help pay staff and suppliers. Today, companies are restored financially, being more interested in re-evaluation of their business model and flexible operations. At the same time, bankruptcies are also obvious, expecting growth in 2011 compared to 2010. A return to what was before 2008 may take many years to come. Romania's exit from the economic crisis needs a favorable external context, internal stimuli, fiscal policy and maintaining the agreement with the International Monetary Fund according to the economists of the big banks in Romania (BNR, BRD, ING, BCR) during the Analysts Association Annual Conference Finance and Banking meeting, in Romania (AAFBR).

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Staff Policies in Rail Transport

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Abstract

A staff policy well planned and well adjusted represents a way, by no means negligible, to contribute to the supporting of a competitive strategy of the organization. The employees, well selected, have a lever effect over the company's productivity, because they use their talent, experience and their skills for the profit's increase, occupying the given positions. The absence of some policies and methods and techniques of recruiting and selection determines the costs increases which are associated to them, and finally, the lowering of the general level of the company's competence.

The article makes obvious the principal tendencies of the staff's policies in the National Company "CFR" SA, after an analysis of the way in which the planning, recruiting and selection are made, with the view of staff employment with executive functions, but also management and administration, in the railway transport.

Key words: recruiting, selection, human resources, railway transport

J.E.L. classification: M12

1. Introduction

Especially, the railway management has as object the maintenance and the improvement of the existent railway system, to allow his continuously use, by the commercial exploitation of the traffic in an efficient and safe way. In addition, as stated Simuț Viorel in [4], the adequate management should take into consideration the problems regarding the productivity and the effectiveness of using the human resources. The railway management can be seen as a process which tries to optimize the general performance of the railway exploitation administration, of the railway system, for a long period of time.

The effects of the railway transport are important; it is an essential component of the economical and social development process, very often, spending a very big amount of the national budgets. It is a powerful correlation between the covered kilometers and PIB. This thing helps the development through the commerce facilitation, both national and international, improving the population access to the work's places, to education, health attention and other services. To realize the objectives established by the owner, the railway managers should use more efficiently the resources in their hands. These resources may be a source of power but also a power of compulsion.

The main resources which are at the manager disposal are: finances, the market, people, tools and equipments, rolling stock, different materials and infrastructures, the management process of the trains circulation, the auxiliary patrimony, telecommunications, information. In the railway companies, most of these resources represent the activity object of some specialized directions. Thus, the human resources direction deals with the recruiting processes, selection, employment, motivation, staff's evaluation, marketing direction – transport's market aspects, exploitation direction – trains' traffic management. The information is organized according to the coordination and decision levels. Generally, the manager should use the necessary resources for the structure's advantage that he manages, and implicitly the company's advantage. For example, the staff manager doesn't only control the human resources, but also helps them, gives them advices, supports the others managers to use them. Besides the production of a profit, like most of other occupations, the management determines characteristic satisfactions: the obstacles exceeding by solving some difficult problems, the creation of some visible changes in the real world, a diversified society, always changing, career and

consideration in different societies.

The railway infrastructure administration, public or private propriety of the state, is assured in Romania by the Railways National Company "CFR" SA. The Company CFR functions on the basis of economical administration and financial autonomy and benefits by allocation from the state budget, under activity agreement, for the Romanian railways public infrastructure and for the realization of the projects of national importance to assure the Romanian integration in the European railway transport system.

Realizing the activity object, CFR assures the execution of the public railway transports of passengers, baggage, wares and others goods, on the basis of the transport contract with a view to satisfy the public, social and defense interest. The public railway transport is organized and is effected on market commercial principles.

2. The assurance process with personnel

The staff recruiting represents the process of searching, localization, identification and attraction of the possible candidates, the capable candidates are selected, who present the necessary professionally characteristics or who correspond best to the demands of the vacant work places, actual or future in the company. The human resources recruiting is the managerial process of maintenance and development of the most adequate internal and external sources, necessary to assure the competitive staff to realize the organizational objectives.

The staff selection represents the activity of the human resources management which consists in selecting, according to some criteria, the most competitive or apt candidate to occupy a position in the company.

Any arisen modification in the company has as correspondent his organization. The bigger modification amplexness, the intense are its organizational implications. Even it is about the execution work places or

administration and management, the origin of a recruitment derives either from the necessity to create a new job, or from the disintegration of the effective because: resignation, transfer, moving, retirement, etc.

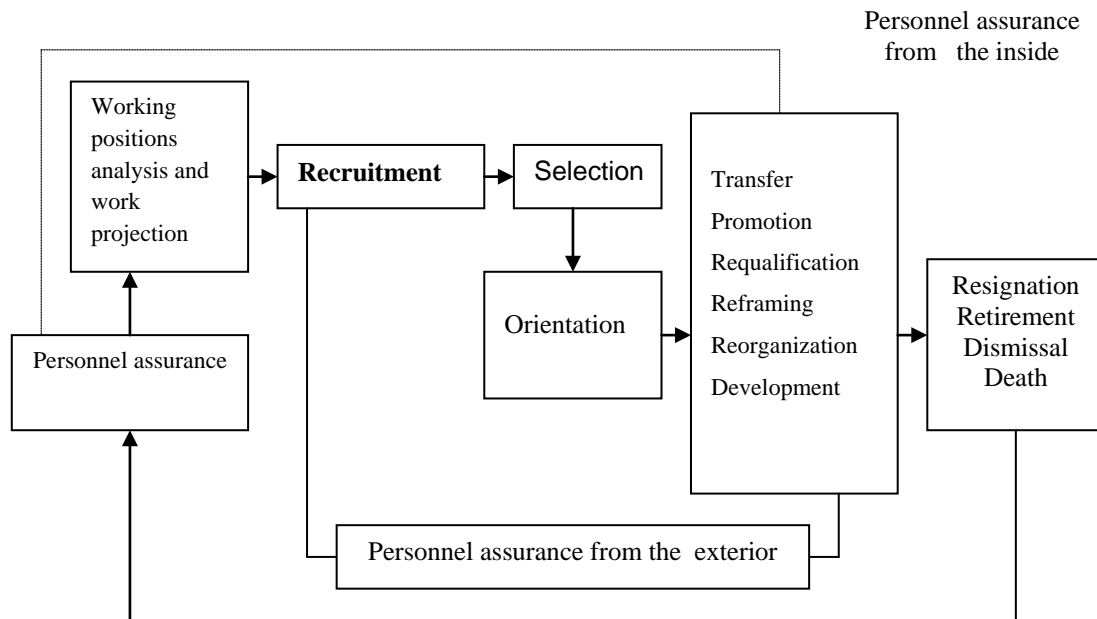
The first signal on the line of employment of some persons in the company, starts, generally, from the direct hierarchically chiefs of the compartments (station chief, circulation regulators chiefs, chiefs district lines, chiefs offices, divisions chiefs, etc). who have qualitative and quantitative difficulties to realize the tasks. These chiefs draw up a "statement form", where there are included a lot of the information necessary to describe the job and even to define the candidate's profile. Also, he has to make appreciations regarding the term and the period wherein the respectively statement appeared. With the hierarchical chiefs and company's management, such document should arrive at human resources compartment.

Before the launching of the recruiting operations, the statement opportunity is verified. The opportunity diagnostic is realized inside of the human resources compartment, which, through an interrogative logical model verifies when, other possible solutions and less expensive were taken into consideration, namely:

- if all the amelioration possibilities of the productivity were studied and applied;
- if they resorted to provisory solutions which can supply, a certain period of time, the demand of the setting up some new work places; it is the case of the work over program, of some employees on a determined period, staff transfer, production in collaboration, etc.

As mention D.J. Cherrington [1], the assurance process with staff from the inside or outside the organization can be seen as a succession of activities specific to the human resources domain, activities absolutely necessary to fulfill the individual and organizational objectives.

Figure 1 The assurance process with personnel



Sursa: Cherrington, D.J. *The Management of Human Resources*, Editura Prentice Hall, New York, 1995

The assurance process with personnel from the company exterior includes the recruiting, selection and orientation or the personnel integration, while the assurance with personnel from the company interior supposes some transfers, promotions, re qualifications, re framing, also the eventual retirements, resignations or deaths.

The recruitment connections with other activities of the human activity administration are intense. Thus, the recruiting takes into account the working positions analysis and the work projections, because the fundamental results of these activities, respectively the working positions descriptions and specifications are essential in the personnel recruitment process. This means, that the person who recruits has to have necessary information regarding the working position characteristics, and the qualities of its future holder.

The personnel recruitment follows logically the human resources planning, because it has like purpose the identification and attraction of the competitive candidates to complete the necessary net or the personnel supplementary needs. This means that the company's recruitment effort and the methods which should be used depend on the human resources planning process and on the

specific working positions demands which are to be occupied.

The knowledge in time of the personnel needed or its anticipation, as consequence of the human resources planning process and analysis and work projections, allows the development in good conditions and with more success chances of the personnel recruitment process.

The determination of the future necessary personnel is a complex process with two essential components:

- the foreknowledge of the personnel demand;
- the foreknowledge of the future personnel offer.

The future personnel demand on a given planning horizon can be estimated starting from the company's assembly strategic plans. The purpose is to specify the working positions (functions, jobs) necessary for the company's future and the working positions number necessary for each working position. The necessary information is taken form:

- Company's internal informational systems: planning systems of the railways transport capacities and analysis and projection systems of the working positions;

- External sources: railway operators associations, governmental statistics, specialized firms which offers access to the public data basis.

So, the gross personnel number is determined, representing the working positions number estimated on company's total and personnel categories.

The future personnel demand on the same horizon can be estimated starting from the current personnel availability (the persons number who has necessary knowledge and skills to occupy certain position), which is converted in the provided personnel availability on the planning horizon given by the tendencies' extra polarization already showed (retirements, resignations, promotions, transfers). Net personnel necessary is obtained for each working position as follows: Gross personnel necessary - the provided personnel availability.

Net personnel necessary can be: *positive* – and actions are required, as it follows:

- recruiting (the selection of the candidates group from the company's inside or exterior);
 - selection (the selection of the persons proper for each working position);
 - formation and professional integration;
- or *negative* - and actions are required, as it follows:
- personnel reduction by dismissal;
 - encouragement to retrial before the term, taking into consideration that at CFR there were active for a long time the work groups I, II and III;
 - encouragement of the voluntary departures.

The main objective of the personnel selection is to obtain those employees who are near the desired performance standards and who has more chances to realize the organizational and individual objectives. The personnel selection, according John M. Ivancevich and William F. Gleuck [2], is perceived as a series of phases wherewith the solicitants pass, each phase being are treated as an obstacles, which select systematically the candidates' number who advance in the next phase. Nevertheless, in practice all the selection process steps are not examined. There are situations when the candidate proves that he has the correspondent qualities

to occupy the working position, the selection steps number is reduces, the employment decision being taken after the first interview.

According to A. Manolescu [3], each organization should choose the personnel selection methods and instruments which correspond best to the exigencies of the offered position, which give equal chances to each candidate and doesn't contradict the intern cultural medium.

3. Hiring personnel with executive functions

The railroad personnel has an activity in railroad transport with particularities generated by a continuous work on and near moving vehicles, with frequent and long travels, in any type of weather and with a responsibility for train's safe traffic and for the integrity of the passengers and goods that imposes a strict disciplinary organization. The personnel employment to CN CF "CFR" SA is made by examination, exam and/or other selection forms, respecting the training and seniority conditions. By other selection forms we understand: interview, questionnaire-test, grille-test, skills-test, etc. Before the selection of the applicants, the recruitment process is initiated. The first stage of the recruitment is the action that takes place from the request for new jobs until the definition of the applicant's position and profile for those requirements that have been restrained.

Working standards are elaborated by CN CFR SA, in accordance with the syndicates, and are made known to the employees at least five days before they are applied. Elaborating the working standards is a continuous process, in accordance with the changes that occur in the organization and the level of the work's technical endowment. The re-examination of the working standards is imposed by situations in which they do not assure a complete grade of occupancy, they lead to an excessive stress or do not mach the conditions for which they have been elaborated. By re-examinations of the working standards the basic wage, negotiated according to the CWC, will not be decreased. The personnel standards, resulted after applying the working standards, the working instructions and the safe traffic regulations, according to the particular conditions of each

sub-unit. Hiring personnel with executive functions is made by contest or exam only for vacant positions established by standardising, personnel standards or function chart. The contest or exam are held in Romanian only from published bibliography and themes and is made of theoretical, practical and aptitude tests, from case to case. The exam for unqualified personnel consists, usually, of a practical test. The contest, the exam and/or other forms of selection will be held in front of a commission approved by the division that has the competency of employing. A syndicate representative will assist the exam or contest. The employment is made according to the exam grades. When two candidates obtain the same grade CN CFR SA employees family members (husband, wife, children) have priority in occupying the position. The results of the contest or exam are valid only for the vacant position that was held for. The limited period individual working contract cannot be signed for a period greater than 24 months.

In order to meet the need for university graduating personnel in positions with low employment expectations, the company can:

- recruit, for employment after graduating, students in the last two years in accredited universities, prioritizing the CN CFR SA employees family members (husband, wife, children);
- sign contracts with own employees following courses in state or private accredited universities.

In both situations, financing obligation contracts between the company and the beneficiary will be signed. In the first case, scholarships according to the criteria and allowance approved by the Board, can be granted, and in the second case the company will pay the scholarship taxes.

4. Hiring or promoting for management or administrative functions

Hiring or promoting for management or administrative functions (are stipulated in Railroad Personnel Appointing and Authorization Instruction) is being made, supplementary, by a commission, especially constituted for this, by an interview, apprising the capacity of exercising the function.

The interview is based on themes prepared and approved by the general department for coordination, or by the organizing regional branch, on a case by case basis, and contains one or more technical, economical, financial, juristic, social or organizational test, with each participant at a time. The activity during the interview takes place through oral questions addressed to the candidate by the commission members, so that, from answers, the candidate's point of view regarding the problems forming the objective of the interview will be revealed.

The interview takes place in the first semester of the year based on a program made and approved by the general department for coordination, or by the organizing regional branch, that will be transmitted to the participants at least 30 days before the interview.

The assessment of the functions exercising capacity for the provided personnel will be made through qualifiers "corresponding" or "not corresponding", that will be registered in the report written by the interviewing commission. An important aspect in establishing the objective is taking into account the recommendation made by the interviewed person's direct superior.

5. Conclusions

Tracking the personnel's number and structure, the professional re-conversion from redundant professions towards others with a longer training process, as well as supervising the retiring perspective represents the main aspects that contribute to maintaining an efficient personnel policy, summarised in:

- building up provisions regarding the necessity for personnel (numeric, qualitative, on specialization, qualification), that take into account the modifications occurred in the transport market and competition's conditions;
- recruiting and permanently appointing the personnel;
- selecting the personnel with promotion perspectives;
- procedures for evaluating the employees;
- establishing the needs for professional forming;
- elaborating the plan for employees professional training and perfecting.

In order to have according results following the effort made for correlating the number of personnel with the level of the labour conscription, it is necessary that company's employees are efficiently used.

The professional forming activity carried, so far, by the Human Resources Department aimed the providing of qualified workforce need, the professional re-conversion of redundant personnel, perfecting the professional training of a significant number of employees and elaborating specific regulations. At the same time, the main objectives of the activity regarding the professional forming consist of adopting strategies for attracting workforce towards the sectors with a chronic personnel deficiency, by: granting scholarships, paying the scholarship taxes, organizing actions to promote these domains of activity among the social categories fit for them, contacting decision factors in university teaching for an analysis of the ways to improve the bilateral relationships so that both parties will profit from, as well as professional forming of the personnel - qualification courses, perfecting programmes.

In the personnel policy in the 2011 -2012 period the following will be taken into account:

- Approaching modern techniques for building up previsions about the necessity for personnel for the company starting, from the analysis of the existing situation regarding unit's human resources, changes in market's and competition's conditions and planed work's productivity;
- Elaborating methods and techniques for selecting, appointing and integrating the unit's personnel that meet the highest exigencies in the matter;
- Using, for the lines, SCB, electricity departments, especially for activities that do not request a special qualification, a flexible rate setting scheme that permits the employment of personnel for a determined period of time (3-4 months), when there is an intense activity (especially during summertime);
- Using an employees evaluating system regarding the requirements and particularities of the jobs, the responsibilities, that will form the base of highlighting the human potential of the company and fixing the professional perspectives and employees promotion;
- Elaborating an improvement and qualifying system for the whole personnel generated the use of modern technology, by rising the qualification level, widening the area of qualification, earning new qualifications;
- Elaborating a financial co-interest system for the employees, materialized in the collective working contract, that motivates and stimulates them, amplifying the worker's belonging to the company sentiment when realizing certain economical parameters;
- A permanent knowledge of the employee's denunciations and claims and solving them, as much as possible, in order to prevent social conflicts and minimizing them through social dialog, personnel motivation, improving working conditions.

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A Novel Pseudo-random Bit Generator Based on a New Couple of Chaotic Systems

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Abstract

Most of the current economic software solutions are based on distributed Web technologies. This fact has led to a new world of business, full of opportunities. Businesses can benefit now from faster communications, advanced methods of data collection, electronic chains of suppliers and other benefits offered by this new era of information processing. So, it is required a better level of security of the economic data, reason for what the role of cryptography is becoming increasingly higher. This paper reviews the progress in this area and points out some existent problems in digital chaotic ciphers. As a comprehensive solution to these problems, a novel pseudo-random bit generator based on a new couple of chaotic systems is presented. Detailed theoretical and statistical analyses show that it has perfect cryptographic properties, and it can be used to construct stream ciphers with higher security. Some experiments are made for confirmation.

Key words: chaotic systems, pseudo random, cryptography, stream cipher.

J.E.L. classification: C22

1. Introduction

In the last decade, the relationship between chaos and the classic cryptography has been highlighted and intensely analyzed because a lot of the properties of the non-linear dynamic systems have a correspondent abreast of the encryption systems based on computational methods. Thus, characteristics of the chaotic systems such as ergodicity, the system's sensitivity to the initial condition or the parameters' values, the mixing property,

the deterministic dynamic and complexity are similar to the properties given by the diffusion to minor changes of the plain or in key text, the diffusion determined by a change of the plain text, the deterministic pseudo-randomness and the complexity of the algorithm from classic encryption systems [9].

Since 2000, based on these results, a series of chaos-based cryptosystems have been proposed. They are: block type symmetric systems based on the construction of the encryption keys from the system's initial conditions and their multiple iteration, the string type symmetric systems based on the generation of random sequences used to hide the plain text [5,7,8,9].

However, the vulnerability of these systems shouldn't be neglected. Some of the chaos-based cryptosystems didn't resist to certain types of cryptanalytic attack. The predictability of the generated values using the orbits of a single system and the little space of the keys, allow attackers' to extract easily the information about the system, which makes the chaos-based encryption system to be weak candidates for security applications of the information [7,8].

The article proposes a theoretical analysis of the random qualities of new chaotic maps, as well as an analysis of the statistical results of pseudorandom number generators which are based on new maps.

In the next chapter is presented a brief of the chaotic systems used in cryptography, as well as a brief analysis of the proprieties of this type.

2. Chaotic systems used in cryptography

The most studied map within the studies on dynamic and chaos systems is the *logistic map*, described by the recurrence:

$$x(n+1) = f_L(x(n)), \quad (1)$$

where $f_L: [0,1] \rightarrow [0,1]$ is defined through:

$$f_L(x) = rx(1-x), \forall x \in [0,1] \quad (2)$$

The behavior in time, of the logistic map, depends on the value of the parameter r as well as the starting point represented by the initial condition. In figures 1, 2 and 3 we have summarized the complete dynamical behavior of the logistic map using the bifurcation diagram, exponent Lyapunov and distribution probability of the logistic map trajectories.

Figure 1. Bifurcation diagram of the logistic map

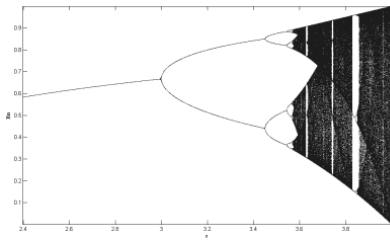
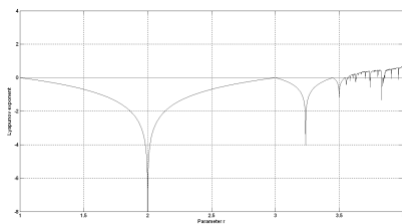
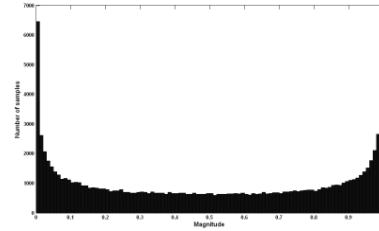


Figure 2. Lyapunov exponent of the logistic map



Analyzing the bifurcation diagram and exponent Lyapunov, it can be observed that for values of the parameter r between the interval $(3.57, 4]$, the logistic map has a chaotic behavior. The distribution probability of the logistic maps trajectories is showed in figure 3.

Figure 3. The distribution probability of the logistic map



It has been shown analytically that for the logistic map with system parameter $r = 4$, the probability distribution is given by [1]:

$$\varphi_f = \frac{1}{\pi \sqrt{x(1-x)}} \quad (3)$$

Another category of maps preferred for the simplicity and performances given in cryptographic applications, is represented by *tent maps*:

$f_T(x): [0,1] \rightarrow [0,1]$, defined through relation:

$$f_T = \begin{cases} \frac{x}{p}, & 0 \leq x \leq p \\ \frac{1-x}{1-p}, & p < x \leq 1 \end{cases} \quad (4)$$

where p is the parameter of the tent map. It is a non-invertible transformation of unit interval into itself and contains only one system parameter p , which determines the position of the tent in the interval $[0,1]$. A sequence computed by iterating $F(p; x)$ is expansionary everywhere in the interval $[0, 1]$ and distributed uniformly in it.

Recently, it has been demonstrated that different chaotic maps such as $x_{n+1} = f(x_n)$ have exact solutions written explicitly under the form [3]:

$$x_n = P(\theta T z^n) \quad (5)$$

where $P(T)$ is a periodical map, z is a whole number, θ defines the initial condition $x_0 = P(\theta T)$, and T is the period of the function $P(t)$.

A particular case of the relation (5) is $x_n = \sin^2(2^n \arcsin(\sqrt{x_0}))$ (6)

which is general solution of the logistic map $x_n = 4x_n(1-x_n)$. Similarly, the tent map defined by the relation (4) has the analytic solution:

$$x_n = \frac{1}{\pi} \arccos(\cos(2^n \pi x_0)) \quad (7)$$

The exact solutions of the chaotic dynamic systems allow the rise of the accuracy and computing speed. Instead of iterating a function, it can be calculated a value of a term using the analytical expression of the solution, avoiding in this way the numerical errors which can appear during iterations. Also, this procedure allows the calculation of the value x_k , avoiding $k-1$ iterations of the system.

The disadvantage of these number generators is given by the system's predictability. A remedy for this disadvantage is to use chaotic dynamic systems with no solutions. Such an idea was proposed by Gonzales and Pino. Another possibility to assure or at least to improve the construction of the chaotic dynamic systems with no solutions is to increase the space of phases S[3].

Thus, for the construction of a pseudorandom number generator we'll propose two one-dimensional maps whose analysis is presented in the next chapter.

3. The analysis of the proposed maps

For the construction of a pseudorandom number generator we'll propose two new one dimensional maps with a single parameter. In the beginning it is analyzed the map defined by the relation:

$$x(n+1) = f_N(x(n))$$

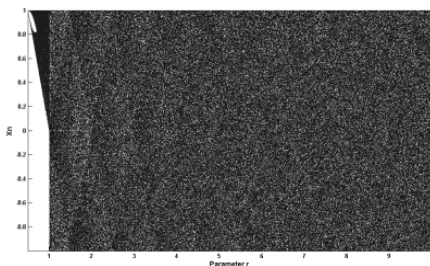
Where $f_N(x): [-1,1] \rightarrow [-1,1]$ is defined through:

$$f_N = \frac{2}{\pi} \operatorname{asin} \left(\cos \left(\pi \left(\frac{1}{2} - x * r \right) \right) \right) \quad (8)$$

and r is the parameter of f_N .

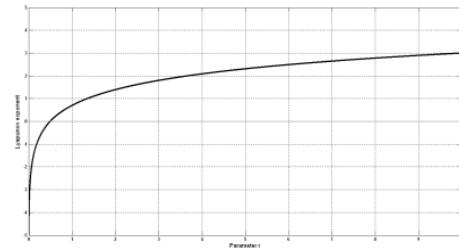
The behavior of the map f_N in time depends on the value of parameter r , as well as on the starting point represented by the initial condition. The bifurcation diagram is presented in figure 4.

Figure 4. Bifurcation diagram of f_N



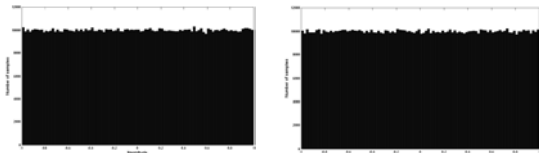
At the value $r = 0.5$ the only attractor starts to split in two. After the value $r = 1$, the attractors split in four, eight, etc. Thus, for a value of a parameter r greater than 1, the map has a chaotic behavior. The conclusion is sustained also by the value of the Lyapunov exponent, represented in figure 5.

Figure 5. Lyapunov exponent of f_N



In figure 6, there are represented the distribution probabilities of the trajectories of the type (8) map which start from different initial conditions ($x_0 = 0.2$ and $x_0 = 0.7$), with the system's parameter $r = 5$. Here, the interval $[-1,1]$ has been split in 100 subintervals and for each trajectory a total of $N = 10^6$ points has been used.

Figure 6. The distributions probabilities of f_N



It is obvious that the two distributions are identical; therefore, the map keeps an invariant density for values of parameter $r \in [1,10]$.

In order to determine the invariant density of the map f_N the following result it is used: the logistic map and the tent map which keep an invariant density $\varphi_T(x) = 1$, are topologically conjugated through map:

$$C(x) = \frac{1 - \cos \pi x}{2} \quad (9)$$

which supposes that the relation $f^{\circ} C = C^{\circ} T$ is verified. Also, it can be verified if the map f_N confirms the relation:

$$f_N(x) \circ C(x) = C(x) \circ f_N(x),$$

therefore the invariant density kept by the map f_N is

$$\varphi_f = \frac{1}{\pi \sqrt{x(1-x)}}$$

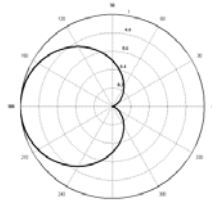
In the previous chapter we noted that the logistic equation has the following solution $x_n = \sin^2(\theta\pi z^n) = \frac{1 - \cos(\theta\pi z^{n+1})}{2}$.

If we transform the logistic equation in polar coordinates, it can be observed that the following equation is obtained:

$$\varphi(\theta) = r(1 - \cos\theta), \quad (10)$$

where $r = \frac{1}{2}$.

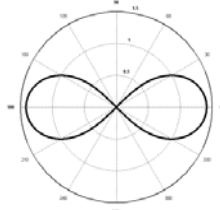
Figure 7. Polar representation of logistic map



From figure 7, it can be observed that the equation (11) describes a curve known under the name *cardioid* (described by Etenie Pascal and studied in detail by Gille Roberval).

Having this result, we intend to analyze another map that comes from another flat curve, such as *lemniscate of Bernoulli* (figure8).

Figure 8. Lemniscate of Bernoulli



This curve is described by the following parametrical equations:

$$x = \frac{\alpha\sqrt{2}\cos t}{\sin^2 t + 1} \quad y = \frac{\alpha\sqrt{2}\sin t \cos t}{\sin^2 t + 1} \quad (11)$$

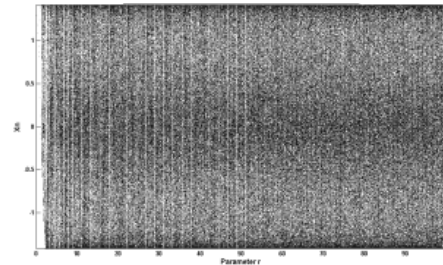
Starting from the above relations, we create the one dimensional map f_B with a single parameter r , defined by the relation:

$$f_B(x): [-\sqrt{2}, \sqrt{2}] \rightarrow [-\sqrt{2}, \sqrt{2}],$$

$$f_B = \frac{\sqrt{2}\cos(rt)}{\sin^2(rt)+1} \quad (12)$$

The behavior of the f_B map in time depends by the value of the parameter r and by the starting point represented by the initial condition. The bifurcation diagram is presented in figure 9.

Figure 4. Bifurcation diagram of f_B



At a certain value of the parameter $r \in [0.4, 0.5]$ the only attractor value depending by r starts to split in two. After the value $r = 0.5$, the two attractors split in four, eight etc. Thus, for a value of a parameter greater than 0.5, the map has a chaotic behavior. The conclusion is sustained also by the value of Lyapunov exponent, represented in figure 10.

Figure 10. Lyapunov exponent of f_B

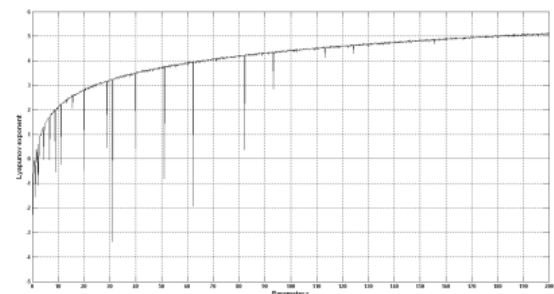
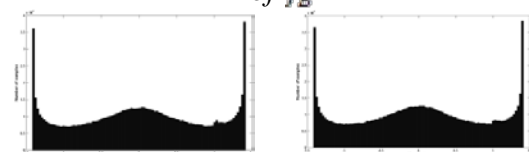


Figure 11 represents the distribution probabilities of the trajectories of the type (12) maps which start from different initial conditions ($x_0 = -0.8$ and $x_0 = 0.6$), with the system's parameter $r = 80$.

Figure 11. The distributions probabilities of f_B



It is obvious that the two distributions are identical, therefore the map keeps an invariant density for values of the parameter $r \in [60,200]$.

Based on the results described above, the maps f_N si f_B defined by the relations (8) and (12) have a chaotic behavior for a big range of values of the system's parameter and keeps an invariant density making this one to be successfully used in realizing strong pseudorandom number generators from the cryptographic point of view.

In the next chapter is presented the analysis of the statistical results for the pseudorandom number generators based on the proposed chaotic maps.

4. The analysis of randomness for keystreams generated using the proposed functions

The experimental testing of the randomness for keystreams generated using both of the new proposed function was performed using the automated system designed by authors and presented in [2]. The automated system is based on DIEHARD, a very well known battery for statistical testing of randomness of a PRNG, developed by George Marsaglia. For a certain input stream, DIEHARD performs more statistical tests to measure the quality of randomness of it and provides as output a set of 215 *p-values*. If a *p-value*, corresponding to a test, lies in the interval [0.001, 0.995], we can conclude that the input stream passed that test. For our experimental analysis of randomness, we used, for each of the two proposed function, three methods for keystream generation, which will be described below. For each method and each new proposed function, we have generated 1000 keystreams and we plotted the obtained results as a histogram of total number of passed tests versus number of keystreams which realized that number.

The first method used for generation of a keystream consisted in the writing of the real number $x(n+1) = f_N(x(n))$ or $x(n+1) = f_B(x(n))$ as an unsigned integer in the keystream. The obtained histograms are shown in the figures 9 and 10.

Figure 9. Histogram for f_N

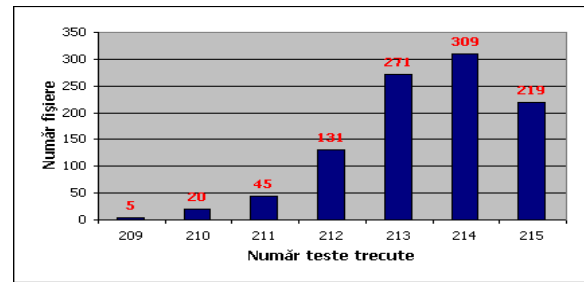
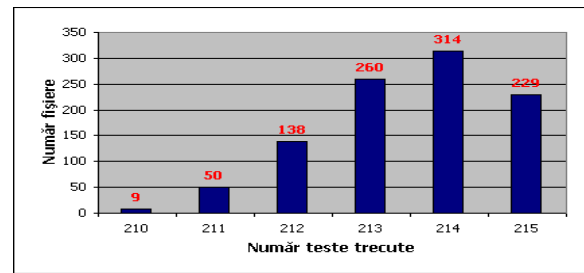


Figure 10. Histogram for f_B



The second method consisted in the writing of a bit of 1 in the keystream if the current value of the function, i.e. $x(n+1)$, was greater than a threshold (equal to 0 for both proposed functions) or a bit of 0 otherwise. The obtained histograms are shown in the figures 11 and 12.

Figure 11. Histogram for f_N

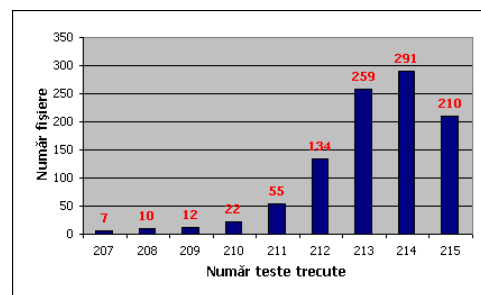
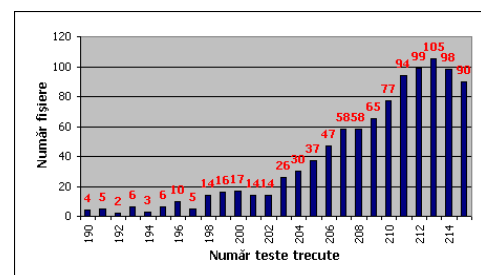


Figure 12. Histogram for f_B



The third method compared the outputs from two functions of the same type, but with different seeds and parameters, and wrote a bit of 1 in the keystream if the current value of first function was greater than the current value of the second function, or a bit of 0 otherwise. The obtained histograms are shown in the figures 13 and 14.

Figure 13. Histogram for f_N

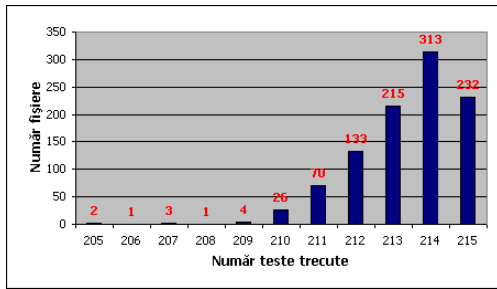
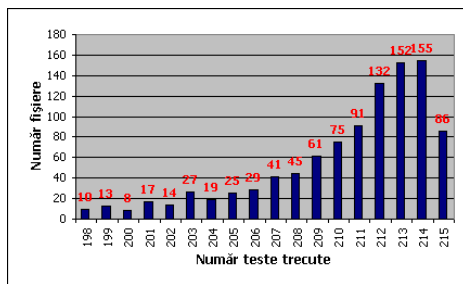


Figure 14. Histogram for f_B



Analyzing all the three histograms of f_N , we can conclude that at least 97% from the generated keystreams, regardless of the method we used to generate them, have passed over 210 tests from a total of 215, in other words - over 97% of them. This entitles us to say that function f_N has a very good randomness.

Analyzing in the same way the histograms of f_B , it's clear that the first method used for generation provides keystreams with a very good randomness. Anyway, the next two methods are still feasible, maybe with some minor adjustments.

5. Conclusions

In the third chapter we theoretically have demonstrated, using instruments of the theory of nonlinear dynamic systems, that the proposed map has a good chaotic behavior. From the analysis of the experimental results, presented in chapter 4, we can conclude that the randomness of the sequences obtained using the PRNG, based on the proposed map, raises the level requested by the current standards for the construction of type string encryption keys.

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Country Risk in the Post-Crisis Landscape

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Abstract

The financial crises that have occurred in recent decades, affecting the entire international financial system and beyond, have highlighted the existing gaps in the models of country risk analysis, models that cannot provide, in most cases, an anticipation of the collapse. The crisis multiplication caused important mutations concerning the different features of country risk, the crises manifested worldwide creating new forms of risk, and making its assessment more complex. If Country risk is shaped by the crisis, it, in turn, may influence the manifestation of the crisis. A current example is the sovereign country risk component, which meets the characteristics that make it able to prolong the depression. What we propose in this brief paper is a “radiography” of the country risk in a crisis context, paving the way for future studies aiming to establish specific risk indicators, in order to facilitate the anticipation of crises.

Key words: economic crisis, country risk, sovereign risk, external debt, warning indicators.

J.E.L. classification: F31, F34

1. Introduction – Risk and crisis

Undoubtedly, the notions of risk and crisis are in close contact. The crisis is a turning point, regardless of its character, and also an unstable condition, which involves an abrupt and decisive change. The crisis involves a manifestation of the risk, while the risk, in turn, influence the crisis, and often explains it. Regarding the form of risk that we intend to study, the country risk, it is clear from the beginning that economic developments caused by the global financial

crisis that started in 2008 had a significant impact. Although, in general, degradation of the country risk was lower than expected, it is certain that there were major changes concerning it: for example, a number of developed countries, considered before as foreign to country risk, became the subject of its specific analysis.

The global crisis has created a new configuration of country risk, different from case to case:

- A focus on the sovereign risk and on the transfer one for developing states that have little progress in terms of governance [1];
- An orientation towards credit risk and market risk in the emerging countries successfully integrated into the process of globalization, states that have effectively implemented structural reforms – Brazil, India, China, etc.;
- A focus on the various components of country risk in the developed countries considered "safe" so far: sovereign risk, primarily, but also credit risk, market risk and even political risk.

2. Country risk and economic crises

The relation country risk – crisis emerged as evident and close when the debt crisis of the 1980s occurred. In the late 1970s and the early ninth decade of the last century, commercial banks, especially American ones, were noted by the frenzy with which they have been competitive in their efforts to take over the *huge surplus of liquidity of the oil exporting states, and namely the petrodollars resulting from the first oil shock – 1973-1974* [2]. This helped developing states in obtaining credits, their governments taking full advantage of this “cheap” funding. Of course, a logical consequence was a significant increase in external debt in

developing countries, a trend that has not entailed any concern (one of the reasons why banks have borrowed heavily, without taking into account the still vague notion of country risk, was the fact that specific growth rates in developing states were higher than interest rates and, on the other hand, export prices for these countries had a favorable trend). Following the second oil shock (1979-1980), industrialized countries have adopted a deflationary monetary policy, which led to an increase in real interest rate on short and long term, and lower prices of products exported from developing states. One of the indicators that showed a significant degradation has been the *external debt / exports* ratio; despite these signals, the conditions offered by commercial banks continued to improve. After 1980, the situation of developing States experienced a marked deterioration. Consequently, the interests and debt repayment has become problematic, the need for new credits, oriented towards debt servicing, being more and more intense.

The next period was characterized by the multiplication of the cases where developing states have not been able to pay its arrears, initiating wide cycles of debt restructuring and renegotiation. In this context, country risk deteriorates significantly, boosting the debt crisis. We can say that, basically, the debt crisis has first brought to public attention the country risk, the early '80s being the moment when representatives of commercial banks realized the importance of its systematic study.

If the '80s were the years of indebtedness problems, it should be noted that the subsequent decade brought important new aspects as regards the crisis. A new category, from this point of view, is represented by the *crises without indebtedness*. These are crises that occur in the absence of an overall indebtedness of the states. In the absence of the concern raised by the values of the classical indicators of indebtedness, they are primed by increased liquidity risk; high short-term debt, accompanied by a low level of reserves, are among the main factors of collapse. Several cases of this kind can be evoked in this context:

- Mexico, in 1995 – of course, are many and complex causes of the crisis, with debt having the main role, however;

- Korea in 1997;
- Ukraine and Russia in 1998;
- Pakistan in 1999, Turkey in 2000, etc.

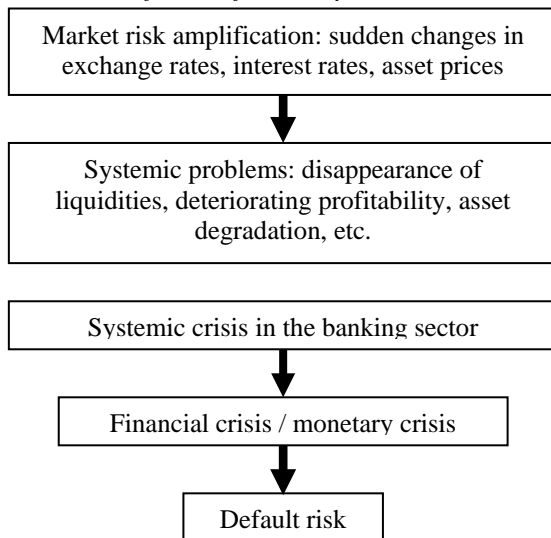
At the same time, the crises acquire a composite character; we cannot talk anymore of "pure" crises, but of multiple ones; for example, the 1998 Russian crisis combined several characteristics, assuming currency devaluation, the financial sector crisis and the sovereign one.

New crises have led, naturally, to a "new" country risk. This must be addressed by focusing attention towards various fragilities, potential sources of imbalance. They can be found both in the macroeconomic and microeconomic sphere, as well as in the political or social ones. It is also essential to identify *factors that may cause the transition from latent vulnerability to crisis* [3]. The new crises show, on the other hand, the fact that not only the fundamental imbalances are important in the study of country risk, but also the stability of the economic sector performances. It depends largely on issues involving several nations, *the specific combination of economic events* [4].

For the country risk analyst, market risk analysis is a serious challenge, this type of risk being more difficult to assess than, for example, the risk of default. This is explained by the higher number of indicators to be studied and correlated, and the many possibilities of interaction between them. In Guy Longueville's vision, market risk is an extension of the *generalized country risk* defined by John Calverley [9] in the late '80s. Located on the border of micro and macro spheres, systemic risk largely explains why some crises become general, sometimes leading to the collapse of an entire economy. Information asymmetry contributes significantly to this risk, which includes situations in which rational agents' reactions to the risks they perceive, instead of leading to better allocation of risk, increase the general insecurity [5]. Systemic risk claims its membership in the country risk class, its analysis involving economic, financial and political variables, of the same kind as in the case of sovereign risk, market risk, etc. Vulnerability to systemic risk depends not only on the financial system, but also *the complex institutional arrangements, the history of societies* [3]. Of course, all forms

of country risk are closely related, more cause-effect relationships can be identified:

Figure 1: Relations between different forms of Country Risk



Source: Authors conception.

Crises manifested during the last decade of last century were favored by pre-existing vulnerabilities. Taking a look at the situation of emerging markets at the end of the twentieth century, we might ask, rightly, if only countries that have achieved this status officially have experienced a sovereign crisis; the answer is not simple because, in theory, sovereign debt crisis involves the cessation of debt (principal) and interests payment at the maturity, this approach thus neglecting states that have avoided insolvency with the help of the International Monetary Fund, or due to a restructuring of debt; countries such as Mexico in 1995, Brazil in 2001, Turkey 2000, were assisted by the IMF, while in Ukraine in 1998 and Pakistan in 1999, the international community and the International Monetary Fund have proposed a debt restructuring.

In the same time, lower confidence contributes to the deteriorating nature of the situation; the "vicious circle" of events is inevitable: *Exiting capitals* → *Liquidity crisis* → *Acceleration of capital exit*.

The dynamics, the rapid spread of crises is overwhelmingly influenced by spillover effects. Based on the analysis of Obstfeld (1986), Nicolas Meunier (2005) identifies three types of contagion: *Monsoonal Effects* – which assume that a single significant

shock causes important crises in several states simultaneously, *Spillover Effects* – the result of economic interdependence, of strong commercial ties; the Asian case is a good example. Among the most exposed areas to this effect, we can include Central and South-East Asia. Treating this issue, Nicolas Meunier remembers the Hungarian Stock Exchange meltdown in 1998, in the context of the Russian crisis, a phenomenon explained by the importance of the Russian market for the Hungarian pharmaceutical industry. *The pure contagion*, the third type, is explained by factors of subjective nature (agents behavior, general climate, etc.), but also of objective type (cost of information issues, etc.).

In conclusion, we can say that events and crises of the past 15-20 years have generated new models of country risk analysis, requiring institutional diagnosis and studies related to the economies outlook.

3. Country risk in the post-crisis landscape

The year 2010 has brought positive developments in the world economy, at least in general terms. Of course, these improvements are differentiated in size, between the developed and emerging economies [6]. Several phenomena are clearly outlined, however, and have major implications for the global conjuncture and contemporary country risk:

- the increasing *financial decoupling between the developed and developing countries* [6];
- the global increase in commodity prices;
- the implementation of restrictive monetary policies, particularly in developing states;
- the decision of maintaining the policy of "Quantitative easing" by Fed;
- the progression of bond spreads of the States situated in the "periphery" of the Euro area (we are referring to countries such as Greece, Ireland, Portugal);
- the economic growth in emerging markets, over 7%, five percentage points higher than in the developed countries;
- the contraction, at the end of the last year, of industrial production, influenced by

the decline in exports (the increase of 15.4% in the second quarter of 2010 has left the place to an increase of only 2.4% during the third trimester). Another positive development that we note is the fact that the issue of bonds in foreign currencies of emerging markets have reached and exceeded the before-crisis level. Monetary policies implemented in 2010 were generally of restrictive nature; in the same time, currency appreciation in emerging markets presents a general nature, and it is present even a slight risk of overvaluation [6]. The world environment was characterized in the last year by a revival of trade; so, *world trade volume increased by 11.4% during 2010 and for 2011 it is expected a growth of 7%* (IMF, World Economic Outlook, October 2010). In addition, net private capital flows directed towards emerging countries have exceeded 820 billion dollars, in comparison to only 581 billion in 2009. Growth forecasts are also positive for emerging markets:

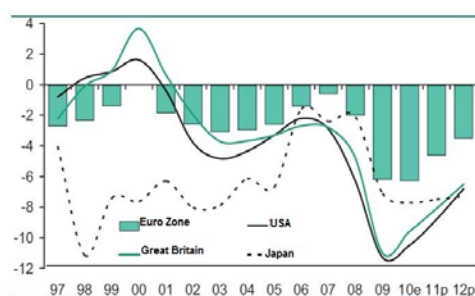
Table 1: Growth forecasts (%)

	2011	2012
Global economy	4,2	4,5
G3 + UK	1,9	2,4
Emerging economies / (without China and India)	6,3 / 4,2	6,3 / 4,4
Latin America	4,0	4,2
Emerging Asia	7,9	7,8
Emerging Europe	3,9	4,3
Africa and the Middle East	5,2	5,1

Source: IMF [10], 2010.

The year 2010 will remain, however, primarily related to the sovereign debt crisis in Europe. From the beginning, it should be noted that the budgetary situation in the euro area, despite some degradations, is not the most serious.

Figure 2: Budget balance evolution (%GDP)

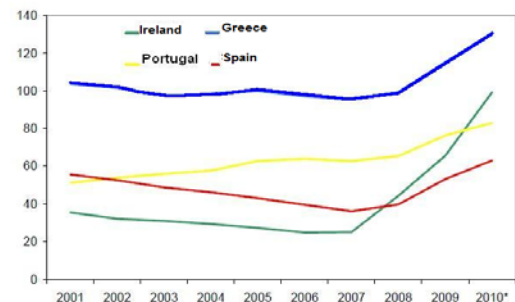


Source: OCDE, 2010, in D'Arvisenet, Philippe, 2011.

According to some authors [7], the sovereign debt crisis manifested in the euro area is a consequence of one of the European construction weaknesses: *the joining of the common monetary policy and decentralized fiscal policies, lacking coordination – lack of budgetary federalism*. At the same time, we might mention the too low political integration, or the lack of structural reforms.

The reduction in interest rate by the European Central Bank has boosted borrowing significantly, particularly of private nature, in countries like Ireland and Spain, and especially of a public nature in Greece.

Figure 3: Public debt evolution

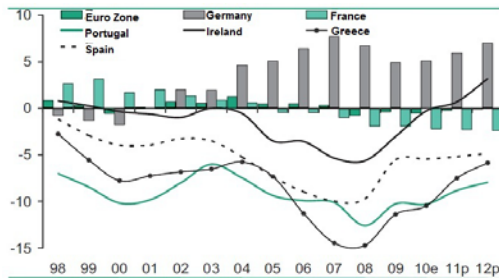


Source: Longueville, Guy, Faure, François, 2010.

It should be added here that the rating agencies have ignored the developments, the absence of spreads can be observed until the onset of the crisis.

Largely a consequence of internal imbalances, translated into excessive debt, the increase in external deficits is, however, concerning. Some plans, unimaginable just a few years ago, were made and even implemented; we mention here are already well-known "rescue package" to Greece in a joint European Union and International Monetary Fund effort, or the acquisition of sovereign bonds by the European Central Bank, etc.

Figure 4: Evolution of the current balance (%GDP)



Source: OECD, in D'Arvisenet, Philippe, 2011.

For Greece, it can be said that the economy is in a recession period. Despite reductions in wages and the incentives for exports, exiting this situation it is not expected in a time shorter than two years, and uncertainties remain high for all states that have a fragile public finances sector.

The skepticism regarding the possibilities of governments to reduce deficits and to manage indebtedness control is confirmed by the actions of rating agencies, translated in the degradation of sovereign ratings for the mentioned countries.

The overall situation described above presents a considerable impact in terms of country risk. Thus, several remarks can be made:

- In emerging economies, although progress is not uniform, the sovereign risk and the credit risk and reduced their intensity;

- Currently, political tensions seem to develop at a global scale. The events at the beginning of 2011 in Tunisia, Egypt or Libya, are testimony to this, and many other similar risks concern: Bangladesh, Morocco, Algeria, Iran, Nigeria, etc. In Egypt, for example, despite good economic performance in the years 2009 and 2010, the fragility of the structural fiscal imbalances, the social tensions and governance problems have led to a rapid and unexpected deterioration in country risk, enhanced by the revolt that began in late January;

- Country risk has become a reality even for developed countries, where until recently there was no question of such an analysis, this development is not foreign nor the euro area, in the light of new realities;

- Forecasts for improving sovereign ratings – but also those "corporate" – are more optimistic for emerging countries than for developed countries;

- The prices evolution of industrial raw materials and agricultural products can generate inflationary pressures, but also leads to improved external balances; in this regard, the influence on the country risk has a positive character [6];

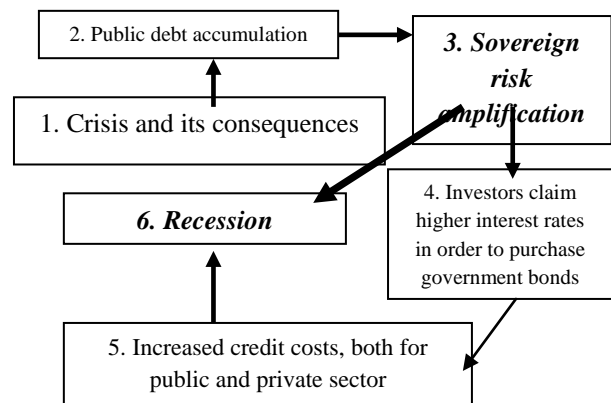
- In the European Union, despite the taken measures, there is no significant improvement in country risk, especially concerning its sovereign component; credit risk and even political risk are present, although their materialization seems unlikely.

4. Concluding Remarks

Undoubtedly, the crisis impact on country risk is extremely broad and difficult to grasp in its totality and complexity, which is why we intend to study this relationship during the next period. One thing we want to emphasize here is that, if country risk is shaped by the crisis, it, in turn, may influence the manifestation of the crisis. A current example is the sovereign component of country risk, about which we can say that it meets the characteristics enabling it to prolong the depression.

The tensions associated with sovereign issues are likely to lead to the prolongation of the crisis, despite the improving condition of the international financial system, induced by the global economic recovery. A possible degradation of sovereign risk would severely affect both the national banking system and economy. Chain reactions could occur as a result of these developments:

Figure 5: Sovereign risk and crisis extension



Source: Authors conception.

Therefore, strengthening public finances and sovereign risk monitoring should be the priority for national governments. At the same time, the banking activity presents a particular importance, their capitalization being in particular a delicate issue; the quality of the balance sheet and the own funds level are equally essential, banks around the world facing large financing needs – about U.S. \$ 5000 billion over the next 2-3 years, according to IMF data. The research literature has tried, especially in recent years, characterized by the multiplication and diversification of crisis, to reproduce the actual phenomena theoretically, in order to identify key factors and to develop forecasting tools.

Although it is noted that there is a general consensus regarding the determinants of crises, the particular impact of each of them remains difficult to quantify, as well as the values for warning thresholds; so, the forecasts for the possible sequence of events are still outside the possibilities of the scientific apparatus. A special aspect is the opportunity to develop theoretical models able to determine the optimal level of sovereign borrowing, given that, at least at the present time, no international coercive mechanisms that ensure the sovereign debtor payment exist.

On the other hand, we must stress here the importance of the political factor. Linkages between political and country risk are present, and debt restructuring issues have a special importance, being a prime concern for the financial community. The belief that the "default" risk for sovereign bonds is minimal has proved erroneous in recent years; it has been put into question even the issue of "bankruptcy" of a state [8], yet impossible because of the specificity of the sovereign. The anticipation of crises in the context of country risk is an ambitious objective, a real challenge; the understanding of the root causes and transmission channels is essential, in order to identify an early warning indicators system; this will be the subject and the goal of our next study.

5. Acknowledgment

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Creativity in Business Ethics and Financial Accounting of the Romanian Organizations

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Abstract

The problem of ethics in the financial/accounting activity permanently generates controversy. Starting with the options of certain famous specialists in the financial/accounting field, the paper presents beforehand the ethics concept and the characteristics of an ethical decisions, focusing after that on the ethics and creativity issue in the financial/accounting field, since the provided information is destined for building an accurate image with purpose of correctly informing different types of “actors” of the business environment and not only.

The study was based on a scientific research, investigation type, applied on a 110 organizations` sample. The essential objectives consist of knowing the level in which financial-accounting professionals apply the professional ethics` standards; outlining the managers` opinion regarding the estimation and usage of creativity and innovation in the financial-accounting activity. Based on the things presented in 5th paper, it can be noticed that the financial-accounting creativity practice and its effects depends on what managers wish to offer with the information they provide and implicitly what they want to get from the decisions adopted by using this information.

Key words: creativity, ethics, financial-accounting activity, fraud

J.E.L. classification: M10, M40

1. Introduction

One problem in the ethics of financial/accounting activity is related to creativity and innovation. Most of the people view this activity as a rigid one that doesn't allow the possible use of imagination.

This aspect has been contradicted by a multitude of situations which proved that imagination in the management of financial-accounting could have a very important role when the distortion of reality becomes a fundamental necessity.

Thus a question may rise:” Do financial-accounting innovation and creativity represent a fraud?”

This study is aimed to answer the following questions:

1. Do financial-accounting professionals obey the standards of professional ethics?
2. How would you appreciate creative and innovative performance with financial-accounting personnel?”
3. Is financial-accounting activity being put into practice within the framework of organization?
4. If it is put into practice , what is the purpose of this practice?
5. If it isn't put into practice , then what is the cause of this lack?

We consider this an up-to-date study under law circumstances influenced by economic crisis. It is this influence that transforms the creative temptation in a negative way into an inherent quality.

Opinions regarding ethics and creativity in financial-accounting activity

Owing to its characteristics, financial-accounting activity, control and audit are in close connection with ethics, morality and religion.

Moral, ethical and religious concepts are close, connective and complementary. Ethics is a rational theory on the origin of the good and the evil and of morally and wisely ordered values. Based on already structured principles, ethical values render morality religious connotation with restrictive character. Ethics can be defined "as a systematic reflection of the moral consequences of decisions. Moral consequences can be drawn in terms of damage potential of each beneficiary of decision. Ethics is a code of conduct that applies to every day life and deals with correctness or incorrectness of individual decisions. It is estimated that an ethical decision has the following cumulative characteristics:

- it is a competent decision, based on accumulated knowledge and experience
- it is a decision taken in the context of a clear identification, in a particular situation of interested persons, of obligations of each part involved and of specific problems;
- it is a balanced decision; it allows identification and hierarchy of relevant ethical principles in a particular situation
- it is a pertinent decision; it is based on determination and estimation of all relevant action and decision options
- it is a pragmatic decision; it allows action based on partial, clear, objectives that are achievable in an objective and responsible way until the formulation of conclusions.

The frequent ethical dilemmas of categories involved in financial-accounting activity and of those that are not involved in it could be the result of different reasons. The most common of these reasons are the conflicts of interests, the security of

information and the practice of making gifts. Conflicts of interests are usually due to competition among similar firms but this is not the only case. The practice of making gifts is perceived as a delicate problem in the business world. In our country gifts are made in order to obtain something. This is considered to be a form of "bribery" paid to encourage business. The security of financial-accounting records is a dilemma that appears when some information do not have a secret character. Most of managers believe that it is dangerous for any firm/company to reveal any kind of secret information because they do not understand that some of them are of public interest.(financial records)

Among the causes of unethical behaviour could be mentioned the following:

- the earnings, because we must admit the role of temptations in unethical behaviour, especially when the process of motivation within the firm /company is not appropriate or does not even exist.
- competition both among firms and among its members
- personality influences the degree of morality of each person; those who are economically oriented to a greater extent or are interested in leading positions make use of unethical behaviour to achieve their purposes.

The problem of ethics in financial-accounting activity appears when it is aimed to create an image of reality in order to inform various beneficiaries who depend on the judgement of those involved. The ethics of these people plays a special role in searching for truth, because they are those who observe the economic reality, interpret and formalize it and eventually construct financial situations which should reflect reality truthfully. If the temptations are great, it is only the professionalism and the conscience of those involved in financial-accounting activity that can guarantee the search for truth through the formalization of a specific economic reality.

The financial-accounting professionals do not live in isolation, they work on a market where the supply and demand of financial-

accounting information confront each other. Financial "performers", accountants and auditors want to sell their merchandise and will offer an image of performance for the countries in which investors bring great pressure, an image of stability for the countries in which bankers have a dominant position and a fiscal image for the countries in which the public plays a significant role in the financial-accounting field. (we consider this to be our country's case). Talking about financial-accounting ethics and morality under such circumstances entails great suspicion as long as the front-page topic is the "financial crisis".

We tried to offer those interested an image of what financial-accounting ethics means.

The importance of this knowledge lies also in the fact that "Ethics in business" represents a compulsory discipline not only for economic qualifications but also for other qualifications. (according to ARACIS standards). Thus we consider that there is an increasing public awareness regarding the informing of the future professionals, accountants, managers or financiers or auditors and the importance of the principles of professional ethics. Actually the most professional organizations have an elaborate and adjustable ethical code. International financial-accounting and audit The Ethics Committee elaborates and issues standards and statements on professional ethics useful to accountants and audits of its present or potential members. The Commission of Ethics also promotes debates of international level on ethical issues that its members confront with. But the process cannot stop at this stage: there is a necessity to ensure that both present and potential members of this profession understand and put into practice the regulations in a proper, adequate and honest way. Moreover there must be emphasized the fact that perfect professional ethics requires self-training.

The Romanian National Code of Ethics of the professional accountants has been elaborated according to The International Code of Ethics of professional accountants reviewed by IFAC in which conduct standards and fundamental principles such as integrity, objectivity and professional

competence have been formulated. These must be obeyed by all those involved in financial-accounting.

Willingness, professional attitude, confidentiality, responsibility, professional and technical guidelines in order to substantiate the managerial decisions, to fulfill the objective, for good information of all those who are interested in the fundamental, financial-accounting news, to offer a true image of any entity

For auditors, the principals considered to be fundamental is independence this being the "touch stone" of the profession. Usually the situations implying the adoption of some ethic decisions are the ones in the "grey zone" in which there isn't a predefined way of actioning. Without an unchallenged professional independence, the auditor's opinion can't be but suspect. Theoretically the factors that determine the degree of independence are the auditor's integrity and objectivity.

A problem related to the ethics in the financial accounting activity refers to the creativity and innovation. Most of us consider the financial-accounting activity as being rigid, with one accepting imagination. This fact was contradicted by many cases in which it was proved that the financial accounting activity can have an important part when the distortion of reality becomes highly important. That's why the concept of "creative financial-accounting" appeared, being used as a rule to describe the process in which the financial-accounting professionals use their knowledge in order to manipulate the figures. We consider that the creative financial-accounting activity might be defined as it follows

The process in which the accounting figures are manipulated and profiting by the teribility and only those practices are selected which permit the transformation of the financial reports from what they must be into what the managers want to be.

Most references papers often present the creative financial-accounting activity through its negative side, being considered as a preres of manipulation the financial-accounting figures so that the financial and economic performances to be influenced in

the direction wished by the company 's management , or even by the employer.

Using creative and innovative polices and techniques in the financial-accounting activity might have many consequences: increasing on decreasing the debts and active, manipulating the information presented in the annex.

These appears the following questions are the financial accounting creativity and innovation a fraud? Using creativity doesn't mean the breaking of the law, but it is rather a matter of interpretation utility and not last ,the ethics. We still don't deny the fact that with the creative financial accounting actability the image of the company's financial position and of the financial – economic performances are adorned. In fact , our opinion is shared by the most managers of the companins included in the research study.

Speaking about the creative financial – accounting activity and the possible chances to step using the negative Techniques, Sir David Tweedie ,A.S.B president said : “We are all like a crossed eye javelin athlete who takes part in the Olympic Games; maybe we won't win, but definitely, we keep the people breathlessly. This assertion must warn as speciality the external users of the financial-accounting information. The efforts that had been doing in order to stop using the creativity techniques of the financial-accounting ,did have the expected result; this still doesn't mean giving up, on the contrary ,even if extra effort is required ,the competition goes on.

2. The Research Methodology

This study intends to bring under attention the perception of the economic regarding the fraud and the financial-accounting creativity.

The investigation included two successive researches : a qualitative scanning type research and a descriptive type research.

The qualitative scanning type meant the production of some hypotheses which were then included in the descriptive type research, the establishment of the next research priorities

The methods used in this preliminary research stage were: the analysis of the secondary data which supposed the use of available data from different sources, trying to find out some problems, ideas, solutions related to the costs and the price policy; the interviews with some specialist meant to get suplimentary information in the financial-accounting field, the group meetings or focus group that were a good opportunity to debate this topic.

With the quantitative research descriptive type, whose results are presented in this paper we intended to know the managers perception regarding the fraud and the financial-accounting creativity. We consider that the results we got have a great importance especially under the present conditions in the economy during the “financial crisis”.

Depending on the place of development the research was a practical one ,the colleting of the data being made at the companies included in our sample.

To establish the sample we used the aleatory sample method which had a basic fix sample (considering the organizatory restrictions, it was established a number of 110 responders ,societies in Sibiu judet/county, 9.4% error for a trust level of 95%)with restrictions. We can say that the samples method consists of combining the multilevel sample method with the non-proportional aleatory layer sample method. The program SPSS for Windows was used to process the data.

We'd like to underline the fact that this research study could be extended(the interest in a possible extension has already been expressed)the present information and results being a real good starting point in this respect.

As to the field of activity that makes up the sample of the research study are organized like this:45 companies out of 110 respectively 40.9% are included in the commerce area,37(33,6%) belong to the industrial area, and 28(25.5%) activate in the services field. Reffering to the dimension, it is found out that out of 110 companies,17(15.5%) microindustrial unit, 52(47,3%) are small companies,29(26.4%) are medium size, and 12(10,8%) are big

companies. We noticed the dependence of the company category on the field of activity. Thus as for the micro industrial units, these are distributed as follows : in the commerce area(47.1%) and services (52.9%).No such company activate in the field industry. For the small companies, the distribution is the following one:61.5% have commerce as their field of activity,13.5% industries 25,0% services. The medium size companies activate mostly in industry(75.9%) being approximately equal to the distribution ,in the offer two fields of activity :commerce (10,3%) and services(13.8%). As concern the big companies most of them activate in industry(66.6%) and services (16.7%).

Depending on the form of property,3 companies (2.7%) out of 110 have an integral state capital,106 (96.4%),private capital and only one (0.5%) has got a mixed capital. It is found that most of the analyzed companies have a private integral capital, these being in fact the general characteristic of the companies in Sibiu county, but in the country as well , regarding the way of forming the capital

Depending on the type of company the information I got show that 89 of the analyzed companies depending on the type of information I got show that 89 of the analyzed companies, respectively 80.9% are organized in societies with limited responsibility (SRL) and 21(19.1%) are S.A

Most of the respondents(43.6%) have the function of general principal, being followed by those who are the head of financial-accounting department ,financial-accounting compartment in chief(11.8%) accountant professional with a performing services contract(16.4%).

Another aspect taken into consideration refers at the educational level of the respondents out of the presented data it is obvious that the highest amount is given by the university training, in this category being included 96 respondents out of 110,that is 87.3% followed by those with medium training(9, respectively 8.2%)and those with postuniversity training(5, respectively 4.5%).At the same time the research study had in view the respondents specialization. of the data it is evident that most obtained responses have an economical university

training(66.4%) being followed by those who graduated much further university studies in other fields of activity engineering(13.6%),computers(1.8%) filology (1.8%) law(2.7%) medicine(0.9%).The respondents with medium training graduated a highschool (2.7%) and an economical posthighschool (5.5%).Those postuniversity training graduated a master program (2.7%) as a PH degree in the economic field

As a conclusion we can observe that most of the respondents have an economic university training, means they know or should know the economic language

3. Conclusions on the research

One of the first objectives of the performed financial-accounting professionals respect the standard of the professional ethics. Resulting from the working data we calculated the score for every standard of professional ethics alone and the global score as well, the information being presented in table 1.

The analysis of the information leads us to the appreciation that in the case of the majority firms it is considered that the standards of the professional ethics are respected either to a extend professional who work in the financial-accounting domain , or to a very large extend.

It is to be noticed the fact that neither of the firms in question consider that there is a standard of professional ethics to be respected to a little extend.

The performed analysis brings to attention the fact that the score for every standard of professional ethics is approximately equal (4.26-integrity, 4.32 , 4.26 -objectivity , 4.25-behavior ,4.37 – confidentiality,4.39-responsibility) all the characteristics being in this way respected in a large extend.(from 1-to little extend , to 5-to large extend)

This ,the general score obtained (4.39) confirms the hypothesis forwarded before the research. The standards of ethics are respected to a large extend.

As we have mentioned in the theoretical aspect of the study, a problem of ethics in the

financial-accounting activity is connected to creativity and innovation.

The majority of us see the financial – accounting activity as being rigid, not allowing the use of imagination. This idea has been counter acted by a multitude of cases in which the result was that imagination may have a very important role in the financial – accounting domain when the distortion of reality becomes a main necessity. In this context, another general objective of the research is to bring forward.

The managers opinion regarding the appreciation and the use of the creativity and innovation in the financial – accounting activity. To reach the objective we have introduces 3 question in the questionnaire as:

- Is the financial-accounting innovation and creativity a fraud?

- How to do appreciate the performance of the staff from the financial-accounting activity to be creative?

- In your organization, are there practices of creativity and financial-accounting innovation used?

That in the opinion many managers (over 73%) creativity and financial-accounting innovation isn't considered a fraud disagreement in this respect disagreement, or the total disagreement and a percentage of 15,15% the managers have neutral opinion regarding creativity and innovation. Only approximately 10% of those interviewed consider that by creativity and financial-accounting innovation fraud is created. Generally, taking into consideration the calculated score for this question of 2,05 (from 1 – total disagreement, to 5 - total agreement) we can appreciate that the managers don't agree with statement made, the hypothesis given at the beginning of the research. In fact this was our conclusion, too.

It is stated that the reasons why the companies use methods of financial-accounting activity are separated in this way: creative 32% from the firms have the wish of avoiding fiscality; 43,1% from the questioned firms are interested in obtaining supplementary financial resources; 36,1% use creativity and innovation when they are obliged to offer financial-accounting information to some external users and 51,4% of the interviewed firms which use

financial-accounting creativity and innovation mention also other reasons.

In the category "other reason" there have been mentioned law contradictions, law interpretations, personal professional judgements; the decrease of the work load; the manipulation of the financial result for not paying the dividends according to the stock owners wish.

By analyzing the reasons why the firms use the financial – accounting creativity and innovation, must often there is the need to obtain supplementary source of finance, the need (there urge) to avoid fiscality and law ambiguity. From the research there can be emplasized the main reasons why the firms don't use the financial-accounting creativity and innovation: correctness, fear, the existence of major risks, the existence of internal and financial auditors, foreign stock owners, etc.

In conclusion, the forwarded hypothesis before the research (the majority of the firms use creativity and innovation in the financial – accounting activity)is confirmed. We can also conclude that most of the organizations use these kinds of technigues witen negative intend. All that remains us to do is to ask ourselves to what extend the accounting principles are respected, if we can still talk about a real image or about "users, watch out!".

These questions find their answers in another research. Following the conclusions brought out/ forward from the present study, we considered that the financial – accounting creativity and its effects depend on what the managers want to offer king the information that they provide and consequently on what they want to obtain the decisions that the users adopt with this information. This dependence should create a certain responsibility to act ethically, not taking into consideration the interests for offering equal chances of information.

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The Balanced Scorecard – System of Indicators for the Assessment of Intellectual Capital

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Abstract

The Balanced Scorecard is a management system that enables organizations both to clarify their vision and strategy and translate them into action. It is not only a measurement system, it is a complex instrument which provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the centered point of an enterprise. Working through the balanced scorecard process enables management to define those key perspectives that will drive the business to success, as well as to define how to measure their impact on the performance and the results of the enterprise. Since intellectual capital is intangible and influenced by complex economic, social and political factors, using this system to assess and measure knowledge management provides suitable indicators.

Key words: balanced scorecard, strategy, indicators, intellectual capital, knowledge.

J.E.L. classification: J24, L21, L25, M12, O15.

1. Introduction

Balanced Scorecard (BSC) is a tool for strategic planning and management system, used extensively in business and industry, government and nonprofit organizations worldwide to align their activities to business strategy and vision, to improve internal and external communication and to monitor the performance of the organization in the context of achieving strategic objectives. It was created by Robert Kaplan (Harvard Business School) and David Norton as a

framework for measuring performance and it evolved over time, adding indicators of strategic non-financial performance to the traditional ones and providing to the managers balanced information about the performance of the organization. Although the term was imposed only in the 1990s, the roots of this approach of the performance and strategy are deep, including General Electric's methodology for reporting financial performance in the 50's, and reporting the results of the enterprises from France under the name "Tableau de bord" in the first part of the twentieth century.

2. The Balanced Scorecard – definition and composition

The Scorecards with strategic orientation are systems of indicators that seek to measure the overall performance (and evolution) in different sizes constituents [1]. They allow clarifying the strategic objectives and their expression in *specific target values*. They also provide a general development policy within the organization and a return to strategy for the gradual completion of it. There are three possible system analyses:

- Balanced Scorecard, imagined by R. Kaplan and D. Norton. This instrument remains focused on the financial performance and on the shareholder's value. Operational evaluations are based on customer satisfaction, experience and organizational development. Once the relationship is established, one can identify correct means to measure those business drivers in order to achieve desired economic and financial performance [2];
- A scoreboard that focuses on the intangible capital of the company (experienced by L. Edvinsson) envisages the development of individual and organizational competences. This

technique is based on four types of indicators. These are the human resources indicator, infrastructure indicator, innovation indicator and structural capital indicator. The changes in intellectual capital indicator as a total reflects changes in market value of the company [3];

- A system which is based on the criteria used to accomplish the ISO standards, or to compete for the awards which promote quality (Malcolm Baldrige Award, the European Foundation for Quality Management Award). It is aimed at providing more value to the customer.

Next we will focus on the model of the Balanced Scorecard. To obtain the highest possible global outcome, it is first necessary to provide quality services that will be reflected in a series of indicators. They are reporting to key strategic issues and are focusing on four strategic axes.

Financial indicators depend on the adopted strategy (withdrawal, growth or maintenance). For example, a growing industry will indicate the increase in turnover according to the percentage of sales from new products or new markets [4].

Customer indicators are relatively classics: the market level of satisfaction and the loyalty of customers, number of new customers, profitable customers by category. Monitoring indicators are given treats attributes: those relating to product or performance (functionality, price, and quality), the relationship with customers, and those related to brand image and reputation. The selected criterion depends on the strategy of prices and quality service.

Indicators of internal business processes are limited to key processes. For example, if the speed of innovation is essential, the company may choose to follow the development and expect the percentage of sales achieved with new products. It will be taken into consideration the processes of product development and after sales service, because they have an increasingly important role in the current competitive context.

Indicators of organizational experience, innovation and development refer to the level of satisfaction and competence of the staff, level of functionality and performance of information and quality management systems. The decisions generate a training

exercise, a change in the payment system and making available to officials a tool to access information in real time.

Monitoring indicators are deviation between the level of competence and the current situation, the percentage of customers' expenditures, whose remuneration corresponds to the new rules and the appropriate IT equipment.

They allow the identification of practical indicators for measuring the outcome (lagging indicators) whose output intervenes after completion of the action and advanced indicators (leading indicators), located further upstream in time, which play an alarm signal before the performance gets to lower. For example, if the result is the satisfaction of customers, according to the criteria and the rates of error or response time to customer requests, the company can react more quickly to abatement.

By using these indicators, the Balance scorecard is a tool that provides an operational representation of the overall company performance, while enabling guidance and evaluation of the strategy.

3. The strategic maps – adjacent instruments for BSC

The Balanced Scorecard offers a model of consistent performance. But he turned from a simple system of measuring performance into a complex system of strategic management is the year of 2001, when Kaplan and Norton published their paper "The Strategy-Focused Organization". They proposed the creation of adjacent instruments, called strategic maps. These are diagrams that describe how an organization creates value by connecting in explicit cause-and-effect relationship with each other in the four BSC objectives (financial, customer, processes, learning and growth), using the cause-effect relationship [4].

Following the information contained in the map, the financial perspective looks at creating long-term shareholder value, and builds from a productivity strategy of improving cost structure and asset utilization and a growth strategy of expanding opportunities and enhancing customer value. These four elements of strategy are supported by cost, price, service, quality, functionality, etc., which internally is being translated into

improved attributes of products / services, or into an improved brand image of the organization. All these processes are based on the exploitation of human capital, information capital and organization capital.

In this way, the Balanced Scorecard facilitates the implementation of the strategy and allows a reflection on the relevance of options [5].

4. The intellectual capital – the input-process-output relationship

By working with indicators and using organizational tools, the balanced scorecard allows better communication between strategy units. Managers often limit their messages to their strategic intentions. This attitude is insufficient to transmit clear guidelines. The BSC indicates the strategy by using specified objectives and cause-and-effect linkages between them [6].

Being given the complexity of BSC, we consider that it is a good system for the assessment and measurement of intellectual capital. Before explaining this, we have to present a compound of intellectual capital.

One is people or *human capital*. We can define human capital as the amount of skills, abilities, talent, knowledge and expertise of employees.

The other component is what is surrounding people in an organization and that is *structural capital* – all those intangibles left behind, when people go home, internal processes and structures, patents, databases, all documents certifying the know-how of a company.

As third part, there are external processes and relations, customer relationships and company's image, called *social capital* [7].

A closer analysis reveals though the necessity to include in the definition above any type or transformation of any intangible assets which are under some control of an organization and contribute to the general process of creating added value for that organization. So, from this point of view, intellectual capital must be more than pure intellect, but include intellectual action. It is the move from "having" knowledge and skills to "using" them [8]. The "using" of knowledge implies that relationships (social capital) and intangible assets and processes (structural capital) are needed to transform

knowledge, abilities, skills and expertise (which are owned by the employees – human capital) into a product or service that is of value to the firm and its stockholders.

Analyzing the intellectual capital though *the input-process-output relationship*, we may consider that *the input is the knowledge, expertise and skills of the employees. This input is transformed by the processes reflected in the structural and social capital (the know-how of a company combined with its image and relationships with the economic and social environment). The output is the added value for the stakeholders and the company itself.*

Being interested in performance, the organization will manage these resource suppliers and will be preoccupied by the management of intellectual capital, in order to add value to the business. The quality of intellectual capital management within the organization and the strategy related to that can be included in business strategy plan. Such a plan is reflected in the Balanced Scorecard.

Next, we will consider a sum of indicators that could be included in the BSC and monitored through this instrument.

5. The assessment of intellectual capital using BSC

Knowing that the BSC aims to evaluate the strategy and the objectives of a company, we will consider in the following the four previously presented axes of this instrument, and we will include, in each of them, indicators related to intellectual capital, which will be helpful in defining a strategy and, of course evaluate it.

In the center of *financial axis* is the profitability and operating income, value added and the income from invested capital. Here there may be included ratios that describe human capital effectiveness and performance. In order to do that, measures like Revenue ratio, Turnover ratio, Net income ratio and Gross income ratio could be included. Those are basic measures of human capital effectiveness and are calculated by taking the financial indicators (revenues, turnover, gross and net income) and dividing them by the total headcount of the organization. Of course, these ratios are possible to be computed using full-time

equivalents instead of headcount, which would be more precise, but significantly more difficult.

Establishing targets for these ratios and the correlation between financial indicators and the headcount of a company is very important to be included in the BSC, with a notice: to correlate these ratios to the indicators reflecting the planned structure, number and expertise of the employees, included in learning and development axis.

The *customer axis* can be considered as fully dedicated to social capital. Having as main indicator, in our opinion, the market share, this area must specify the customers and/or markets that the business wishes to serve and establish appropriate targets and objectives, as customer satisfaction index, number of customers, customers' rating, annual sales per customer, medium size of customers, average time to answer customers' solicitation, lost customers, medium time of the company-customer relationship, etc. Here we may add the number of clients per employee, which is an indicator that establishes a relation between social capital and human capital. Those are few indicators to be included in this axis and be proper in order to assess the social capital of an organization, from the customers' point of view. They enable the monitoring of customers' satisfaction, customer retention rates, the attraction of new customers, profitability on the types of customers and targeted market segment obtained.

The *axis for internal business processes* examines how the organization uses various tools to create value. Because this axis is partially referring to products development, we consider that we can include here the know-how and the patents and we can establish as targets revenues from usage of patents/software/databases, number of processes ended without errors, investments in IT, etc.

Finally, *the innovation and development axis* is dedicated to factors as employee skills, organizational alignment, strategic partnerships, employee competence, infrastructure, etc. This area is often the most difficult to develop appropriate measures. However, the examples may include employee motivation, employee skills profile, number of employees who left or came in the company, analysis of the reasons

for which employees have left the company, and many other indicators which can be related to employee motivation, can be targeted and, of course, can be related to human capital, in order to help assessing the intellectual capital. This axis has also a learning component, which can be related to training planning, number of hours of training per employee, the allocated time for training (hours per year). *The objective is to identify determinants of growth and progress on long-term undertaking.* This is another reason to consider employee indicators as suitable for this axis. By using the proposed indicators, managers will be able to monitor employee's competence and the progress made in the relationship company-employees.

6. Conclusions

The Balanced scorecard provides a framework to focus on key perspectives that will lead to success, and to constantly assess performance against targets. *It helps align key performance measures with strategy.*

By connecting such elements as shareholder value creation, customer management, process technology, employee motivation, organizational design and learning in one graphical representation, the Balanced Scorecard helps greatly in describing the strategy and to communicate the strategy among executives and to their employees. In this way alignment can be created around the strategy, which makes its successful implementation easier. No small thing, bearing in mind that often, the implementation of a constructed strategy is the biggest challenge.

Although the BSC provides management with a comprehensive picture of business goals and strategies at all levels of an organization, there are limitations of this instrument. The distinction between indicators of action and the ones of result is often ambiguous. Also, the implementation of the strategies implies some difficulties [9]: the strategic objectives are insufficiently expressed in operational objectives; the resources are not always allocated according to strategic objectives; managers are concerned with short-term objectives against strategy (e.g. the obligation to maintain a price of stocks to meet investors' interest).

As an instrument used in the assessment of intellectual capital, the BSC can include financial and non-financial indicators, related to all three components of intellectual capital: social, structural and human. In our opinion, these indicators should be presented separately in the BSC of a company. Or, if possible, if the company acknowledges the nowadays importance of intellectual capital, it should create and develop a BSC especially for intellectual capital, focused also on financial and non-financial indicators, part of them presented in this paper. This last possibility, the creation of an "intellectual capital BSC", can be related to the core operations of a company. If a company bases almost extensively its activity on knowledge (IT, laboratories, public relations etc.), then, in these cases, a BSC created especially for intellectual capital should be recommended.

The BSC provides a common language for enterprise's business partners. The future will validate its priority by way of relevance, efficiency and potentiating the performance of the organization.

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Theoretical Approaches Regarding the Management of Museum Resources

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Abstract

By their nature management the issues of cultural institutions, show that these units, beyond their specific aims, are broadly like all other organizations. They have a separate organizational structure, a specific internal process, using their own resources and deposits (inputs) performing cultural "products" and "services" (outputs), that they are interested in promoting and specializing in etc.

The institutional system designed and developed in the cultural area is a complex instrument, used by a given human community, in order to solve specific problems and needs of a spiritual nature.

Key words: management, museum, resource, culture

J.E.L.classification: M00

1. Introduction

The cultural organization can not ignore, unless with serious risks, the concepts, the symbolic paradigms and the qualitative judgments that re at the basis of the entire management system. In a culture organized institutionally, the management becomes a functional requirement, an indispensable condition for the system to survive and be able to work.

2. Cultural institutions

The main cultural agent acting in the big socio-modern human communities, the cultural institution, is the "body" that materializes into a specific form of

structuring of social relations of a particular nature and represents a relatively simple organizational entity, usually funded on grants and sponsorships specialized in combining "inputs" whose primary cultural function is the development and/or propagation of "goods and services" (values) designed to meet the cultural and artistic needs.

The defining landmarks of a cultural organization are [8]:

- The group of people with the technical and material system and funding mechanism;
- The ensemble of representative purposes or its spiritual, artistic, aesthetic goals etc.

- The legal status which sets out the role and the existential framework. In the light of theories known so far, cultural institution, like any organization, moreover, may be analyzed using different versions.

As a socio-human opened system, the institution of culture develops in the center of a gear with several other relations in its environment: the upper level and socio-cultural units which are in contact with banks, sponsors, suppliers, distributors, customers, public, cultural, elites, media, etc.. Between the organization and its environment takes place an intense and continuous exchange between people, ideas, money, material goods, etc. The largely operational dimension of a cultural organization determines, above all, a flexible and adaptive behavior, and secondly, a continuing concern for a self-regulatory system, based on its primary purpose - the spiritual, aesthetic, artistic values etc. and its circulation in society. Alternatively, self-regulation requires a permanent relocation of

the relationship between internal departments.

Thereby the cultural institution is revealed as dependent on its environment, with which there exists a constant interaction and inter conditioning.

As an organizational structure, the cultural organization is emerging based on its scope and nature of its internal processes. The functionality of an institution of culture is deeply influenced by its organizational setup, the links established between the compartments, the informal structure and, last but not least, the quality of management. The acute need for flexibility often requires the design of organizational interventions created to support the internal and / or the adaptation process to the environment. The organizational structure is the "anatomy" of a cultural entity, its inner "architecture" and also one of the main management tools designed to support efforts to achieve the preset objectives.

As an agent, given the current operational activities, the cultural organization is, in fact, an instrument of socio-cultural goals that make up its mission, its reason for existence. Oriented towards an end (all of its fundamental goals), the cultural organization is deeply interested in the selection, throughout its decision-making fund management, of the most reasonable and appropriate means to achieve its goals. The cultural agent (organization, administration, foundation ...) is, in fact, an "invention" that allows the people interested in culture to express their creativity, vocation and thereby enriching the heritage of spiritual values in society and their movement in the environment.

Goals of cultural institutions are marked by a clear bipolarity. On one hand, its purpose mainly aesthetic, artistic, spiritual, moral, etc. is target for the refinement and virtuosity, but on the other hand, material matters that are related to the survival of the organization as a whole, can not be neglected, as well the realization of income and resource management etc. Viewed from this angle, the cultural organization is a hybrid that blends the aesthetic, artistic, spiritual, elements etc. with the economic ones. By its nature, this symbiosis requires a two-headed management, dominated by two

major categories of commands (fundamental purposes).

3. Management of the museum's resources

The museum's resource management consists of the management of human resource and as well the management of the technical, material and financial resources. The three components are inter-conditioned, influencing one another. Each category of resource specifically contributes to a successful managerial approach.

Human resource management is the one that animates the museum's staff to acquire professional rated satisfactory results. Quality, staff training and motivation are important factors that follow the interests and desires of the personnel (personal/institutional) and that may lead to performance. Ensuring an eased working climate, encouraging employees, improving working conditions and proper salaries are elements to be taken into consideration at all times. In the museum a large number of personalities are working, leading experts on cultural heritage, which - once treated according to their status - can rise to high levels of professional achievements. The manager is subject to a continuous effort to establish, not only cordial relations and an efficient communicational system, but also to use the most appropriate methods to deal with the work climate. The manager, because of his hierarchical position, is prone to encounter unforeseen difficulties, especially in winning respect and strengthening its authority when promoting changes, when the reforms must justify his approach. His competence in leading small groups, strongly personalized, will become apparent precisely throughout the change strategies that he will promote.

The management of material and technical resources ensures the completion in good conditions of the projects and programs. Technical and material resources, their ability to support the museum's demanding requirements, are very important aspects for the organization. The precariousness or the backwardness of different facilities, the lower level of the quality of the equipment and services, failure, degradation of space and of the furniture that

is displayed or storage issues, lower maintenance and equipment protection, reduced operational resources (transportation, vehicular, etc.), low development techniques for laboratory research and field work, chaotic supply, all these can produce adverse effects diminishing the quality of labor and also the managerial efficiency.

The rationing of material and technical resources should not be opposed to insuring certain requirements regarding the equipment functioning properly and also achieving high quality products. Administrative functions and technical working groups are of great value in ensuring material and technical resources and so the prices have a reasonable cost.

The annual procurement program established in time, with attention to detail and justification, provides the museum with consumables and technical facilities at high level and also ensures the use of equipment and facilities according to standards and regulations, providing rational energy consumption.

Financial resource management is focusing primarily on budgetary and extra budgetary financing requirements. The presence of a well organized budget, insured and balanced, harmoniously sized and distributed to meet the objectives proposed, represents a mean of evaluating the manager. Frequently, the initial budget proposals are different from those approved by the competent bodies. The museum's philosophy budget includes salary expenses, a major part (between 60-80% of the budget), followed by the expenses in other budgetary areas (research and development, investments, costs of materials and technical equipment, with a much lower percentage. Local environmental factors, financial possibilities and politico-administrative decision differentiate the museums budgets. Visionary foresight and the decision-making bodies may substantially increase the amounts allocated to investments, endowments and museum acquisitions. Currently, the museum's strategic efforts are concentrated towards restoring permanent exhibitions, upgrading the facilities and the equipment, work automation, computerization, etc.

The budget is divided into regular intervals, the manager having a permanent control:

- Rational expenditure of allocated resources;

- Identifying and obtaining extra-budgetary funds by providing services (advice and expertise, renting different facilities, special public services, etc.)

- Outsourcing of different service categories (security and protection, maintenance and production of museum presentation materials, etc.)

- Ensuring proper management of resources and internal financial audit; preventive control of financial transactions.

Extra-budgetary funding sources are becoming increasingly more important, as they tend to occupy a significant place in the economy of the museum. To those already used, are added different international collaborative projects, financially ensured by third bodies. Preparation, drafting and documentation related to planning, payments and work operations, management and technical control are of an exceptional importance.

The gradual increasing trend of self-management skills significantly increased the efforts to reduce the budgetary funds allocated. The museum's financial resources are usually limited, so each museum is concerned with supplementing funds through specific marketing activities. In recent years, museum marketing managers have become especially important.

The marketing in museums has in mind primarily the commercial stand (shop, store): this is meant to create an income, to guide the public, to promote the authenticity, the excellence, the good taste and the cultural value. Contemporary artists, craftsmen and artisans, producers of audiovisual materials, publishers must be enticed to sell their products through the museums. In all cases the offer will be guided by the museum's profile, trying to make it as specific as possible.

An important place is occupied by parking spaces, cafeterias, snack bars, restaurants. They also generate high revenues and have an important position in the process of socialization.

Another important place is occupied by marketing research that involves the identification of senior producers, beneficial products, stimulating the market and refining the categories of supplies. From this point on

the production phase starts throughout presentation and distribution. Quality and price of purchase / sales are important components of managerial policy. The association between several museums in the system of museum poles may lead to a substantial increase in revenues. The correlation of copyright, is a responsibility assigned to the financial management. At this point, the manager will join or will use the most qualified legal counsel team. The manager and the staff policy has the role to maintain and support the specialized workforce in the museums, creating a balance between the scientific, technical, administrative and financial elements. The manager himself, in most cases arises as a result of staff training. Its selection implies an optimal framework of quality assertion, the promotion is recommended to be made gradually: first in a secondary position (at age 30-40 years) giving the staff a chance to perfect their managerial skills. Specific activities of the museum can be performed only by persons qualified to perform them; the specializations start to become a must and require systematic efforts from both the individual and the institution: in the preparation of a graduate specialist a lot of time is invested in order for its results to be efficient. The manager is the one guiding these efforts, identifying areas that need specialized staff, creating optimal conditions - through courses and graduate programs, master's, doctoral fellowships, internships documentaries - and ensuring, of course, the proper funding. The improvement of these specialists is mandatory coming as an immediate consequence is the use of their abilities. The auxiliary, technical and economic staff, does not have to be underestimated in terms of its professional training, its abilities depending on the proper functioning of the museum. Its components must be well selected and their performance will be followed at all times, maintaining a proper running of the museum's infrastructure falling in their duties. As well there is going to be an effort to retain this staff in the museum. The way that the specialized staff, behaves, reveals an evident managerial blatant negligence. The state of the facilities, of the exhibitions, the equipment and the working materials of inferior quality, the low cohesion and

motivation of employees, is evident and reflects a lack of professional skills of auxiliaries, a direct consequence of management failures. Such defects are often encountered in financial and administrative departments, with a negative impact on the image of the institution or producing unintended consequences in the management, in the completion and utilization of funds, in the reputation of the museum's services.

In the museums of France, the public relations department has installed security cameras in order to permanently have control on visitors and their behavior [5].

The ability to understand what visitors want to see is the most important task that the museum has to take into account [4].

A rated museum manager does not ignore any segment of the staff, seeking to harmonize the working climate and human relations between people, seeking a good continuous functioning. In the internal organization of professional micro groups life the manager will always seek to achieve harmony and respect. Table spaces, the dressing and recreational areas, the working conditions alleged by the museum's schedule, with its specific restrictions and requirements, the planning of holidays and vacations, must be organized very well in order to meet the requirements of both the staff and the public. The incentives, rewards and sanctions will take into account the quality and the performance of the specialists. Therefore, the manager has also the role of training the specialists, identifying the special qualities, allowing, in perspective, a general view of the person that would best qualify as a successor.

Encouraging competition arises from the role of continuous performance incentives and a good working climate. Any bias and ignorance, the directorial bias against employees may result in damage to work and climate relations, severely affecting the image of the museum.

A fundamental mistake of many museum directors, is not organizing the working time with those inside the institution: heads of departments and employees with responsibilities or outside of it: officials, delegates, collectors, donors, etc.. A functional secretariat also corrects deficiencies, scheduling and ordering the manager's working time.

As such, the organization and the administration of the managerial work, of the meetings and the protocol, has to be regarded and treated with great care and deliberation, avoiding loss of time and lack of courtesy in their dealings with others.

There is no control of a museum without a minimum involvement of employees [1].

To a large extent, the success of a public museum is provided by its "friends". In Italy, in 1992, there were 5.9 museums per 100,000 inhabitants, their number increasing day by day [7].

4. Managerial decisions in a museum

The managerial decision in a museum is presented in the museum's everyday life, in all its functions and in the smooth running of activities [6].

The idea of a museum's management team has progressed, this concerns the existence of two managers: administrative and "artistic", so increasing the competences will lead to an increase of the museum's negotiation policy with potential suppliers and to competitive differentiation [3] etc.

As the museum's management is a set of concepts, methods and techniques, we can deduce that the management is accomplished through the manager's decisions. Implementation of decision-making in daily practice involves a laborious process that implies the association of several factors. Leadership involves communication skills, advanced knowledge in museums, because the existence of small and medium groups, implies the existence of a good manager, who plays a key role in harmonizing them, animate and lead, as decisions are required to be clear, justified and reasonable. For this purpose a few elements are necessary:

- Gathering information on a certain issue that needs a resolution;
- Construction of different settlement options;
- Optimal solution;
- Communicating the decision to those who are responsible for putting it into practice;
- Enforcement of the decisions and findings;
- Reporting the completion of the decisions.

The informal circuits and the climate of working groups, are factors to be taken into account by the manager, seeking to ensure appropriate conditions for action. The cultural team may have the impression that it has a marginal place and its involvement can not change anything in the museum, that is why it is important that the manager involves the whole in cultural projects [2].

5. Performance evaluation criteria of management in museums

Establishing criteria for performance evaluation of management in museums has become possible - though always relative outside of precise rules - by recent legislation [9]. They seek to quantify and clarify without making a gradual distinction - the criteria for assessing the management of the museum. Among the specific operational objectives, in terms of management, we can mention:

- The efficient and optimal valorisation of the museum's heritage, as well as the museum's offer in terms of products and services;
- Diversifying and adapting the offer, responding to higher quality and efficiency requirements;
- Offering services to meet higher standards as present in certain museums both in Europe and as well at an international level, in agreement with the local cultural environment;
- Continuously promote collaborations and partnerships with various cultural operators;
- Designing the museum's offer to the real demands and needs of the public, attracting new categories of visitors and increase audience loyalty by its co-participating in the cultural act;
- Identification of complementary and alternative sources of financing: accessing national and international projects and programs, increasing donor gestures, sponsorships and patronages;
- Identifying and vigorously pursuing new ways to streamline efficiency throughout saving material, financial and human resources of the museum;
- Providing material resources and ensuring an ideal climate for the qualification, specialization and professional development;

- The creation of strategic projects and programs of development of the museum on short, medium and long term.

6. Conclusions

Each museum can be defined specifically with reference to a "ecosystem of the museum" (national and international) where activities interact. Each museum - has a part involved in the ecosystem, which the museum can not ignore - is free to decide its future, also their choice of objectives, means and criteria for evaluating the quality of achievements and developments.

Bureaucratic work trends for standardization and modernization may be opposed to forces of differentiation, even fragmentation, likely to resemble to the museum's environment - a world full of initiative and sometimes contradictory directions.

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The Impact of Globalization about Capital Market

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Abstract

The paper intends to identify elements which nowadays naturally bind the Romanian capital market to external financial circuits and to evaluate the dynamics of these one into a world of multiple conditionings in which the juxtaposition of influences may generate the intensification or disruption of the effects, and their reproduction in different circumstances may lead to results situated beyond anticipations.

Key words: globalization, deregularizations, capital markets, financial crises, financial volatility

J.E.L. classification: G

1. Introduction

Globalization of capital markets the direction of internalization of stock exchanges and development of a global financial market may have negative consequences.

In Felix Rohatyn's opinion "global financial markets are a greater danger today to world's stability even more than atomic weapons".

The succession of financial crises in the '90s starting with Mexico and finishing with South Korea, Russia or Brasilia is an argument used by globalization's opponents. The main factor of financial crises in the last decade is also the factor of globalization of capital markets, which speeded the capital movements.

Unlike previous decades, nowadays national economies integrated in global economical circuit must be prepared anytime

in order to face eventual shocks from the exterior. The isolation from the global economy is not a solution in order to escape from the dangers implied. A strong economy with a solid financial compartment, open and transparent may face successfully the provocations brought by changes on the international level.

The reduced degree of regulation of international market enhances the opportunities of speculations[1] and thus may affect the stability of national capital markets.

A globalized financial system where hundreds of milliard dollars may circulate simultaneously as a reaction to the latest news and eventually only on the grounds of some psychological factors, may become an unstable system.

The speculative movements represent a significant perturbant source which attempts to the stability of financial markets. The overwhelming financial power of private investors may create problems even to the most powerful governments.

A familiar example which shows the potential source of instability generated by globalization is the one of Rarings Bank.

Nowadays, on a global market with global investors the international flows of capital may affect the whole system with the risk of being a source of instability. The intercorrelation of national financial markets allows the more rapid transfer of wave shocks and the consequences of a domino effect generalized at global scale are hard to imagine. The technological revolution reduced the autonomy of national markets and increased their volatility.

2. Globalization and financial volatility

The financial crises of the second half of the '90s threatened the globalized system of capital markets and brought spectacular reductions of production on a short term. The volatility of capital flows measured as a standard deviation to the mean of admissions –exits of financial resources placed under doubt the capacity of markets to actuate increases on a long term and thus the development of national economies.

In a reciprocal sense one intended the influence of financial globalization to the macro economical volatility – measured as a standard deviation of the consumption and production to the mean.

In spite of the fact that the volatility of capital flows inhibits the development, recent evaluations show the fact that countries learn to manage more and more better their volatility. Thus, the rather harsh process of global financial integration offer – if well-managed – the possibility of some economical growths.

The volatility of capital flows, measured either as a standard deviation to the mean of admissions –exits, or as a deviation to the average proportion between the flows and the internal brute product may be the result of an internal cause as well as of an external one:

- The changes in the internal financial politics, for example, may determine reactions of the capital flows when these kinds of modifications are frequent and unpredictable. In this situation, the volatility is considered a symptom of the deficiencies of politics rather than a risk.

- On the other side there are the opinions according to which the movements of capital flows are almost independent to the fundamental economical balances of the states – the volatility of the flows is thus owed to the state of global liquidities and 'contagious' conduct of investors.

An intermediate vision binds internal weaknesses – especially in the financial sector – to the imperfections of global allocation of capital flows. The relation affects especially the countries which liberalize their financial sectors in the same time with the opening of the economies to the external capital.

This perspective led to the general accepted importance of consolidation of internal financial sector in the same time with the financial integration with the rest of the world.

During the last years the volatility on a long term of capital flows, though even increased or increasing in some countries has recorded deflations in the group of state in development. The signs of reducing of volatility as well as the perception of the fact that some countries got in shape relatively soon from the crises determined the observers to conclude that the countries succeeded to ameliorate the ability to manage the volatility of capital flows by such means as:

- diversification of the structures of production
- introduction of flexible rate of exchange
- preservation of a higher levels of currency stores
- consolidation of the observation of the financial sector
- rating of capital admissions in order to maintain under control the most volatile flows.

3. Regulation and observation of national capital markets

The national organisms of observation of capital market have as their main mission to ensure the protection of the investors who placed money in value titles, permanent information of the investors, authorization of the creation and observation of the course of activity for the institutions implied in the field and the well functioning of the markets organized in movable values.

They have also the task to examine if there are persons who benefit from privileged or confidential information. One of the antinomy of the exchange: knowing of the reality previous to the 'market' is a source of benefit but the confidential piece of information is, theoretically, unusable.

In more countries one can observe the tendency to unify the whole responsibilities of regulation and observation of national capital market in the hands of a single institution.

The existence in more and more countries of the preoccupation of agglomeration of tasks of observation has the disadvantage of a lack of responsibility.

The tendency to reunite all the responsibilities of regulation and observation of national capital market in the duty of one institution do not have to be mixed with that of unification of observation for the whole financial market but can represent a first step in this direction.

In the attempt to fulfill their objectives, the role of the 'peace officer of the exchange', the organisms of observation of the market are invested with powers of executive and judicial regulation:

- powers of regulation with the view to the possibility to promote regulation, instructions, recommendations, etc;
- executive powers which refer to the activities of notifying of public offers, of observing of the market;
- judicial powers in accordance with the possibilities to proceed to investigations if one observes the break of the laws in the field or of proper regulations, the cases being able to be sent to the law court or being directly executed by penalties or administrative measurement to the society of movable values.

In the future, the problem of a unique authority of observation and regulation for the whole financial market will be one of actuality, one taking into account the tendency of sending to the banks the implication on the capital market.

4. Tendencies of deregularizations of capital markets

The concept of deregularization does not imply the renouncement of regularizations. Capital markets continue to remain regularized.

The tendency of deregularization manifested internationally has in view a phenomenon of liberalization of the markets, of opening of national capital markets. In this sense the deregularization must be regarded also related to the phenomenon of accelerate globalization of national capital markets.

5. The embryos of financial crises and global finances

The problem of the imperfections of the market arises when there appear frictions between the capital movements and the fundamental indicators and when the discipline of the market proves to be weak. This is the case, for example, when capital flows refer to countries with unsustainable politics or, on the contrary, when financings on the external capital markets are either unavailable, or too expensive for countries which otherwise have correct politics and perspectives on the capital markets.

"In the battle between nations matters not so much the different divisions or ideologies as the capacity to attract and hold the investors"[2].

According to the hypothesis of the arbitration between financial politics, the differences in the quality of the management of economical politics represent important determinants of the volume, terms and direction of capital flows. Thus, these flows tend to come from countries with relatively instable economical politics to countries with healthy economical politics and good perspectives.

Any conflict which can appear in this way between the national and international interests refer not so much to the direction of the capital movements, as to their volume. If an economy receives a volume of capitals bigger than its capacity of absorption, the admissions of capital will destabilize the fundamental balances and rise problem to the monetary politics and the one of the rate exchange.

The management of financial crises resides in the arbitrary of the two opponent realities which governs the national markets: the control of capital flows which assumes a certain degree of economical planning on the one hand, and the pressure of group of interests, on the other. The judgments are aggravated by the psychology of the regular intervenient on the capital market.

6. The simple cause of a financial crises

Inventions – Emergent Markets – Economical Boom

These tendencies are increased by the fact that any economical 'boom' is the carrier of a great inflationary potential.

The expansion of the crisis is an attribute of these ones which raises question marks and accentuates the urgency regime of the problematic of financial crises. One notices that the impact of the crises in the decades IX and X to the group of countries OECD was insignificant and that the losses registered in the countries in crises would equal only 2-3 years of economical growth.

Moreover, the innovation and the financial intermediation facilitate the circulation without furrows of some immense capitals – inclusively of the 'black money' – with evident effects to national economies[3].

7. Conclusions

Romanian capital market develops, in its turn, a process of evolution, exceeding the phase of the emergency of system but remaining at the stage of searching and partial and sometimes painful consolidations, taking its proper rhythms of internal economy and aspiring to the statute of a delicate instrument.

In order to circumscribe the Romanian capital market within the international financial space it is necessary the identification of the broad cadre of the influences of the globalization to the markets and capital flows but especially to the ones of economies in transition with a higher degree of vulnerability.

Regional initiatives and commune plans of action which sustain them determine the profile of many of the transformations which Romanian exchanges and other financial systems operated or have to operate soon. The new European economical geography, the problems of monetary and financial union, internal sectorial bets and even those

social of European community seem distant subjects but they actually have the capacity to significantly influence and on a long term the integration of the Romanian market – as well as of some other markets – in the European financial arena.

In the presence of global structural forces which determine the movements of the capitals, the role of internal fiscal ropes becomes crucial. These one avoid the costs associated with different types of politics of sterilization and represent a substitute for the flexibility of the rate of exchange. Nevertheless, few countries have relied so far on the fiscal politics in order to control the admission of the capital due to its inflexible character

Fiscal contraction can play a benefic role as an instrument for the stabilization of the capitals on a short term and the conservative fiscal position should occupy a central role in the control of the countries which are in a phase of growth of the financial integration.

During extensive financial integration the direction and size of the capital flows become very sensitive to the perception of the investors on internal public solvability and limit fiscal flexibility. Moreover, during volatility of capitals the preventive tightening of fiscal politics may help the protection of important capitals of incomes and expenses. Even if the fiscal position has to be consolidate in front of the volatility of the great capital flows, the necessary modifications will be less important if the government has already consolidated the fiscal politics. This will help the govern to avoid the eventual significant adjustments of fiscal programmes.

The conclusion, as well as the way of approaching are certainly perfectible and deserve the effort of a future ample research. In addition, the legislative initiatives and the structural changes for the capital market in the near future will generate new elements of analysis and will reconfigure dynamically one of the youngest sectors of Romanian economy.

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Combating Tax Evasion Between Legality and Illegality in Romania

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Abstract

Humans are always tempted to put general interest after the personal one, thus being inclined to consider taxes more as the ones who try to diminish their heritage.

The phenomenon of avoiding to pay taxes towards the state namely tax evasion is especially characteristic to a free market economy and less to a directed, centralized economy or an economy controlled by the Government.

Tax prejudices and not as legitimate contributions to public expenses, furthermore to see as being evil evasion is not only the image of fiscality, but also of a political and social climate, of nationality and religion. Human condition is responsible for the generalization of this particular phenomenon, together with the feeling of forfeit without receiving the equivalent back. There is a way of thinking in the minds of contributors that consists in not paying anything but only the absolutely necessary.

Key words: tax, evasion, fraud, law, illegality.

J.E.L.classification: G

1. Introduction

Growth in our civilization level leads to an amplification and diversification in human needs, thus higher demands for public and quasi-public assets. This way, the financial effort claimed by fulfilling these needs registers higher levels from one period to another, leading to a very high demand of public financial resources, which either way have a limited and often insufficient nature. In this context, identifying efficient solutions

to obtain larger public financial resources poses problems. A so-called solution might be the uncovered monetary issue, but considering the harmful medium and long term effects of this extreme measure on the stability indicators in macroeconomics, we appreciate that this is not a healthy measure. Could it be that state loan contracting or augmentation of the general fiscality rate is the best solution? Considering that state loans are often assimilated to "held taxes" it is obvious that in both situations the basic effect is the same: increasing tax burdens for contributors (either immediately, or in a future period). Although the effect caused by the two directions is an unpopular one, it certainly is better than using uncovered monetary issue. There is one amendment: the public authority should apply them only when the disproportion between supply and demand in public financial resources is obvious, furthermore when public expenses have been reduced to a minimum level so that there is no chance of "margining".

Many times, when the public authority takes into account the increasing fiscality they bet on fiscal illusion phenomenon (also known in the economy's doctrine as fiscal anesthesia). This implies a boost in taxes without this being actually perceived by the simple contributors through their tax burdens. Regularly, the fiscal illusion phenomenon does not imply any change in tax portion or the introduction of new taxes, but it might involve changes in the structure (sometimes even perception) of already existent taxes. Obviously, this phenomenon is encouraged by an even more complex (or ambiguous) fiscal structure that does not allow the contributors to gather exact information regarding their taxes. When the intention of increasing fiscal burdens becomes

perceptible to a larger range of contributors, the public authority will try and minimize the political and elective costs of this measure so that it will be possible to generalize countervails induced by the increase of tax burdens; as a consequence there will be justifications regarding the fact that only this particular fiscal rate is able to insure the public financial resources needed to finance a larger number of public assets, thus better satisfying the collective needs of society. Starting from defining tax as "necessary evil", fiscality has been approached, without a doubt, as a constraint to the average contributor, especially when the respect for the law together with the level of culture in this particular domain, are quite low. Regardless of the contributor's fiscal civism, tax burdens will be perceived as being more uncomfortable and unjustified as the fiscal pressure becomes higher or as the management of public financial resources becomes assimilated to political decisions that are discretionary and incoherent. The phenomenon of "avoiding taxes" or tax evasion is based on the issues presented above together with the suffocating fiscality situations.

2. Tax evasion

Tax evasion constitutes at this point a complex economical and social phenomenon. Tax evasion is one of the most complex and important social and economic phenomena confronted nowadays by all states and whose negative consequences are fought with more and more, but also keeping in mind that the eradication is practically impossible. The statistics confirm the fact that this phenomenon has a wider spread in developing than in undeveloped countries where governments objectively encounter difficulties in monitoring transactions in their economy. Tax evasion is the best studied chapter in fiscal law, as well as by technicians, ideologists and even journalists. However, in spite of all that is written about causes, ways, spread, control and sanctions regarding tax evasion, the words describing it are not precise and the exploited domain is uncertain. Thus, this notion is difficult to shape up, but unanimously recognized, because there is no legal definition of tax evasion that has mostly illicit evasion acts at

its base. As a result there are vague differences between tax avoidance and evasion. Regarding the vagueness of words used to describe tax evasion this comes from the diversity of words used to enlighten, more or less the same phenomenon: willing unfulfilment of legal tax obligations by the contributor. The Romanian Dictionary defines tax avoidance as: "avoidance of tax obligations". The Oxford Dictionary defines tax avoidance as "minimizing tax obligations legally but also through ways of full uncover towards fiscal authorities; the arrangement of financial business with the purpose of reducing obligations within the law". The same source defines tax evasion as the minimization of fiscal obligations illegally, usually by not revealing the obligation of paying a tax or duty, or through providing the authorities with fake information. Romanian jurists at the beginning of this century have been preoccupied by the definition of tax evasion. Oreste Atanasiu considered it as being represented by "all licit and illicit procedures with the help of whom the ones interested tamper totally or partially with their fortune from the obligations settled by fiscal laws". Tax avoidance is the contributor's action to elude the law, drawing upon an unforeseen law combination thus "tolerated" through incaution. The legal support of these contributors is given by the principle: "what the law does not forbid is allowed" [1]. Illicit tax avoidance can be defined as a willing action from the contributor that violates a legal prescription in the purpose of unfulfilling the proper fiscal obligations. To achieve this purpose, he appeals to: the diminishing of the tollable object, under evaluating the quantum of ratable mater or the use of other ways of avoidance. Tax evasion presumes, above a violation of the law and legislator's intention, a direct and deliberate trespassing of the rules imposed by the law for establishing taxes and tax payment for the contributor. University professor D.D. Şaguna defines tax evasion as "a logical result of the effects and inadvertences of an imperfect legislation, of vicious applied methods, as well as imprudence and incompetence from the legislator, whose excessive ficality is as guilty as the one committing the evasion". Some authors appreciate that, by the way the effects of fiscal regulations, there are legal

tax evasions and the illegal ones [2]. When avoidance of the fulfillment of budgetary obligations is created by interpreting fiscal laws in favor of the contributor, then we find ourselves in the area of tax avoidance which does not constitute malfeasance. As an example this shapes up when a certain part of the incomes of some individuals or social categories is taken hold of from the actual taxes because of the way fiscal legislation elates the establishment of ratable objects. When an income is settled by the law depending on certain standards or rules and determines a ratable income that is inferior to the real one it is called tax avoidance. In case the ratable object is counterfeited with an under evaluation of tax quantum or with the help of other ways of avoiding tax payments, we find ourselves dealing with tax evasion. So we can clearly observe that the connection between legality (avoidance) and illegality (evasion) is actually not a rupture, but continuity. Thus there is an "interference area" between the legal and the illegal compartments. This area is quite easy and frequently used and the contributor is due to slip easily and deeper from the error of using fiscal options, the simple abstinence from breaking the law to actually breaking it and qualifying for abuse and fraud. If we are indeed talking about fraud we are also talking about: legal or legitimate fraud, illegal fraud, international evasion, legal evasion, illegal evasion, tax obligations by withholding the income information, the falsification of evidence documents, even through the simple fact of not elaborating fictional documents [3]. Concluding upon the diversity of opinions towards legal and illegal tax avoidance, legal and illegal tax evasion, we consider that there is only one phenomenon that affects income taxes depending on the relation to the law of this particular activity and that can be called licit tax avoidance (allowed by law) and not legal tax avoidance (because legal implies that there are laws upon it exists, it is foreseen by the law, according to the law), as well as illicit tax avoidance (illegal), which is a synonym of tax evasion. The actual ways this phenomenon takes place, either in a situation or another, only aggravate the severity and seriousness of this phenomenon, rather than defining it. The definition is only one: avoiding the obligation of imposing the

taxable situations without contravening with the present laws or by the contrary contravening with them.

The imposed taxes determine more and more countries to act within the underground economy, as long as there is not a proper offer of public goods and infrastructure.

In his study, Vito Tanzi indicated as the main cause of the underground economy the level of taxes. [4]. He adds the instability of the legislative framework, legislative restrictions imposed within certain states, corruption and bureaucracy.

It is found that the 20-25 percents which represent the increase of taxation in the European states within the last decades were annihilated by the 12 percents of the GDP in the same countries, representing the percentage of the underground economy within the states member of OECD at the end of the last century.

The increase of the taxes imposes, even if not proportionally in all the cases, the increase of prices. This affects everybody, especially the final consumers.

This way, the underground economy registers supplementary profits because:

- *it offers cheaper products of lower quality, because by avoiding the taxes, the clandestine producer can ask prices which fraudulently compete with the prices within the real economy;*
- *it attracts new activities to its domain because many tax payers overwhelmed with supplementary taxes, choose the underground economy as an exist option;*
- *it creates the possibility of illegal work, of obtaining different non-taxable incomes.*

Numerous specialists have studied the impact of taxation increase on the level of the underground economy, stipulating different increase figures, as a consequence of increasing the taxation by a percent. For example, the results of a study carried out based on the data regarding the underground economy in the USA show that for the increase by a percent of the marginal rate of the income tax the increase of the underground economy is of 1.4 percents [5]. In another study it is shown that the value of the undeclared incomes increases by 0.05% only, for each increasing percent of the value of the incomes from taxes, drawing up the conclusion that, it is questionable whether the increase of incomes achieved by reducing

evasion could be high enough in order to cover the loss generated by tax reduction [6].

With regard to the relationship existing between the level of the pressure of taxation and the one of the underground economy, Norman Loayza, a well-known analyst of the underground economy phenomenon, demonstrates in a recent study for countries within Latin America that in the economies where the pressure of taxation is higher than the optimum one, and the application of regulations has a low level, the increase of the relative dimension of the unofficial sector leads to a reduction of the economic growth. [7]. His results indicate the following: for an increase of the underground economy by a percent of the GDP a reduction of GDP by 1.22%.

3. Combating tax evasion

It is extremely necessary for all the countries to limit the harmful effects of this phenomenon so it will become less spread, for it is well known to us that it cannot be eradicated. Tax evasion has an early and direct effect on the levels of fiscal influx leading to disturbed balances in market mechanisms and unlawful enrichment among those who practice this deceiving method that affects the state and last, every contributor.

One of the most important Romanian institutions that prevent, combats, traces and sanctions fiscal evasion is Financial Guard. Financial Guard, a public control institution is financed from state budget, organised as a special authority of public central administration subordinated to Economy and Finance Ministry – National Agency of Fiscal Administration, with a juridical personality, exerts operative and unannounced control concerning prevention, founding and combating of any documents and acts in the economic, financial and custom field, that has as an effect fiscal fraud and evasion.

The measures have been taken for:

- Combating illicit trade with taxed products, having checks during which, an important, permanent objective was represented by actions concerning illegal spaces where took place illicit commercial activities (production, storing, trading etc.)

- Combating the introducing and trading illegal cigarettes proceeded from smuggling

and from illegal internal production, these acts in this field recording spectacular results, mainly in the 4th trimester

- Impose the compiling to OUG no>28/1999 concerning the compulsory owning of fiscal electronic marking devices targeting that economic agents which proceed retail trade to own and use the fiscal electronic devices.

- Respecting the fiscal law by importers of consumption goods, also food and other products.

In this field have been organised thematic actions for checking for complying with law by the vegetable and fruit importers, where has been founded serious disfunctions concerning praising and the payment of VAT and profit tax. Also, has been effected checking to meat and meat products importers, and to rice, sugar and coffee importers. The proceeded verifying activities to importers and construction material users has emphasized that some economic agents has formally recorded fiscal duties to state budget, omitting the payments.

Founding economic agents from trading field with technical plants, cereals, milling and bakery products which did not praised all proceeded commercial operations or use phantom firms to justify the origin of the wares or to rise the expenses recorded to abate the profit as a subject to taxation and the VAT to be paid diminish the illicit transactions in the field of exploitation, financial administration, processing and trading wood. The verifying activities have shown the procedures of selling wood on the black market which has been exploited and surreptitiously processed Discouraging illicit procedures in the domain of offals that can be recycled, by which economic agents, using fictive identities of garbage disposals, encourage the acquisition of diverse stolen materials from energetic or railway sector, with major consequences for national economy.

There are numerous ways of avoid paying taxes, but those who use these methods can be separated into two categories: those who exploit the flaws of the rules in this domain and those that use licit procedures. In market economy, the fiscal authorities are confronted with an evasion phenomenon that has been taking proportions as a result of the tendency to tamper with

higher amounts of money from under the law. "To cheat the revenue authority is considered to be a proof of ability, not of dishonesty, to pay what the revenue authority claims, is a proof of simple-mindedness, not of integrity [8]. According to specialists in the field, tax evasion holds the first place in underground economy, its' ways varying and being extremely ingenious:

- unapproved merchandise production;
- purchasing companies in debt;
- deceitful bookkeeping and balance sheets;
- accelerated multiplications of forms and procedures used in money laundering, so on and so forth.

4. Conclusions

Tax evasion creates "images", "realities", "histories" parallel to reality on a certain tax generating situation so that it will become less ratable. So, tax evasion will generate parallel realities on a certain economical phenomenon so that it will lead to a reduction in tax payments. In order to achieve its objectives, tax evasion appeals to information regarding the law, personal funds, public funds, economy and finance administration, management, marketing etc. Tax evasion is born in the simplest game of interests whatever the tax share, all this reflecting human greed and selfishness.. Tax evasion is one of the most complex and important social and economic phenomena confronted nowadays by all states and whose negative consequences are fought with more and more, but also keeping in mind that the eradication is practically impossible. The statistics confirm the fact that this phenomenon has a wider spread in developing than in undeveloped countries where governments objectively encounter difficulties in monitoring transactions in their economy. Tax evasion is the best studied chapter in fiscal law, as well as by technicians, ideologists and even journalists. However, in spite of all that is written about causes, ways, spread, control and sanctions regarding tax evasion, the words describing it are not precise and the exploited domain is uncertain. Thus, this notion is difficult to shape up, but unanimously recognized, because there is no legal definition of tax evasion that has mostly illicit evasion acts at

its base. As a result there are vague differences between tax avoidance and evasion. Regarding the vagueness of words used to describe tax evasion this comes from the diversity of words used to enlighten, more or less the same phenomenon: willing unfulfilment of legal tax obligations by the contributor. The Romanian Dictionary defines tax avoidance as: "avoidance of tax obligations". The Oxford Dictionary defines tax avoidance as "minimizing tax obligations legally but also

Describing licit and illicit (illegal) tax avoidance is necessary and useful because it gives us the at least theoretical possibilities of estimating the size of this phenomenon based on its two ways of manifesting. This dissociation helps sensitize different political and administrative decision factors towards finding and establishing adequate ways of limiting and controlling tax evasion as a whole. During the last decade has been a growing tendency of law, agencies and intergovernmental organisations to focus upon international evasion and fraud phenomenon. This subject has an increased importance as a direct result of climate of economical recession, which determined the increasing of the tendency of a part of tax payers to reduce their taxes as a source of a new finance, in the same time, for other reasons the governs has continued to retrieve missing tax by fighting against fiscal fraud, by avoiding tax burdens and by modifying national fiscal policies.

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Individual Career Planning

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Abstract

Individual career planning defines a complex and customized process, run in parallel on two temporal axes. The management of developing a career management is a challenge to every individual because the levers used are not standardized and can be adapted to any employer from the labor market

An optimal behavior in short-term career management requires both deep knowledge of active methods for career development and their efficient handling. Professional success can be ensured by a correct correlation of the individual compatibilities with the values and needs of labor market.

Long-term career planning represents a desideratum for the development of basic skills, which are valuable and useful at any level of career.

This paper presents the most effective methods for the optimal development of a career.

Key words: employer, personal marketing, management, career.

J.E.L. classification: M 59

1. Introduction

Career planning is a long term process which includes choosing an occupation, employment, workplace advancement, possible career changes, and finally, retirement.

Career success depends largely on the care and seriousness with which we are preparing a career plan that we intend to follow.

In order to ensure success in career planning we should take into consideration the development of two plans:

- Short-term career plan
- Long -term career plan

2. Short-term career planning

A short-term career plan should focus on a period of minimum 1 year and maximum 3 years. The key feature around which this plan should be developed is to create realistic goals, objectives that can be achieved in the very near future.

As we begin short term career planning we should focus on removing certain career barriers that are of several kinds:

- Personal barriers - lack of motivation, apathy, simple and trivial disgust

- Pressure from family - parents waiting for us to continue working in the family business, following a career that is desired by our parents or avoiding a career that is considered by our parents to be a familial prejudice

- The strong influence exerted by the group we belong to, especially in adolescence, to have the same goals in life as the other group members do.

1.1. Identifying prospective employers

Before we start looking for a job we need to develop a search strategy or a personal marketing strategy in which each of us to play a product. Any product on the market, no matter how good, can not succeed without a strong marketing strategy.

First we must establish to whom we address for employment. We need to identify the market employers who are looking for employees with our qualifications. We should inquire whether they belong to certain industries or if our qualifications and skills are in demand in many industries. Career advice services can facilitate our activity

direction based on the establishment of our skills and talents as a result of a complex and fair individual analysis.

1.2. Ways of approaching the prospective employers

Having identified industries in which we could develop a career, we will identify the method through which we can get in touch with them, meaning that we must decide on the sources that we use to locate prospective employers.

The majority of those who seek a job are prone to choosing the passive search method. This is a method that involves:

- Applying for jobs found on the recruitment websites;
- Searching for jobs in print media;
- Searching for jobs among acquaintanceship;
- Sending resumes via e-mail to companies they would like to work for;
- Sending resumes via e-mail to various recruiting companies.

I believe that these applying methods are little or no effective in a market with constant rising unemployment because nothing makes us different from other candidates.

The inefficiency of these methods is outlined by the poor results obtained by recruiters. They will end up with many resumes that do not meet basic job requirements. They are poorly structured, generalist and do not give the recruiter the opportunity to have a clear impression on the profile of the person who applied. Under these circumstances, the recruiter's inclination is to analyze resumes superficially and, therefore, he risks to overlook the well structured ones.

These types of applications currently prevail because of our desire to save time and because we do not want to leave our comfort zone and undergo any risks.

We must discover and use active methods of finding a job because the search results can be much higher. These could be:

a) Job Fairs - actions that are present mainly in large cities with developed industry. Here we have the opportunity to meet representatives of employers and find out details about the company, jobs available and employment criteria. We can discover the existence of some jobs that are not

published, find out what the market trends are and make our professional contacts. Here we can leave our CV and make ourselves known to prospective employers physically

b) Networking site - requires us to identify and participate in various events in order to know and build relationships with different people. The idea is to get beyond the circle of relatives, friends, colleagues and neighbors and have the initiative to meet people who hold relevant positions in companies operating in our sectors of interest. In time we need to build a network of people who can tell us about the various employment opportunities.

c) Placing the resume personally - once we learn about the availability of a job, we have to bone up on the company characteristics, adopt a proactive attitude and go to the company to leave a resume and show our interest in the job. The objective of this approaching method is, above all, to know closely the organization and not necessarily get the job.

Active methods of searching for a job involve the possession and use of skills such as: ease of networking with strangers, clear communication, the ability to win someone's trust, etc.

1.3. Employer Selection

Following the training processes that we experience at preorganizational level, we will have to find an employer whose development directions are consistent with our career plans. To select the organization we are going to be part of, we must discover inside it aspects that would motivate us as human resource. These could be:

- ensuring that possibility of advancement through training opportunities and strategies of motivating and rewarding employees with potential;

- the prestige of an organization can increase a resume value, which is why we should choose companies with experience and economic performance that are representative for our field of interest. Working for such a company can significantly increase our chances of career advancement.

- the employer's respect towards the work done by us, as an integrated human

resource, can boost our performance and the desire to climb the professional career.

- the working hours are an important factor in choosing a company. The careerist level at which we are at that moment counts equally. At the beginning of our career we easily opt for a longer working hours and once we advance we would rather respect working hours and keep our leisure time unaltered.

- the benefits offered by employers – in choosing the organization we are going to work for, facilities such as: private health insurance, rewards in the form of time off, bonus schemes, bonuses and payment of costs for training courses conducted in our field of interest will play an important role.

We can get knowledge of all these aspects regarding the employer through direct queries directly to the employer when we have the interview . And in this case, personal networking can help us discover all these aspects prior to filing our resume, thus avoiding accessing a job in a company that does not correspond to our needs.

1.4. Personal marketing through resume

Resume is one of the most important marketing tools that a prospective employee can use to persuade an employer. Because this is the first contact between the individual and the organization and has the power to decisively influence the existence of future contacts, we can conclude that this has a strategic role, as well. Our CV is an opportunity to impress a prospective employer because it may create a first impression about the professionalism, intelligence, accomplishments and attributes that recommend us. A well structured CV can provide further participation in the interview, the representative of the prospective employer having already formed a favorable first impression.

Assuming that the CV is the first step in our presentation as a human resource and that currently in Romania, this is the main method of selecting the prospective employees, we should take the CV writing very seriously. Due to the wide range of CV models we have available, we must choose a model, but most often we tend to choose the European CV, filling it in hoping that it will impress the reader. This model was developed to respond

to all candidates' requirements, regardless of the profile. It should be adjusted according to the job they apply for.

A well - thought out personalised resume should permit the employer to easily find the potential of each applicant and to select those whose abilities and skills correspond with the company's requirements.

The most important elements a resume should contain, are:

–the details about the responsibilities we had in our prior jobs (as employee or self-willed) as well as the relevant results obtained in that position, corresponding with the requirements of the job we apply for. The actual trend of each candidate in Romania is that of mentioning in the resume any occupied position, even if they are irrelevant for the job. For this reason, the resume turns out to be full of useless information and difficult to run over by the headhunter.

–details concerning our training, training that has direct connection with the job we apply for.

–detailing our abilities, considered to be essential elements that increase the value of the resume. Because university studies have become so common, this list of abilities has become, along with the experience, a basic criterion in selecting the abilities. A complete resume should also include the modalities of achieving these abilities.

1.5. Purpose and importance of the letter of intent

While most of the applicants do not attach a letter of intent to the resume, those who do, present a standard letter of intent. They modify some information and then send it to all companies. The letter of intent is an important presentation element and it's personalization for each job may assure us an advantage before the headhunter. The composition of a letter of intent offers the possibility of pointing out the connection between the organization's needs(mentioned in the employment notice) and our abilities that may recommend us for the job(mentioned in the resume). Also, the letter of intent may include a career plan, that overlaps with the evolution of the company.

Due to the importance that we personally give to the letter of intent, I consider very useful the composition of a post-interview

letter of interest. This should be mailed after the first interview, considering that we have concluded that the organization's development axis coincides with our career plan. This letter should be composed as a thank-you letter through which we mark out our interest, motivation and enthusiasm for the job and company.

1.6. The role of the interview in the individual career

All the activities developed at pre-organisational level, achieved experience and intuitive spirit must correctly prepare us for the interview. We must not consider the interview an interrogatory, but a free discussion where both us and our interlocutor find short, medium and long term important information.

The interview should be seen as having a double role:

1. The representatives of the company find skills and characteristics that recommend us for the wanted job.

2. We, the applicants, may decide if the organization is convenient for us, considering our skills and expectations.

During the interview we must find the moment to take over the control, changing roles with our interlocutor. The employer will appreciate our interest and the capacity of changing the interview in a pleasant and natural way into an information source. Definitely we will win at image if our discrete and pertinent questions reflect the interest in the company and attention for how we can contribute to the achievement of its objectives.

The actual reality of the Romanian economy, mainly characterised by an acute lack of jobs and continuous growth of the unemployment rate, predisposes to the perception of the interview as a stress factor, diminishing the applicant's abilities and intimidating him.

Finally, I affirm that the right and early choice of the job, basing on criteria of compatibility with the values and requirements of the working environment, invariably takes us to professional fulfilment.

2. Long term career planning

Long term career planning is made for a period of at least 3 - 5 years and should be defined by a complete set of perfection and orientation programmes. Taking into consideration the actual mobility of the labour market as well as the continuous evolution of the business environment, there is the risk that the skills achieved at the beginning of the career may not be required in the future. Therefore, the long term career planning should concentrate on identifying and developing the basic skills, always appreciated by employers. These transferable skills are represented by:

- verbal or written communication
- critical and creative thinking
- team work
- team building
- listening
- concentration
- capacity of taking decisions and assuming the role of project manager
- capacity of organization and planning
- computer skills
- capacity of accommodation with the new technologies
- continuous learning ability

Considering the fact that the career planning and decision process regarding the career are fundamental aspects for success in the professional life, must assure us that the pressure they exert on us will not influence us in any way in taking the best decisions. Finally, the individual career planning, is an evolutive process, always changing, therefore, we must have a well developed capacity of accommodation.

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The Role of Risk Management in Banking Institutions Activity

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Abstract

The development of the concept of risk management has a relatively recent history, progressing rapidly in recent decades. In the past, most banking institutions did not consider risk management to have an active role in daily operations. Risk monitoring should encourage banking institutions to take risks commercially and financially; resulting in development and increased profits.

Key words: risk management, banking system, performance

J.E.L. classification: G22, G32.

Since ancient times, risk and uncertainty were the two phenomena with which people and organizations interacted. The economist Aaron Wildovsky mentions: “the greatest risk to people and organizations is the effort they make to avoid risk.” Risks are seen both in people's daily lives and organizations; virtually all decisions and strategic planning of any activity involve the occurrence of certain categories of risks.

The risk was always assessed by credit institutions as a key objective in development strategies. This was reflected in their managerial plans by creating and developing tools for monitoring and continuous management of categories and subcategories of risks that are inevitably exposed due to the nature of the activity [1].

Behind the concept of credit risk lies a typical conglomerate, which involves a more complex approach in each category of risks. The risks associated with banking activities are of financial nature. However, the aspect of mutual determinations and inherent interconnections should not be overlooked because they tend to increase if they are ignored or poorly managed.

In the current economic conditions of imbalances and structural failures, banks are becoming increasingly affected by changes in economic and financial conditions. This includes globally registered banks as well as the countries in which they operate. Therefore, commercial banks that are considered a center of the financial system, are forced to assume all risk categories and provide proactive, preventive, and responsible management in order to reduce and neutralize any adverse effects.

Risk management process requires the existence of a systematic vision. This means identifying risk profiles specific to various offers of banking products and services addressed to the customers. This includes configuring the risk profile for each component of the branch network.

Because of the wide variety of banking products and services of these banking organizations a certain kind of comprehensive approach is required. An approach to reduce overall costs by reducing the likelihood of adverse effects which may manifest risks, regardless of their form of expression is required.

For a banking company, the ultimate aim of any risk management process is to identify and minimize all risk categories. All involve some costs which must be correlated with the total benefit, reflecting the banking institution's ability to improve financial performance.

It is vital for the image of any bank for risks to hold a key position. Risk identification and assessment should be part of the strategic planning process, in order to provide executive managers the opportunity to forecast and quantify the consequences determined by these risks.

The development of the concept of risk management has a relatively recent history, progressing rapidly in recent decades. In the past, most banking institutions did not

consider risk management to have an active role in daily operations. The starting point in the development of risk management was the failure of Barings bank in 1995. It brought to the public's attention the negative effects caused by lack of effective control in operations conducted by the banking organization.

The alarm surrounding that occasion led to recognition of the importance of risk management function at all levels; both among banking institutions and the regulatory authorities.

The concept of risk management can not be assigned to a universally accepted definition. Risk management can be defined as a set of policies and procedures in place for managing, monitoring and controlling the banking organization's risk exposure [2].

Risk management is a management process that encompasses the techniques and methods used in analyzing and assessing risk categories. It is applied using measured actions, control, and reporting. This results in decisions designed to eliminate as many risk categories as possible.

Risk protection measures are common elements for any management policy. Defining banking management from the perspective of risk involves measures that the banking organization apply in order to protect the bank against situations of potential loss [3].

Due to the uncertain nature of banking operations, risk management is fully justified since any decision from the banks cannot simply be assumed. Therefore, risk management should provide a more comprehensive view on the image of the future, the policies, and strategies that are undertaken based on this vision.

In the absence of a risk management it would be impossible to produce estimates on the potential fluctuations that directly affect the results of commercial banks. At the level of any credit institution applying risk management involves the following steps [4]:

- knowing and understanding the nature of risks;
- identifying emerging risks;
- measuring the effects determined by the triggering of certain risks;
- monitoring and controlling risks;
- risk communication process at each managerial level;

- analysis of costs involved in the efforts to eliminate the risks;
- action to implement strategies to eliminate risk;
- evaluation of performance resulting from the implementation of these strategies.

It is well known that the profit of commercial banks is amended continuously according to changes registered in the business sectors or indicators registered on the banking market. In this respect, the role of risk management is to provide an overall projection on the magnitude and potential deviations from the expected results that may be recorded.

Nowadays, in our country most of the commercial banks operate centralized risk management, both administratively and conceptually. Risk management is carried out consistently, in a single command center. Such a center is usually located at the central office, which is responsible for risk management throughout the bank or whole group. Banking organizations that have a developed organizational structure are organized by lines of business (Business-lines). One of these lines that is risk related, is led by a vice president (senior risk officer) that also holds the function of president of the Risk Management Committee, which is required by the banking legislation.

In the banking sector we can identify four main types of risks that a banking organization may be faced with:

The market risk, also called the risk of variation of financial assets, appears in forms of interest rate risk and currency risk. It expresses the probability that a change in market conditions may negatively affect the profits of the banking institution. The effects of these risk categories consist of losses that appear in balance sheets and are best reflected in the conduct of business activities (sale and purchase of foreign exchange, capital transactions, or other direct transactions).

Credit risk, also known as, risk of defaulting of debtors, default risk, or risk of deterioration of bank assets, is the most important category of risk that the bank may face in terms of size and losses caused to the whole business. This type of risk has the largest share in the balance sheet of the credit institution and consists of the probability to

record losses from not respecting contract terms made by borrowers.

Reputation risk occurs as a result of losses of attributes specific to the activities run by the banking organization. It is ultimately reflected by partial or total loss of reputation on the banking market and among its customers, for which it is continuously monitored by stakeholders (shareholders, managers, employees, customers, business partners and the bank in generally). Cases of this type of risk are numerous; the reporting of poor financial results, the assessment made by specialized institutions, a rating drop, and the launch of negative rumors about liquidity. All have an immediate consequence that would decrease the bank shares' quotations on the stock market.

Operational risk, or the risk of assignment, is shown by the inability of the banking institution to ensure proper functioning of business relations with customers [5]. As a result, both the service offerings and the management team's ability to evaluate and control costs are important. Manifestations of operational risks may be the result of losses caused by staff error, attempted fraud, failure to timely perform a transaction, or the likelihood of compromising the interests of the bank due to inappropriate activity of personnel or faults in the information system products.

A necessary step to ensure the success of a coherent risk management program is the design, implementation, and maintenance of a management information system (MIS) designed to provide excellent performance and response times.

The information system developed by the banking organizations is usually associated with indicators to measure individual performance. This enables the convergence of individual objectives and the banking company with global banking strategies and objectives thus ensuring that the principles and rules of the banking system are respected.

Quality and consistent information are essential for correct management decisions at the highest level. The information system is organized in a pyramidal style in terms of quantity of information. It starts from the base and works its way to the top, in a filtered and summarized form, concentrated in a few key indicators to form the so-called "dashboard" of the top-manager.

Information flows are conducted in a double sense, both from the bottom toward the top and vice versa, and horizontally, where we find intense flows between departments located on the same chain of command.

Information in a banking organization can determine the effectiveness of management. Protection and confidentiality are vital, so the information system should be accompanied by a powerful computer system designed to operate in real time.

Risk monitoring should encourage banking institutions to take risks commercially and financially; resulting in development and increased profits.

Benefits of implementing a risk management system proved to be sufficiently large. They help guide development and implementation of policies at a managerial level within the banking system and justify this new measurement and control of banking risks.

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Descriptive Study of the Promotional Communication Systems Successfully Applied in Banking Institutions

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Abstract

The present communication aims, without any pretense of an exhaustive research, to highlight the need for a strategic communication and promotion in such a competitive environment, by presenting some corporate communication strategies applied in the banking sector. The paper was founded, as a main instrument of scientific research, on a case study of the identity reconstruction and rebranding programme of CEC Bank, the oldest bank in the Romanian financial-banking system. From the examples provided by practice, as well as from the researches conducted in this area of expertise, it results the major importance of the direct and powerful impact the corporate identity has on an increasingly more specialized and selective audience. In this context, banks should understand the consumers' different communication preferences and to adjust accordingly, by means of specific methods of communication and differentiated promotion.

Key words: promotional communication, brand, visual identity, rebranding activity.

J.E.L classification: M37

1. Introduction

The theme proposed to be discussed within this communication represents a stage objective of a personal scientific research programme, whose ultimate goal is drafting a conceptual model in order to optimize the promotional strategy, based on researching the phenomenon of promoting the economic affairs, both from a theoretical and a domestic and international practice point of

view. Along with the profound theoretical, scientific, doctrinaire and specific comprehensive procedures framework, the ultimate goal is the scientific investigation of the corporate communication and promotion strategies successfully used both internally and internationally. These strategies can contribute to the enhanced capitalization of the comparative, strategic or competitive advantages of the organizations using them. In this regard, the output of this stage objective aims to analyze efficient promotion strategies and methods used by the domestic and international banking system and a case study: CEC development strategy for 2007-2011, a reconstruction strategy of the CEC brand.

2. Branding, rebranding and corporate identity in the financial-banking sector

The need for business opportunities exploitation and meeting the bank customers' needs when you seek to improve corporate communication processes and promotion of the banking system is assessed in terms of the performances that can be obtained. Great achievements in promotion are inspired by understanding how brands interact with consumers [1], and setting advertising objectives must be consistent with the target market segments. There is a wide range of positioning strategies available in advertising, as follows: by product characteristics or customer benefit; by quality and price; by use and application of the product; by cultural symbol [2]. We further present corporate promotion and brand strategies successfully applied by banking – financial institutions or for banking products, internationally. Thus, in 2009, Visa launched its first global advertising campaign entitled

„More people go with Visa”, based on a radical change in terms of the communication mix: moving towards digital media, including social networks, as opposed to using traditional media in a proportion of 95%, prior to this campaign. The main idea of this campaign was not about spending more money, but about using Visa for those things that are important for each consumer every day. Carefully chosen, in order to overcome communication and language barriers, which can interfere on an intercultural level, the name Visa is pronounced the same in all languages. Promoting brand identity and international reputation are parts of a long-term strategy, including public relations events and sponsorships, such as: exclusive partnerships with a series of world-class sports organizations, such as FIFA or the International Olympic Committee. The FIFA partnership provides exclusive rights to a wide range of activities, such as FIFA Women’s World Cup Germany 2011 and FIFA World Cup Brazil 2014, thereby associating with the world’s favorite sport. The IOC partnership dates from 1986. Visa is the international Olympic partner, being the only official payment card and financial payment service of the Olympic Games until 2020. This includes the 2012 Olympic Games in London, the 2014 Winter Olympic Games in Sochi and the 2016 Olympic Games in Rio de Janeiro. Since 1995 Visa has also sponsored the National Football League (NFL) in the U.S. and a number of NFL teams, having access to the most important competitions until 2014 [3]. In order to provide the scientific grounds of the specific public relations and advertising actions used to promote the Visa brand, we find rather important to present a number of representative models. A special model mainly used to solve system problems belongs to John Marston, entitled Race: R = Research; A = Action; C = Communication; E = Evaluation. Based on this model, Jerry Hendrix drafted the ROPE model: ROPE: R = Research; O = Objectives; P = Programming; E = Evaluation [4], [5]. Another public relation strategy model is that proposed by specialists Scott M. Cutlip, Allen H. Center and Glen M. Broom. It consists of a four-step process: 1) Definition of public relations problems; 2) Planning and

programming; 3) Act and communicate; 4) Programme evaluation. [6]. We agree with Anne Gregory’s opinion, according to which public relations can best play a role in developing successful campaigns, when all other elements of the marketing communication effort are present and integrated with them [7].

Although author Oyvind Ihlen points out that those companies which decide to use a strategy focused only on the mark risk losing sight of other aspects of the advertising strategy, of the company’s identity [8], we further present another representative example of a successful strategy centered on building a strong brand identity. Upshaw considers that the identity of a brand is largely formed from the confluence of its positioning and strategic personality also adding other defining elements - brand name, marketing communications, promotion, product/service performance, selling strategies, logo/graphic system. Thus, in her opinion, the identity is a brand’s DNA configuration, a particular set of brand elements, mixed in a unique way, which determines how the brand will be perceived in the marketplace. In this sense, choosing the name, for example, can determine the faith of a business. *Bank of America* is, probably, the best brand name of a bank in the country. But it was not always like that. The founder of the bank, A.P. Giannini, changed the name of his Bank of Italy in 1930, when he foresaw huge opportunities for interstate banking. That name change helped Giannini transform a medium-sized bank into an extraordinary financial services brand, with a much more powerful brand identity. Interstate banking system is now a reality. As the Bank of America seeks to become the first nationwide American bank, it already has a head start by the name itself, which best represents the American country and its people [9]. A market research conducted by Mintel Comperemedia, a service which provides competitive direct marketing information to the banking sector, points out that the bank should take into account that each customer has different communication preferences and the bank should offer multiple points of communication, Americans preferring to contact the bank personally instead of online[10]. In Romania, as an effect of the

economic-financial crisis, the banking system completed the last year, for the first time after 1999, with a net loss of 304 million Romanian lei, compared to 2009, when a net cumulative gain of 815 million Romanian lei had been recorded [11]. In this context, along with implementing prudent banking strategies for reducing the cost of risk, speculating the opportunities of the macroeconomic environment and other bank – specific methods to improve its activity, the management of corporate communication and integrated promotion is more and more required in order to face such a competitive environment. The specialist G. Belch noted the companies' need for using all the promotion tools, based on the strategy, so as to convey a unified message to the consumers [12]. Further more, we chose to present the promotion of the corporate revitalization of the single state-owned Romanian bank, 3rd regarding the assets, holding a market share of approximately 6.4%.

3. Analysis of the identity and brand rebuilding of CEC Bank

CEC achieved one of the best financial results in Romania last year, the banks incomes raising by 30.16% and the interest income by over 24% compared to 2009 [13]. In May 2007, CEC shareholders approved and made public "The CEC development strategy for 207-2011", a CEC brand rebuilding strategy. For this extensive rebranding process they chose the CEC President, Radu Gratian Ghetea, a prominent personality of the Romanian banking system and, at the same time, President of the Romanian Bankers Association. He made a priority from promoting the corporate revitalization by rebuilding the corporate identity. The development strategy for CEC includes three phases which will further blend together: efficiency by 2009, development by 2010, consolidation by 2011. Given these strategic objectives, CEC shareholders agreed that the name of Deposits and Consignments House is not suggestive enough anymore and that the institution is a Bank in an ongoing process of modernization and efficiency, thereby changing its name into the CEC Bank on May, 6th 2008. The new name combines the

traditions and aspirations of the institution that wants to be a leading player in the Romanian banking system. The new visual identity has colours that symbolize the rebirth of an institution as green symbolizes the rebirth of nature each spring and the oak leaf in the CEC Bank logo, placed on a shield, suggests continuity and tradition, authenticity and power and also safety and protection. Since the launch of the new brand, CEC Bank has won several awards [14]:

- At the 6th Effie edition in 2009, gold in the „Financial Services” category, with the spot image „The Boxer”. The same case study won bronze in the „Renaissance” category, and was also nominated in the Grand Effie category.
- At the 7th edition of the PR Award, CEC Bank won “Golden Award for excellence” in the Internal Communication category.
- At the Rebrand 100 Competition in the United States in 2009, it won a prize in the „Merit” category for the CEC Bank rebranding.

The structure of the Marketing and Communication Direction of CEC Bank meets the needs of the institution, consisting of the Marketing Service which has nationwide coverage and is responsible for organizing campaigns and various events, promoting products and maintaining the relation with the advertising agencies they work with; the Network Marketing office, which maintains the liaison with the national network, organizes participation to events and local tactical actions, maintains relationships with the call center, with the mystery shopping firm, and manages the brand; the Communication and Public Relations activity, which maintains contacts with the media and the customers. The general goal of the promotion policy of CEC Bank is to influence the consumers' behaviour. In this sense, the following promotion forms are used: TV, radio, printed press (newspapers and banking and financial magazines), OOH, web. The corporate communication strategy also integrates campaigns for the steps made in the rebranding process from the launch of the new institutional image to the present. As concrete actions we can mention: integrated campaigns to promote products, with the careful choice of media channels, increased

use of the web in the advertising campaigns by including sites with maximum traffic on that particular category, as well as informal communication through campaigns carried on social networks, maintaining and developing the existing outdoor network in order to support the advertised products. Public relations are evidenced in sending press releases each time a new product is launched or for important events, organizing press conferences. Research specific to the public relations activity is also reflected in the daily monitoring of articles related to CEC Bank and its competitors, from local and central media. Other methods of data collection are: observation, the mystery shopping survey and also the qualitative research by means of discussions with the people involved or organizing focus groups. CEC Bank has defined a public relations strategy focused on the customers' needs. Thus, the bank has tried to apply an approach inspired by the "reversed pyramid" which focuses on the customer, by implementing a policy having as a fundamental goal to provide the quality the customer expects. Control and assessment processes are carried out during the course of each campaign, the brand indicators and the bank customers' degree of satisfaction being measured, annually, by an external company, specialized in market research. The rebranding activity of CEC Bank was based on the unified promotion of the global image composed of social image, financial image, technological image, commercial image and public image.

4. Conclusions

In conclusion, we consider that by the present communication we tried an analytical and descriptive study of promotion strategies successfully applied, nationally and internationally, in the banking system. We presented typical examples of promotional communication for the Romanian banking system. Using the deductive method, we shall try to extrapolate the phenomena specific for optimizing promotion strategies used for the Romanian banking institutions, starting from real data, existing or potential. We consider that the potential future research directions may focus on the assessment of the promotional communication systems applied

to the entire Romanian banking system. The main research method used in this sense is the direct selective research based on questionnaire applied in the banks operating in the Romanian economic space. Later on, you can find the main deficiencies, errors and irregularities in the promotional activity, and you can thus develop proposals to improve the systems of promotional communication of the banking institutions, based on analysis and scientific research.

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Global Trends in Advertising Campaigns – Integration of Social Media

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Abstract

The paper does not aim to provide practical solutions but only to raise, within the academic community, the following questions: Are the current paradigms of promotional communication still valid? Does a crisis of knowledge intervene in this field? Are new paradigms necessary for instating new research customs able to provide new theories, models, research methods and a new image of this field? The paper thus aims to present the aspects which have determined us to raise these questions: the admission of new concepts, as Through the Line advertising, necessary due to communication hybrids which make the division of some promotion forms into the classical typology – ATL/BTL – impossible; the important mutations on the media market worldwide; the social media revolution, with spectacular results reflected in numbers and statistics; the emergence of global virtual communities with hundreds of million members worldwide, which generated an unprecedented interest of advertising investments in social media.

Key words: social media, TTL advertising, brand awareness, word-of-mouth effect.

J.E.L classification: M37

1. Introduction

As an expression of its increased complexity and importance, the advertising activity has become an essential factor of the mass-media functioning and development. Thus, advertising is the forwarder force, the prior condition of qualitative and quantitative mass-media development.

In order to divide the promotional media which convey the advertising message, the

profile specialists and researchers use concepts such as ATL (*Above the Line*), BTL (*Below the Line*) and TTL (*Through the Line*), “the line” being considered the imaginary line between using payable media and commission-free media [1]. The concepts have their origins in accountancy methods, where they simply drew a line: for methods above the line, the advertising agency received a commission and for those below the line it worked on a fee-base. What is above the line are methods which use classical ways of mass communication, as printed press, television, radio etc. The promotional instruments below the line consist of techniques using promotions, communication by organizing specific events etc.

Above the Line (ATL) advertising uses, as media:

- the television, radio and cinema advertisements;
- newspaper ad prints;
- advertising display, billboards (meshes, banners, street signs etc.), mobile media, transit (buses, trolleybuses etc.) for outdoor advertising;
- flyers, letters, mail, e-mail, brochures, direct mail posters;
- promotional items: lighters, matches, T-shirts, caps etc.

Advertising messages adapt to these channels and are organized depending on their technical constraints. This type of communication also leaves the message hearing/viewing up to a broad audience, consumers being targets of a persuasion without direct pressure.

On the other hand, *Below the Line* (BTL) advertising refers to the “unconventional” communication media that prove more inspiration and originality. It is mainly about organising events:

- meaningful calendar days;
- visits of major personalities, foreign or domestic;
- book launches, fairs and exhibitions;
- sponsorships of some public interest events;
- organisation of receptions, balls, concerts, fund raisings.

Through the Line (TTL) concept developed due to communication hybrids, which make the division of some promotion forms into the classical typology – ATL/BTL – impossible. Thus, according to some authors, TTL represents the *integrated marketing communication*, because it combines both ATL techniques and BTL [2]. The new concept originated from the need to convey the same message through more media, without making any distinction according to the advertising channel used.

The main elements that characterize Above The Line advertising are the following:

- advertising forms used to promote the **company**;
- the main objective is to **increase sales' volume**;
- communication forms addressed to the **masses**, by using the mass-media;
- the messages conveyed have an **impersonal** character;
- **slow** or even **no feedback** at all.

The main elements that characterize Below The Line advertising are the following:

- advertising forms used to promote the **brand**;
- the main objectives are **consumers' awareness** and **strengthening the brand image**;
- communication forms addressed to **small-sized target groups**;
- the messages conveyed have a **personal and punctual** character;
- **direct** and **instant feedback**.

The advertising strategies and objectives didn't change over the years, but they evolved and adapted to new realities, new markets, new media and channels and new consumers' behaviour. Thus, the ATL and BTL concepts are still in use, but advertisers should keep in mind the fact that the 21st century advertising is not only about TV commercials and coupons anymore. What

changed is that companies must keep up with how and where consumers want to receive information about brands. This doesn't mean that the mass-media are dead, but they are being supplemented by all sorts of new ways to reach consumers. Thus, *consumer preferences and new technology are reshaping the communication environment* [3]. A new advertising and brand communication order is being instated, one where Through the Line advertising is more and more the key to success. The technological global village, where hundreds of millions people are connected at any time and space, anywhere in the world, gave birth to an **advertising global village**, that means increased worldwide visibility at less costs.

2. The global media market in numbers

The worldwide media and entertainment market, has known, for the last years, according to a number of studies conducted in this field, significant mutations that advertisers should pay attention to when projecting advertising plans and budgets. Thus, according to the *Global Trends of Digital Media Yearbook*, published by the World Association of Newspapers in 2010, the whole global media and entertainment market, valued at \$1.17 trillion in 2005, grew to more than \$1.32 trillion in 2009 and it is expected to exceed \$1.69 trillion in 2014 [4]. In 2005, the newspaper publishing segment held the leading market share – 15.2% - or \$153 billion value. TV advertising, as well as TV subscription and license fees accounted for 12% market share each, or \$146 billion and \$142 billion, respectively. Studies show an increased shifting in the market share ranking segments by 2014. Thus, internet access, wired or mobile, is forecast to be a market leader, with a growth from 11.7% market share in 2005 (\$137 billion value), up to 20.4% in 2014 (\$351 billion value) in 2014, the newspaper publishing market losing more and more ground, up to 9.3% in 2014. Within this new configuration, internet advertising is also expected to grow from 2.2% market share in 2005 up to 6% market share in 2014.

3. The social media platform

In the light of what we have stated earlier in the paper, that companies must know how and where to reach consumers, and the worldwide shifting of media market segments, the social media are one of the answers. Social media are the modern version of the prior industrial media paradigm. If the traditional media, mostly ATL advertising, generates a one-way communication, impersonal and complex in its development, social media advertising allows, primarily and most important, a maximum degree of consumers' approach, bidirectional and very easy to manage. The simplest definition comes from researcher Lon Safko, in the sense that *social media are the media we use to socialize* [5]. The social media platform consists of a wide range of communication forms, from which eight have been globally imposed: blog, microblog (Twitter), social networks (Facebook, LinkedIn), media-sharing sites (YouTube), voting and sharing sites (Digg, Reddit), review sites (Yelp), forums and virtual worlds (Second Life). Though different in approach and presentation, the element these social media have in common is creating a communication binder between people all over the world.

Social media definitely caught the attention of both the global business community and the academic world, as a subject of study and research, when an intranet network has become the largest global virtual community ever, with hundreds of millions members worldwide. Thus, since 2004, from the Facebook network development, initially launched by Mark Zuckerberg as a private network of Harvard University students and publically extended in 2006 and since the development of Twitter in 2006, the online advertising has gained a new relevance, with a spectacular (r)evolution.

The social network community has reached spectacular levels. From its 600 million members, 250 million are active users of the Facebook social network. More than 346 million people read blogs and more than 184 million are bloggers themselves. Twitter has more than 14 million registered users and YouTube registers 100 million views per month. In this context, the

Canadian specialist Zarella is very much entitled to state that million of consumers are connected more than ever and every second a company is not engaged in social media is a wasted opportunity [6]. If prior to 2008 this promotional channels were taken lightly by companies and advertisers, the increased interest shown by consumers in these social networks, consequently attracted the interest of the business environment. And the results are reflected in numbers and statistics. If in 2008 the amounts invested in these media reached several million Euros, the forecast places advertising budgets in social media at €4.26 billion in 2011, with over 70% growth than in 2010 [7].

4. The social media revolution

Much like in every other field, there are also pioneers and one of the companies which fully felt the effects of this type of viral marketing was Evian, by its "Live Young" campaign, having as a main promotional tool the "Roller-Skates Babies" commercial. The campaign started with two viral teasers posted on YouTube, which registered 13 million views in just a couple of days. The campaign was officially launched in the stratosphere, live on YouTube, on July, 3rd 2009, in six key territories: France, UK, USA, Canada, Germany and Japan, generating over 62 million views in 9 months. This made it **the most viewed advertisement in history**. Among the effects it generated, the following facts and numbers are worth mentioning:

- the first ad to be included in the Guinness Book of World Records as the most viewed online advertisement of all times, with 45,166,109 views by November, 9th 2009;
- 120,000,000 views on YouTube in 12 months from its official launch ;
- 500,000 Facebook fans;
- 130,000 online comments;
- 35,000 blog posts;
- 7% raise in sales in France;
- 13% raise of market share in the UK;
- 7% raise in sales in Canada;
- within the first 24h from its broadcasting it became the most talked about advertisement in the world, gaining the interest of worldwide

mass-media. *Time Magazine* declared it the **Advertisement of the Year** and ranked it 1st in "The Top 10 of Everything in 2009" [8];

- 12 million views of the remixes of the original advertisement;
- 7 million views of the making-of and interviews with babies clips.

During the last year, 80% of the companies worldwide included the social media in their marketing mix, assigning budgets from a couple of hundreds to a couple of hundred of thousand million Euros, depending on their target. Both globally and in Romania, the Facebook social network is ranked 1st among the consumers' preferences, with 1.5 million users in Romania at the middle of 2010. According to Agerpress' forecast, the advertising revenues of Facebook grew up to \$1.285 billion in 2010, with \$835 million just in the United States, as opposed to \$665 million in 2009. The study considers that they will reach \$1.760 billion by 2011 [9]. Large companies, such as COCA-COLA and P&G invested \$740 million last year, but the largest share of Facebook advertisement revenues (about \$1.12 billion) was generated by small companies [10].

In Romania, Facebook registered users reached 3 million, and will keep on growing up to about 5 million by the end of 2011. Among the Romanians' preferences we also find the Hi5 network, accessed by over 600.000 users every day, Tpu.ro with almost 2 million visitors per month or Neogen with 750.000 unique visitors. Among the largest Romanian companies which chose to be a part of the social media, we find Dacia, ProTv or Arctic.

5. Conclusions

Given these up to date facts, numbers and statistics, the newly comers to the advertisement industry, the social media, are impossible to ignore. The profile literature has also largely enriched itself for the last couple of years, adding studies, researches and, mostly, attempts to define and theorize new strategies and tactics to implement social media campaigns, but without outstanding results up to now. The main issues those who dedicated themselves to the new communication wave, placed under the

Facebook sign, have encountered are focused on how to measure the effects generated by such a campaign. Without having identified any high-end qualitative and quantitative parameters to assess results yet, they reached, though, a certain level of conclusions related to an increased level of **word-of-mouth effect**, by the generated traffic, and of what the profile literature names **brand awareness**. Another conclusion could be a high demographic and geographic segmentation, based on the information provided by the potential consumers' profile pages. An example which perfectly illustrates this is offered by the Facebook Ad Service page itself [11]. According to it, the Facebook Ads service provided CM Photographic Company the possibility to target its demographic segment – 24-30 years old women, whose status on the Facebook profile indicates they are engaged. Within 12 months since placing the ad, CM Photographic gained revenues of almost \$40000 out of a \$600 investment on Facebook.

Without giving any scientific-research-based answers to the questions raised, we can firmly state that, in the years to come, the advertising industry, both in practice and theoretically, will postulate new theories and, especially, new tactics on how to approach consumers in order to optimize the communication process and achieve advertising, brand and sales goals. One of these tactics becomes clearer and clearer for all companies: insert yourself in all aspects of the consumers' life and always try to keep up with it.

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The Process of Data Preprocessing for Web Usage Data Mining through a Complete Example

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Abstract

Nowadays, using data mining techniques to extract knowledge from web log files has become a necessity. The behavior of Internet users can be found in the log files stored on Internet servers. Analyzing data obtained from web server logs is rapidly becoming one of the most important activities for companies in any sector as most businesses become e-businesses. Web log analysis can improve business firms that are based on a Web site through learning user behavior. This understanding can then be utilized for improving customer satisfaction with the web site and the company in general, yielding a huge business advantage. Before the actual analyzing of the data, it must have a specific format. This paper describes the effective and complete preprocessing of access stream before actual mining process can be performed using an example.

Key words: Web logs, clickstream analysis, Web usage mining, Data Preprocessing.

J.E.L. classification: C8.

1. Introduction

Web mining can be divided into three categories: Web content mining, Web structure mining and Web usage mining [1]. Web content mining is the process of extracting knowledge from documents and content description. Web structure mining is the process of obtaining knowledge from the organization of the Web and the links between Web pages. Web usage mining analyzes information about visited Web page saved in log files of Internet servers in order to discover interesting patterns previously unknown and potentially useful. Web usage

is described as applying data mining techniques on Web access logs to optimize web site for users.

Preparing data requires between 60 and 90% of the time data analysis and contribute to the success of the entire process of extracting knowledge with rate of 75-90% [2]. The target of data preparation is to select relevant information from the available data while the data mining finds significant patterns. In this study, we present all necessary steps to preprocess data to be able to be used for Web Usage Mining.

2. Data Collection

Data preparation phase starts with data collection. Usually, the analyst does not participate in the process of data collection, so his goal is to select from existing data those that best fit the analyse it wishes to perform. Variables and records used depend on what it is desired to obtain. The primary source used for web usage mining are logs files of the server. The data used to analyze web usage mining may come from two sources: the period of testing and web logs. The log files from the testing periods are rarely used because of the large time required and high cost. Web log files consist of information which track web users work in their interaction with web servers. Logs files can be located as follows: on the web server, a proxy server or client computers. Logs available on Web servers are most often used because they contain accurate and complete data on site usage

3. Fields Extractions

Log files are created by web servers and filled with information about user requests on a particular Web site. They may contain

information about: domains, subdomains and host names; resources requested by the user, time of request, protocol used, errors returned by the server, the page size for successful requests. There are several formats for web logs, among which common logs format (Common Log Format) and large logs format (Extended Log Format). In the example presented the logs are extended, the database logs information belongs to NASA Kennedy Space Center log available online at <http://ita.ee.lbl.gov/html/contrib/NASA-HTTP.html>. Example of logs from this file can be seen below:

```
199.72.81.55 - - [01/Jul/1995:00:00:01 -0400] "GET
/history/apollo/ HTTP/1.0" 200 6245
unicomp6.unicomp.net - - [01/Jul/1995:00:00:06 -0400] "GET
/shuttle/countdown/ HTTP/1.0" 200 3985
199.120.110.21 - - [01/Jul/1995:00:00:09 -0400] "GET
/shuttle/missions/sts-73/mission-sts-73.html HTTP/1.0" 200 4085
burger.letters.com - - [01/Jul/1995:00:00:11 -0400] "GET
/shuttle/countdown/liftoff.html HTTP/1.0" 304 0
199.120.110.21 - - [01/Jul/1995:00:00:11 -0400] "GET
/shuttle/missions/sts-73/sts-73-patch-small.gif HTTP/1.0" 200 4179
burger.letters.com - - [01/Jul/1995:00:00:12 -0400] "GET
/images/NASA-logosmall.gif HTTP/1.0" 304 0
```

Web log file set contains the following fields:

- remote host (IP address of the computer user).
- date and time field.
- HTTP request.
- Field of status code.
- Field of volume transferred.

We specify that all fields are in text format, because the log file is a text file. Some fields may contain data on several variables, such as field date / time specifies the date and time. HTTP request data field encompassed the method used, the page requested protocol version used, and optionally other information. Before making the log analysis, these masked variables must be extracted.

4. Data Cleaning

The data cleaning process is depending on the pages type. This step removes all data which is not relevant to the problem. This removes from the flog files all registrations that are created by human users. A first step in cleaning and filtering of data is the extraction of variables. For this process we use existing string handling functions in the program used for preprocessing. This example uses string processing methods from Java. This will remove the elements that

separates fields within a single log record, we remove "--", "-", "]", "[", " " and quote. Using the method to separate strings, the following fields are saved in the database: remote host (IP or DNS address of your computer), date and time, HTTP request, status code, the volume of bits transferred. When the user requests to view a Web page it results more records in the log file as there are loaded and graphics and additional scripts to HTML file[4]. Since the main interest of clickstream analysis is to extract patterns of user behavior, it makes no sense to include in the review pages that were not explicitly required by the user. In this respect, it will remove all entries with the type extensions: gif, GIF, JPEG, JPEG, JPG, JPG. There are four classes of status codes: success (200 series), redirect (300 series), failure (400 series) and state error (500 series) [3]. The most common failure codes are 401 - identification failed, 403 - banned from a subdirectory and 404-file not found. All entries which have different series status code different from class 200 are removed. After removing irrelevant information is obtained the log files table that can be seen in the figure below:

Fig. 1. The table with the logs obtained

ID	ID_SOLICITANT	DATA_ORA	METODA	PAGINA	PROTOCOL	CODE	NR_BITS
1	129.12.103.49	01-Jul-1995:00:00:11	GET	/history/apollo/	HTTP/1.0	200	12945
2	199.72.81.55	01-Jul-1995:00:00:06	GET	/shuttle/countdown/	HTTP/1.0	200	3985
3	199.120.110.21	01-Jul-1995:00:00:09	GET	/shuttle/missions/sts-73/mission-sts-73.html	HTTP/1.0	200	4085
4	199.120.110.21	01-Jul-1995:00:00:11	GET	/shuttle/countdown/liftoff.html	HTTP/1.0	304	0
5	199.120.110.21	01-Jul-1995:00:00:11	GET	/shuttle/missions/sts-73/sts-73-patch-small.gif	HTTP/1.0	200	4179
6	199.120.110.21	01-Jul-1995:00:00:12	GET	/images/NASA-logosmall.gif	HTTP/1.0	304	0

5. Session Identification

Records of logs belonging to the same user are grouped in one session. Users are identified by IP address or DNS. Two or more records which have the same IP address are considered to belong to the same person. A session contains a unique session ID and a set of pairs (id_solicitant, t), where id_solicitant is an identifier of the page and t is the time spent by users on that page. To determine the end of a session, a time limit defined max_idle, so if the same IP address is not met in this period, the current session is closed and the next requests from the same IP address will be treated in a new one. To find the time spent on a particular page we create

a timestamp variable that represents the difference in time to a fixed date, in our case the first day of registration, so we defined start date to 01/Jul/1995/00: 00:00 .

The time spent on a Web page is determined as the difference of time between two consecutive requests. The introduction of the variable max_idle, the maximum time, was done by conceptual and practical reasons. From conceptual point of view, it helps to limit the session to a single visit. Thus, if a user buys a magazine and returns the next day to look for a book, his activities are divided into two sessions.

Fig. 2. Table with sessions obtained

#	ID_SOLICITANT	ID_SESSiUNE	TIMESTAMP	DATA_ORA
1	129.121.119.19	155	2002-01-24 09:00:24.42	
2	130.121.119.19	145	1975-01-24 09:00:28.11	
3	147.31.204.131	295	9515-01-24 09:00:50.05	
4	147.31.204.131	295	2047-01-24 09:00:50.17	
5	147.31.204.131	295	3081-01-24 09:00:50.21	
6	149.171.160.182	149	1712-01-24 09:00:28.33	
7	149.171.160.182	149	1026-01-24 09:00:28.36	
8	149.171.160.182	149	1423-01-24 09:00:28.43	
9	153.64.25.131	219	2384-01-24 09:00:30.14	
10	156.151.176.30	181	1794-01-24 09:00:28.14	
11	156.151.176.30	181	964-01-24 09:00:11.04	
12	156.151.176.30	181	407-01-24 09:00:11.07	
13	156.42.141.49	376	4823-01-24 09:01:00.23	
14	163.208.78.13	213	2297-01-24 09:00:30.12	
15	166.79.67.111	26	1896-01-24 09:00:10.36	
16	166.79.67.111	26	1798-01-24 09:00:29.58	
17	166.79.67.111	26	1652-01-24 09:00:27.32	
18	192.112.207.81	276	3189-01-24 09:00:52.39	
19	198.4.9.2	250	2004-01-24 09:00:46.44	
20	199.120.110.21	130	9112-01-24 09:00:00.09	

6. Conclusions

In any data mining application, an important step is to create the appropriate data to apply data mining methods and statistical algorithms. Especially in the clickstream analysis process the preprocessing stage is very important because of the complexity of web logs. The process of data preprocessing in Web Usage Mining is time-consuming and often requires special algorithms. Preprocessing is not a standard process, it depends on the type of data processing and structure of needed data. For these reasons, the analyst overseeing the whole process is a necessity.

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E-Business, a New Way of Trading in Virtual Environment Based on Information Technology

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Abstract

The age of Information technology with lots of services is upon us. Nowadays, using computers to do all sorts of daily tasks has become a necessity. Internet technology is changing faster, and the pace of it's innovation and adoption is truly staggering. Apart from sharing or transacting data/information, all types of business transactions are frequently done through Internet. Over time people prefer staying in front of the PC and doing any business transactions for convenience and saving time. Hence, E-business is the key to make life easier for the people. Knowledge of e-business environment is essential for doing business in this century. New technologies for extracting knowledge from data must be understood and applied.

Key words: e-business, B2B, B2C, e-commerce, Internet

J.E.L. classification: M1

1. Introduction

E-business, electronic business, refers to the organization of transactions, communications and information, as well as business planning and control, using the full potential of information technology. E-business is therefore on the border between computer technology, artificial intelligence and business. The term e-business was first used by IBM in 1997 in order to define the use of Internet technologies to improve and transform key processes within a business. E-business is actually new ways of doing business, new ways to use technology and a new way to create companies. The Internet has revolutionized the business world that is constantly trying to adapt to the changing

needs of the digital market. Given that the Internet has become an integral part of society developed countries, this new medium could not escape the attention of traders. The Internet was originally created for the exchange of information and e-mail, and then it becoming the most dynamic business environment. In a few years, e-business concept became a reality. It works for everyone: customers, business, government. Today, large companies rethink their business using the Internet to improve business. Business carried on the Web offers the opportunity to potential customers or partners where our products and specific company can be found. Presence through a company web site has several advantages as it breaks the barrier of time and space compared with the existence of a physical business office.

2. Benefits of E-Business

Among the main advantages of electronic business development:

- The ability to sell and make known their products globally, geographical constraints are removed, customers can significantly increase the number.
- Communication with suppliers and customers of the company is much faster, involving a low cost and is more efficient, thus satisfying their requirements and expectations.
- Compared to a traditional business, starting a successful online business requires minimal investment.
- Helps companies save time and effort.
- Organizations can use the chat as a mean of electronic technical support and customer support.
- Ability to quickly launch new businesses keeping old customers.

- Reduced costs for personnel.
- Make it easier to inventory operation.
- Elimination of time constraints, the non-stop activity.

• Improved company image, because they contain accurate and complete data on site usage

Benefits to consumers are numerous, of which the most important are the following:

- Possibility of making permanent trading.
- Give consumers the choice of multiple possibilities.
- Lowest price for a product or service can be determined easily.
- Delivery of products or services can be done quickly in some cases.
- Relevant information for consumers are received in a short time. They need some seconds, not days or weeks as with traditional business.
- Possibility to participate in virtual auctions.
- Facilitates competition, which leads to lower prices of products and services.
- Allows consumers interact with other clients through virtual communities with the opportunity to exchange impressions and compare experiences.

3. Disadvantages of e-business

There are some disadvantages for business conducted over the internet.

- Hacker attacks that can cripple business with viruses.
- Attempts to defraud.
- The need to decrease the maximum prices or services leading to lower profits.

Customers can hit the following problems:

- It can be difficult, especially for those less familiar with using the Internet to find the best deal.
- There are many sites out of date due to lack of maintenance.
- Sites that try to find out details about individual accounts to fraud.

4. E-business Domains

As the number of Internet users is growing at a continuous pace, and due to increasing online transactions, electronic businesses make their presence felt in various fields and

are divided into several categories, of which the most important are:

- e-commerce - electronic commerce through online stores (www.amazon.com, www.dell.com, www.walmart.com, www.emag.ro, www.dol.ro). Online payment solutions (www.paypall.com, www.epayment.ro).
- e-auctions - online auction (www.ebay.com, www.okazii.ro).
- e-banking - online banking transactions (accounts, money transfers, checks, payments, consulting).
- e-learning - online education (www.brainbench.com, www.online-learning.com, www.cursurionline.ro).
- e-directories - virtual catalog (www.yahoo.com, www.dmoz.org, www.paginiaurii.ro).
- e-brokering - buying and selling shares online.
- e-leasing - leasing online (www.leasing.ro).
- e-gambling - online gambling (www.gamebookers.com, www.party poker.com).
- e-working - virtual companies.
- e-mailing - mail.
- e-marketing - online promotion of products and / or services.

The basic idea of electronic business is to translate physical, material business in the website. Thus, the company presents its catalog of products and services over the Internet.

E-business is the use of the Internet and the Web by organizations, households and individuals in order to do business. The business means: acts of sale, purchase or exchange of products, services and information, providing customer services, collaboration with partners and conducting electronic transactions. A definition of e-business in terms of functions that satisfy the business process is presented below.

As commercial techniques, e-business results from the application of advanced knowledge management based on the rules of e-business system components that are infrastructure technology, electronic applications and virtual products.

Given the multidisciplinary dimension, e-business can be considered a business strategy, a work technology, a system, a

separate business, a sales channel, a phenomenon or a combination of them.

5. E-business platforms

When it comes to online business development, it must be decided which is the best suited e-business model to achieve goals. An e-business model is defined as the organization of products, services, information flow, and source of income and benefits for suppliers and customers. Types of e-business models are very numerous. According to some authors such diversity can be limited only by human imagination.

Applications of simple web sites. Today, most large companies have websites. At first these websites were simple and static set of HTML pages that you load your browser and read them. Today, the sites contain links to company databases, applets, ActiveX or CGI, so you can save information from users. The information gathered through forms and questionnaires can be used for users to customize the site for individual use or to make improvements to customer satisfaction.

Applications to access and share information. Such applications are the intranet applications that companies have developed to allow employees to share applications and databases. These types of applications are also found as the Business-to-Employee (B2E).

Applications Business-to-Business (B2B). B2B includes all transactions that are made between two or more business partners, suppliers. These transactions are based on systems extranet partners using the Internet using names and passwords for their Web pages. All participants in the transaction are companies or organizations.

Supply Chain Integration Applications. Once companies automate supply chain process can quickly evolve into a very sophisticated system. Initially, only companies create plans, programs or commands to allow providers to anticipate needs. Provider integrates its manufacturer system with the final producer one. Providers need to learn about new materials being directly linked to inventory and manufacturing system of the manufacturer. Once the supplier meets manufacturer requirements, accounting entries are created and payment is made automatically. The

whole process requires trust and quality control.

Applications Business-to-Customer (B2C). B2C refers to the relationship between dealer and end consumer, being considered as retail e-commerce. The difference between developing a web site or an application to access and share information and B2B, B2C, supply chain is big enough. While the first can be developed with relatively simple techniques and tools, the three latter requires very sophisticated techniques to be implemented. B2C e-commerce is a model in which companies offer individuals a range of products and services similar to traditional trade through online stores: information about products / services, discounts, special offers, electronic payment products purchased. Virtual stores are based on a Web site. It contains a catalog of products or services related to each position description. The catalog is managed by a DBMS (Database Management System), here are stored and updated information on products or services. These stores include functions for searching and viewing products, taking orders and payments.

6. Conclusions

E-business helps organizations conduct business online but also connects the organization with all its external and internal components of the value chain: the components supply chain, logistics providers, distributors, service providers and buyers. E-business creates integrated network of relationships with channels, end users, suppliers and rivals that were not possible before. E-business solutions make customers available in almost all industries. Customers can buy non-stop and companies can offer self-service applications and distribution of products and services to customer. E-business offers new forms of market conditions which radically change the game. Through electronic business is redefined every process in the traditional business: from the development of new products and customer relationship management to purchasing human resources and materials and components procurement. The goal of e-business application is to provide necessary information to the end user, and also attract clients to come later. The services provided

to users on the functionality, ease of use (navigation and organization easier to understand) and response strength of the application, integrity of information is critical to user perception. If the user finds application useful then it is a chance to return to make new business. The Internet and e-business is an important key to future success of any organization, offering huge opportunities and market outlets worldwide. E-business projects are doomed to failure because of misunderstanding the new rules of e-economy environment, thus failing to step into the competition. To differentiate into the Internet economy, companies must realize that winning e-business means more than simple transactions of purchase/sale, the appropriate strategies being the key to improving competitive power. This can be done by using data mining techniques and other statistical analysis on historical data from e-business activities. To conclude, some directions may be taken depending on the e-business contents that were discussed here conducting further research on those particular areas.

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Training of Eco-skills for Development of Sustainable Business

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Abstract

The paper illustrates the important role of managerial skills acquisition for sustainable society and design requirements based on the use of non-conventional energy business.

Thinking sustainable is now changing the way we live, work and does business. The paper illustrates which skills are today in training and education system and which are necessary for the creation of "green-collar" jobs in both skilled and semi skilled occupations, in hands-on jobs in industries like renewable energy, water and energy efficiency as well as placing trainees into entry level positions who have sustainability embedded into their training package with employers who want to embrace climate change.

The study also reveals the necessity of training for green skills in the three courses of study tailored to future business. The paper studies environmental perception skills students acquired currently upon completion of the first cycle, eco-skills necessary to develop sustainable business.

Key words: green skills, ecoskills, green jobs, green collar workers, sustainable economy,

J.E.L. classification: M5, M53

1. Introduction

In higher education system, programs of management have a key role in training future managers' skills, to develop sustainable business. In the future position of decision-makers, managers must be prepared so as to be able to develop managerial skills including the three sides of economic efficiency, social and environmental situation and to adopt practical solutions or make decisions that simultaneously combine the three types of efficiency [1]: economic

efficiency, social equity and ecological sustainability which means treble efficiency.

Nowadays, to create green jobs is a necessity of our economical system and a consequence of applying the treble efficiency but this it's not possible without support of trainers for green carrier. Green jobs are all the jobs that have a benefit for the environment. They may include jobs in public transport, in building and construction, in primary industries and manufacturing.

The approach made attempts to answer two basic questions: Why should managers trained in line with the principle of treble efficiency? What are the main managerial skills would be developed so that managers can respond positively to the challenges of the sustainable and knowledge society? How could provide training of managers so that the principles of sustainable development can be applied to achieve treble efficiency after graduation?

At the level of education system and managerial practice changing the approach of educational strategies in line with treble efficiency is particularly important and necessary for several reasons [2]:

a. First, it corresponds to the major trend of rallying the current economic theories outlined management and sustainable development of the knowledge society. Theorists and practitioners, such as David Korten, Peter Drucker, Walter Trux, Michael Lester Brown, Francisc Fukuyama stressed the need to use a single model in training managers, linking together economic, ecological and social.

b. Secondly, it corresponds to major trend of rallying to the existing systems of sustainable development on the global market. In managerial practice from developed countries was created green jobs and green collar workers who were capable to apply system solutions that combine the three principles in order to achieve sustainable development. Green Jobs include

jobs in public transport, in building and construction, in primary industries and manufacturing: Community Sustainability Manager, Land Management Officer, Save Water Manager, Waste Sustainability Officer, Sustainable Vegetation Tradesperson, Waste Water Treatment Plant Operator s.a. Green collar workers include professionals such as conservation movement workers, environmental consultants, environmental or biological systems engineers, green building architects, solar energy and wind energy engineers and installers, nuclear engineers, environmental lawyers, ecology educators, and sales staff working with these services or products. Green collar workers also include vocational or trade-level workers: electricians who install solar panels, plumbers who install solar water heaters, construction workers who build energy-efficient green buildings and wind power farms, construction workers who weatherize buildings to make them more energy efficient, or other workers involved in clean, renewable, sustainable future energy development. [3]

c. Thirdly, it corresponds to the major trend of rallying to the current education system performance. The European education systems, including private education, not only focus on the assimilation of specialist knowledge and skills to specific, but also the acquisition of training systems and skills derived values, which correspond to a profile manager called to built the sustainable economy.

d. Promoting treble efficiency principles in educational programs and managerial economics means to find mechanisms and appropriate solutions that meet the interests and current issues of sustainable society. It's also about recognizing the truth that the aim of any approach would be to meet human needs in his unit being bio-psycho-social-historical. [4]

2. Managerial and green skills - consequences of the educational process

Competencies are defined as structured sets of knowledge and skills acquired through learning, identifying and solving specific problems in various contexts. Education Act,

considers that the main purpose of the current education system is skills training. [5] The competencies are defined in art. 4 of Law of Education as a "multipurpose assembly and transfer of knowledge, skills / abilities and skills required to: a) fulfillment and personal development through the achievement of their goals in life, each according to their interests and aspirations and desire to learn throughout life; b) social integration and active citizen participation in society, c) job employment and participation in the operation and development of a sustainable economy, d) forming a conception of life, based on humanistic values and scientific, on national and universal culture and fostering intercultural dialogue; e) education for dignity, tolerance and respect for human rights and fundamental freedoms, f) growing sensitivity to issues human, moral and civic values to and respect for nature and the natural environment, social and cultural"

Competencies translate into **useful knowledge, the ability to apply that knowledge acquired** (skills, abilities, practical skills) and in **behavior** (positive behavior and attitudes) to achieve something with their practical / useful. Depending on the degree of generality and complexity have been identified general skills that can be applied to many fields of study and specific skills that define a particular field of study. Managerial skills are part of specific skills that can be acquired by studying disciplines in management.

Managerial skills must to meet the current requirements of management experience, both folded on solving economic problems and those social and environmental.

The management's competencies are determinate with the corresponding relationship management skills:

$$Cm = c^1 + c^2 + c^3,$$

Cm - management's competencies

*c*¹ - economic competencies

*c*² - social competencies

*c*³ - ecological competencies

Economic competencies enable professionals and managers to achieve performance excellence in the profession. Social competence involves knowledge and ability to collaborate, communicate and align

their goals with the desires and needs of others.

The term social competence was introduced by M. Argyle meaning 'social behavior patterns that give individuals from socially competent, able to produce the desired effects on other individuals'. In the category of social skills, which are included in the profile of successful managers, the literature states: communicative, sociability, networking skills, empathic ability, assertiveness, anomicitate, diplomacy, teamwork, spirit of collaboration, self-management skills [6]

Starting from the presentation logic of the concept of social skills can define **ecological competence as given by the knowledge, skills and behaviors that will ensure effective and beneficial consequences of environmental protection and ensuring sustainable economic systems according to the principles of sustainable development.**

In ecological skills training, environmental education or ecological education has a critical role. In 1970, following the IUCN meeting in Nevada, environmental education has been defined as "the process by which values are known and clarified concepts in order to develop skills and attitudes necessary for an understanding and appreciation of human relations, culture and environment". [7] Ecological education also includes environmental education, practice and a decision formulating their own code of conduct on environmental quality.

The ecological competencies might include three categories of skills derived, including knowledge, skills, abilities and specific behaviors:

1) Expertise on environmental knowledge formed the basis of continuing education about the environment, providing a better understanding of natural phenomena, the natural environmental components and systems. These skills allow exploring the environment, to adopt certain attitudes based on critical thinking, environments decisions (C_{dm});

2) Skills manifested in the environment, gained from working on certain types of environmental knowledge, a certain environmental experiences, which have formed habits and skills of collecting investigation, action, the environment, in

which any professional would be to "manage" in various media (C_{im});

3) Environmental education skills for preparing managers for decisions and actions that contribute to environmental improvement (C_{pm}):

$$C^3 = C_{dm} + C_{im} + C_{pm}$$

Among the three categories of specific skills included in determining the relationship of environmental competencies, the most complex concerns the third category, the skills regarding environmental education because it involves the creation of skills necessary actions on the environment.

Development of the cross and ecotourism arias requires the creation of managers and specialists able to work actively so that after visiting the cross, they look better than the stage where they were found. However, such skills require capacity building to address a lifestyle compatible with the concepts of sustainable development, contributing to good management of natural resources.

Skills training through the educational process involves going through repeated, on different subjects in the field of management learning stages:

- 1) Reproduction of knowledge;
- 2) Linking them with those already acquired;
- 3) Theoretical resolution of problems or situations with knowledge gained;
- 4) Application and enforcement of the knowledge in economic life. [8]

3. The Main Eco-Competencies needed to develop environmentally friendly Eco zone

The skills managers need, based on questionnaires filled in a survey, conducted among students from Petre Andrei University, of the Faculty of Economics have identified a set of ecoskills necessary for managers to apply the principles of ecological sustainable development. Results of the survey took into account responses from the 100 questionnaires distributed to students from the 2nd and 3rd year, concerning the skills acquired through existing environmental curricula, environmental skills which would be desirable to form in order to conduct business and sustainable

development and skills that are expected to be necessary in view of business development that will use non-conventional energy.

A percentage of 73% from the students surveyed were selected among 18 types of environmental competence skills from a list with 130 skills: knowledge of natural phenomena, the natural environmental components and systems; the ability to analyze systemic problems at the local and global environment; the ability to think in terms of natural systems theory of optimal processes; understanding the impact of pollution on the BIOS having origins; understanding changes in the biosphere natural and man; understanding the fundamental phenomena of the dynamics of land cover; capacity of synthesis and interpretation of a set of information on environmental changes and make any conclusions; ability to apply theoretical knowledge and experimental skills in case studies in the field of environmental protection; the ability of independent analysis of problems; capacity of reasoning and communication solutions concerning environment problems; the capacity of using methods and measuring equipment for measuring and monitoring and control quantities determined in a process that occurs in the environment; the ability to address complex problems specific environmental strategies using the most appropriate approach; ability to develop a diagnostic environment; knowledge and design development of agriculture, forestry and services in the context of environmental and sustainable development requirements; the ability to formulate credible and sustainable business projects; initiative and effectiveness in addressing and solving environmental problems using both scientific knowledge and scope of environmental legislation, economic policy, management, quality management; ability to design and implement sustainable tourism facilities; assessing the effectiveness of ecotourism farm; pollution assessment in the domestic environment based on professional tests that can be made available to customers.

In the three groups of competencies, the students identified in the first five skills, the following ecological competencies of managers:

1) Knowledge and skills about environment (Cdm):

- Knowledge of natural phenomena, the natural environmental components and systems;
- Ability to analyze systemic problems at the local and global environment;
- Ability to think in terms of natural systems theory of optimal processes;
- Understand the impact of pollution on BIOS
- Understanding changes in the biosphere, with natural and anthropogenic origins;

2) Skills manifested in the environment (Cim):

- Ability to synthesis and interpretation of a set of information processing and phenomena found in the environment and to draw conclusions;
- The ability to apply theoretical knowledge and experimental skills in case studies in the field of environmental protection;
- Ability to independently analyze problems, specifying the reasons and solutions;
- Ability to use measuring equipment and methods for measuring and monitoring and control quantities determined in a process that occurs in the environment;
- Ability to develop a diagnostic environment;

3) Environmental education skills for preparing managers for decisions and actions that contribute to environmental improvement (Cpm):

- Knowledge and design a strategy based on the development of agriculture, forestry and environmental services and requirements in the context of sustainable development;
- Ability to formulate credible and sustainable environmental projects;
- Ability to design and implement sustainable tourism facilities, eco homes, private farms;
- Evaluate the effectiveness of farm tourism;
- Evaluation of pollution in the domestic environment under professional tester that can be made available to customers.

On the question of ecological skills that students consider that they hold a license upon completion of the first cycle, - specialty trade economy, tourism and services -, a percentage of 52% students have selected 7

of the proposed types of skills: knowledge of natural phenomena, components environment and natural systems; the ability of synthesis and interpretation of a set of information on environmental changes and to draw conclusions; ability to apply theoretical knowledge and experimental skills in case studies in the field of environmental protection; the ability of independent analysis of problems of reasoning and communication solutions; the ability to formulate credible and sustainable business projects; initiative and effectiveness in addressing and resolving environmental problems using scientific knowledge in the field as well as environmental legislation, economic policy, management, quality management; ability to design and implement sustainable tourism facilities; assessing the effectiveness of farm tourism.

4. Conclusions and implications

In conclusion, to develop business management ecoskills to design sustainable environmental education should be focused on the formation of the three dimensions of power. Environmental education is an essential dimension of basic education involves personal and social development. This type of education seeks to induce a social dynamic, encouraging a partnership approach to environmental issues and seeking creative solutions to independent and relevant environmental protection.

Results for sounding sentiment survey students about environmental skills training need has resulted in the selection set of skills that could be included within the scope of environmental skills, establishing the necessary ecoskills would be included in existing curricula with a view to sustainable business conduct and skills necessary to conduct business in the future using non-conventional energy.

Consistent with the fundamental pedagogical principle "learning by" the competencies are not merely ecological learning outcomes, but the consequences of the educational process, observable and measurable form of performance. In determining the ecological skills, managerial skills cause social skills that ultimately translate into the green skills. Determining

the ecological relationship skills is given as algorithm:

$$C: e^1 + \rightarrow e^2 + \rightarrow e^3)$$

The education system must develop the skills and attributes that correspond to social order. Only negative consequences of excessive orientation towards economic efficiency and social efficiency by neglecting environmental education system itself affects the economy as a whole, but primarily students, on completion of a particular course of study will be faced with some difficulties in its efforts to achieve and sustainable business design: slow adaptation to the requirements and principles of sustainable development, ignorance of environmental issues, excessive consumption of traditional energy.

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Demands in Educational Management Strategies for Management Skills Training

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Abstract

The study is a plea for educational strategies to rally real trends emerging in economic and social practice real economies of developed countries, marked the formation of society based on information and knowledge and the foundation of a sustainable economy.

Emphasizing the main trends in modern educational systems in developed countries, the study outlines the main requirements of educational management strategies based on social order parts on the training of managers in line with triple optical efficiency.

The evolution towards the so-called information society has given rise to a series of challenges that must be considered, echoing long-term changes in society. Educational actors should identify specific changes in cognitive and cultural ecological problems and the accelerated development of digital technologies will bring the entire company.

Finally necessary courses of action are drawn to meet the strategic requirements specified

Key words: educational management strategies, requirements of educational strategies, sustainable economy, managerial skills,

J.E.L. classification: M5, M53

1. Introduction

National Education Law, considers that the main purpose of the current education system skills training. In this regard, Article 4. states: "Education and training of children, youth and adult skills training are the main

purpose, which is defined as a" multipurpose assembly and transfer of knowledge, skills / abilities and skills required to: a) fulfillment and personal development through achieve their goals in life, according to their interests and aspirations of each and willingness to learn throughout life; b) social integration and active citizen participation in society, c) job employment and participation in the operation and development of a sustainable economy, d) formation of a conception of life, based on humanistic values and scientific, on national and universal culture and fostering intercultural dialogue; e) Education for dignity, tolerance and respect for human rights and fundamental freedoms; f) growing sensitivity to human issues, with moral and civic values and respect for nature and the natural environment, social and cultural"[1].

Management skills training should be done in the spirit of triple efficiency and sustainable economic development. [2] However, this can not be achieved without harmonizing the actions of educational policy makers at the macroeconomic level, with universities and policy makers at mezo-economic with the media, materializing in the end, the actual implementation by processes of education and training courses and seminars.

2. Current Challenges

Management skills training should be correlated with the current data trends and challenges in promoting a sustainable economy and knowledge society:

- Sustainable development is inextricably linked to the shift to a green economy, which finally prints the education system that prerequisite skills necessary training and skills in environmental management skills.

With the development of unconventional energy sources, environmental skills required beach managers will increasingly widen more. In unconventional energy sources, the EU has increased its efforts to develop wind energy, which in addition to combating global warming; the sector can ensure European energy independence. In 2009, according to a study by the European Wind Energy Association shows that by 2020, the European Union wind energy industry will double to reach 330,000 jobs. Due to the need for states to boost economic growth necessary to build and develop managers to lead companies or companies that will invest in this area. Wind energy jobs involve a complex set of environmental skills required to develop wind farm, wind farm construction, manufacture and maintenance of wind turbines [4].

- The formation of society based on knowledge and information print system formatted a multidisciplinary, managers need to develop specific skills and abilities of IT. In this respect, developing the necessary infrastructure for implementing the electronic payment system, electronic signatures and electronic management of the current operation involves complex data bases in real-time. A number of universities will have to increase its offer training in the IT program and dedicated active dissemination of knowledge (embedded web). Digital skills training could alleviate the differences in the use of digital technologies and even equitable access to information. A pressing need for the current period, with the transition to knowledge-based society and information to students is the development of critical reasoning to digital media, digital cultural awareness, knowledge and understanding of virtual learning environments and their ability to improve processes learning.

- Expanding global educational networks that use high technology. Educational networks are used for: communication via email and forums, documentation, collaboration and projects. Through educational portals universities and training institutions are in constant communication, sharing their latest knowledge. The use of such platforms Kennisnet, which uses a single login system can be developed teaching and learning processes by building themed sites, offering online learning

services, providing teaching materials and teaching, helping to develop a new generation of educational communities.

- The widening gap on the quality of educational processes, costs, organization, sustainability education systems. School systems are in strong competition, universities are strongly differentiated mainly in terms of quality human resources, material resources and access to different information. The institution is rated much better chances of success on the employment of graduates are higher.

3. Highlights of the social order on the training of managers

To enable managers to ensure appropriate training should be developed a set of measures that have performed actions of educational policy makers at the macroeconomic level, with universities and policy makers at mezeoeconomic, materializing in the end, with actual implementation, through the process of education and training courses and seminars. [3] This conclusion is reached based on assumptions and possible answers to the question: Who dictates the performance and skills they need to become future professional manager?

A first answer is social control, with both internal component but also including the international context, the isolation can no longer accept a state and to remain behind. Performance and skills they need to get specialist manager's future would be dictated by social order. The order follows a professional profile of social, ethical and moral future managers. Profile management emerged from renowned European universities is already folded optics and the principles of sustainable development and ensuring efficiency triple. For this reason, results and many benefits to society in these countries. The development of attributes such as reliability, punctuality, honesty, conscientiousness, ability to work together and cooperate, education for work well done, organizational spirit, still a student, complete - with the expertise - future moral and civic profile manager asked by XXI century. Shaping a profile focused on both economic powers and the social and environmental skills reveal new qualities of the manager,

along with the need for extensive ecological knowledge: inventiveness, insight on changes in the environment, the ability to generate change in the environment, the ability to prevent and response to environmental changes, initiative and courage to design and implement business based on the use of no conventional energy.

Profile would be required, further, to find and meet nationally-developed standards of occupational and professional - in which economic model will be rolled manager specialist skills, required by society today.

Normally this new educational reform, incorporating triple efficiency would have been useful to be adopted on the three cycles: bachelor, master and doctoral studies. Further, the faculties and departments, reorientation training content managers through training and education strategy in line triple efficiency must be reflected in the following:

1) Curricula that ensure the subjects covered the whole range of activities designed to develop, a fund of general knowledge, expertise in a new vision, the creation of practical skills to achieve triple the efficiency;

2) Subjects contained in the plan, which would have to extract them belong powers to carry out the performance of these skills and training to students, proposed syllabi for each subject;

3) Innovative Teaching Methods should not promote the technology first and then investigate whether they are sorted by skill profile manager asked for the twentieth century.

4) In different specialties should be selected according to the specificity of each set of environmental competencies that could be provided in addition. It also requires a series of measures at national level:

a) Action to improve the dissemination of existing studies, policies and practices in education;

b) Comparative studies on European methods in education trainers skills training aimed at implementing ecological models;

c) The establishment of relevant indicators to assess the results of introducing policies and practices in environmental education skills in various European countries. [5]

4. Requirements of educational strategies for training of managerial skills appropriate sustainable society and knowledge economy

Based on current challenges and strategies should be applied in education, in educational strategies to be followed a set of requirements:

1) Preparing for the digital economy requires the mandatory inclusion of training in IT, digital literacy and employment development in the university curriculum. Achieving a consensus on delimiting the set of skills would be desirable. Currently some educational policies focusing on skills in using computers, others include education on all media, media expertise (Germany). In the field of media educations in France were 20 projects funded European e-Learning.

2) Recovery of better results by learning processes by encouraging flexibility in curricula and market orientation of applied research. In many areas of Romania lacks an effective interface between research and industry. It is important to increase the share of extra-curriculum activities and better recovery results obtained from these activities. In many European countries, about 30% of the curriculum is defined locally, based on extra-curricular activities aimed at cross-curricular or extra-curricular issues, or may be related to the development of new partnerships.

3) Training human resources consistent with the current requirements of the competitive educational environment, and enrich the knowledge necessary to adapt in line with triple optical efficiency and training throughout their working lives. In this respect, it requires rethinking of education as a coherent system of training of human resources for a sustainable society based on information and knowledge;

4) Adoption of mechanisms and bodies to ensure creation of an adaptive processing system in accordance with the dynamics of knowledge society. Promoting relations with the socio-economic universities, increasing the contribution of universities to sustainable development of regions would be a better adaptation to social and economic dynamism.

5) Stimulate students and teachers for transmission and transfer of knowledge and capacities. The Creation of science parks and

technology transfer at each university should become a priority strategic objective in education. Establishment at the university management of specialized centers for the management, transfer and dissemination of knowledge, harnessing creativity and innovation should be preferred. It is desirable to perform as many actions to drive real talent for developing innovative programs in multidisciplinary teams.

6) Operation with new environmental indicators related to skills training and use of digital technologies. Indicators should consider both the investment in equipment and teacher improvement, software and educational resources. Consistent with the approach of integrating digital technology is preferable to use a composite indicator that is based on an overall analysis of the progress of schools in specific environments: teachers, students, programs of study. It should also create a database of operational data to provide information necessary for calculation of aggregate indicators, including data input on: how to offer education programs, or traditional conference, the active use of IT by student learning on-line or integrated activities based on education platform. Platform must operate also with the output data: number of teachers trained in IT and use these technologies effectively in their work, the variety of learning situations involved.

7) Development of new assessment procedures appropriate education for a sustainable society and using IT. Traditional methods for assessing cumulative can not be used to assess the formation of organic and digital skills. Current programs and examinations are often seen as an obstacle because the content subjects are inconsistent with the approach already applied interdisciplinary. Formative evaluation can contribute to the quality of the learning experience. There is a great need to carry out research activities focused on learning processes, enhanced by the introduction of materials for environmental education and information technology to inform players and analyze educational experiences that take place in the group of students.

5. Lines of action for educational strategies for training of managerial skills appropriate sustainable society and knowledge economy

1) Stimulation of research and innovation involves the adoption of a set of concerted action to ensure competitive financing mechanisms to increase capacity and exploitation of results. Encourage inventions and innovations in strategies and educational processes should become a priority. In this respect should be corrected a number of bureaucratic procedures concerning intellectual property rights legislation and stimulated recovery of domestic inventions and scientific creation. Promoting local brands and intellectual property in all areas including IT would be desirable.

2) Encouraging policies that accesses additional educational resources. Thus, strategies to encourage on-line access to public domain information or particulars that may be considered part of the national heritage and treasures of human civilization are desirable. In some European universities have signed agreements with owners of patents to allow students to use those resources protected by intellectual property law. Resources freely available on the Internet have led to the formation of policies best links or resources to create closed environments, as a remedy against the influx cognitive syndrome resulting from the explosion of information portals on the Internet. However, this expansion of information may lead to a reduction of investment in educational software or production of items related to knowledge and resources more e-learning, development belonging to public agencies or private publishers of multimedia content.

3) Formulating policies and strategies with long-term educational prospects. It is important that educational policies and strategies are determined by long-term educational goals. The possibility of taking up a job to be seen in a long term perspective, aimed at linking educational strategies as long-term professional development and job opportunities in the short term. Implementation of new educational methods takes time and it is important that the forecasts for employment

should not be done short term to be overcome when implementing new methods and education schemes. In areas such as using digital technology for science education, policy must address two needs: 1) to prepare students to choose careers in science; 2) to educate them to act as citizens in a society that gives rise to scientific challenges. Cognitive tools for processing and analysis will play a key role, as well as learning processes based on collaboration which will allow a better understanding of science, technology and social interaction. This also requires an update of educational objectives in the acquisition of knowledge and cultural appropriateness. It is obvious that the perspective of lifelong learning will underpin the long-term development policies and lead to the integration of education with other learning environments.

4) Ensure new support services for education. It should set specific services, agencies, competence centers, help desks for assistance and educational technology. Such services will involve training and advice for teachers, teacher trainers and managers of the education system. They will focus on customization and better methods of learning, tutoring and counseling services to the learners and to provide new means of validation and certification. A key recommendation is to encourage open learning environments by providing flexibility in the policy so that the different territorial levels are involved at their full potential in the integration of digital technologies in education. Establishing a service can be made closer to what can be done at each level and the number of users that can exist in a neighborhood or a village. In a city, region or country can develop services based on common languages and cultures, taking into account the development of specific resources and lesser-used languages. The best use of local resources can be made on the spot by specific services designed to enrich the learning experiences of students or school environment with resources that may be provided by other actors such as universities, art and science museums, research centers, companies or local industries.

5) Creating opportunities for developing new competencies needed to implement change trainers, who must to operate with the

new challenges. Educational policies relating to initial and continuing education of teachers and trainers must go beyond technical skills and to enable all educational stakeholders to develop new skills to master digital technology and media to form their own skills and to integrate environmental education into everyday contexts. A basic framework for environmental education modules for integrating digital technology in education will lead to a better understanding of changes taking place in the educational processes of the global economy. New possibilities open to be explored by setting up learning centers for continuing education. Managing change requires institutional flexibility and therefore a new vision, while promoting creativity and inventiveness.

6) Develop research, establish new indicators and access to results. Research and technological development is often given precedence over social sciences and applied educational research. Pilot experiments should lead to a complete analysis of the contribution of environmental skills and digital technologies to educational outcomes, taking into account different learning styles, different target groups, socio-cultural contexts and size groups. Examples of innovative practices to be studied and documented best to provide important information. New indicators can be defined only when the specific educational objectives of environmental education and digital technologies have been stable. Digital skills training module can be assessed in relation to their contribution to achieving educational goals. From this perspective, were highlighted in the European countries, seven educational areas: information skills, communication and media for students, teachers use educational technologies, educational technologies for teaching quality assurance processes, language and arithmetic skills training, active involvement in civic activities for communication and collaboration skills, technical and scientific culture. Should be targeted and increased risk of social exclusion because of poor social conditions existing educational uses of digital technologies. Access the results can be generated and the learning from pilot and research projects present or past. In the reports, information projects and publications can be found an important body of

knowledge to be synthesized and made easily accessible.

6. Conclusions

In conclusion, the strategies of the educational system must always have in mind that education goals are personal development, social development, development of relationship with the cultural, economic environment, the natural environment and technology to be included in a coherent systemic vision;

- The current education needs are focused on a) the continued development of skills and competencies, b) building a knowledge base necessary to identify and accumulation of information, motivation and execution of cultivating a task to complete properly.

- The local education policy should be appropriate to the design of local programs, the design of means of assessment of local programs, design programs of social integration of students, design of strategic niche development programs, encouraging the cultivation of social skills programs, the local cultural programs and volunteer action and social responsibility.

- Human contacts and social interaction remain basic principles on which the new educational methods should start. A relevant example of the use of clean technologies and digital technologies in the EU countries shows the importance of critical dialogue and exchange of experience at the same level.

- In the context of major transformation of society, educational actors must meet new training requirements raised by the knowledge society and sustainable development of economy. They must adapt to new categories of students and cognitive styles. Therefore, we need a new way of approach to training teachers and trainers.

- The role of open universities as centers of learning will increase with the emergence of other complementary services to assist in education and social organizations, economic, cultural or scientific will provide opportunities for open learning.

- Innovative learning methods should not promote the technology first and then to identify the educational problems could be solved by it.

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Public Indebtedness in Developing Countries: Romanian Case

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Abstract

In this paper we concern about the unsustainable level of public indebtedness of developing countries, due the fragile and undeveloped national economy, under different impact factors that may lead to a debt crisis and government insolvency. We analyze the ratio between GDP annual growth rate and public debt annual growth rate as an important indicator able to measure the economic situation at a given time. In addition we consider that public debt composition matters since the external public loaning leads to an export of capital abroad that is affecting growth and economic development of national economy.

Key words: Public debt sustainability, crowding-out effect, level of indebtedness, sovereign debt crisis, current account deficit

J.E.L. classification: F31, F32, H12, H62, H63, H68

1. Introduction

According to the literature, public debt is one of the important economic variables that measures and describes a nation's economy.

Governments have to often borrow to cover their public budget deficit, in order to finance certain types of public expenditures. In all countries, either developed or developing states, governments tend to rely the surplus of public expenditures that exceed tax revenues, on the public loans. Even so, public debt is another way to increase expenditures, that are covered finally through taxes. According to David Ricardo, public loans are nothing but delayed taxes.

In comparison with taxation, that are compulsory levies, nonrefundable, paid by the taxpayers, public loans constitute a different financial relations, based on the

market rules. Once the government decide to borrow, he must comply a sort of conditions that govern public borrowing, first one is the requirement of repayment at maturity and the second one is interest payment.

2. Public debt composition

An important feature is the public debt composition, taking in consideration domestic public debt and external or foreign public debt. Domestic public debt, may be considered as a internal method to supplement budgetary resources, when government borrows from internal capital market, through specialized financial institutions or directly from financial resources holders. Over domestic public debt, Milton Friedman sustain, that this method to finance public expenditures generates and supports the crowding-out effect that has a negative influence over economic growth and development. The rationale is simple, if government tend to exaggerate with internal public loans, it will increase interest rate and it will make credits more expensive effecting investments in private sector. We are partially agree with this point of view, this effect may occur only in certain conditions are accomplished. Crowding-out effect occurs and negative affect national economy when, all the internal inputs are used at full level, in which case public indebtedness is unjustified and harmful.

But this rule does not apply in most of the developing countries, where the inputs are not fully used, and where public intervention even through public loaning is useful, using the latent financial resources, to finance public investments in project like social infrastructure. In this case, the crowding-out effect does not apply or in other words do not adversely affect growth and economic development.

The other component of total public debt is the external public debt, that involves a different set of effects over national economy. Called in literature the "original sin" or the impossibility to borrow in own currency, that leads in majority of the cases to negative effects over national economy.

Due the insufficient development of financial markets, many developing countries, have difficulties in borrowing domestically long-term and are unable to borrow abroad in terms of they own currency, consequently they need to borrow in foreign currency in order to acces foreign capital markets. The first negative effect appears when at maturity the debt has to be repayed at foreign currency, repayment that is financed through domestic currency. So a depreciating domestic currency leads to debt crisis and finally to insolvency, situations where governments are unable to service their foreign currency debts.

Foreign borrowing has, according to some econonists, both benefits and costs.

The benefits that a country may have from borrowing foreign may include buying advanced equipment and technology and investing in esential projects where private sector is incapable or are unwilling to support, such as infrastructure. With better technology and improved infrastructure, the debtor country can raise the efficiency of the production process, creating more added value and it may reach self sustainable growth, that will cover the repayment of borrowed financial resources at maturity. The costs of foreign borrowing according to is the interest payment on the debt. To cover repayment and the interest, are needed future tax revenues raises, and a given tax revenue must be allocated and diverted from other productive destinations that may affect economic growth and social welfare.

Concerning about the manifestation of negativ effects over national economy, we consider that they are more costs than benefits when governments decide to borrow from abroad. A condition to limit asociated costs of public debt is to increase the level of efficiency of public debt management and more important is to channel the borrowed resources to productive expenditures. If the borrowed financier resources ar used efficiently and the interest rate is not high, only then foreign debt is likely to stimulate

economic growth. But, if the funds are used to finance nonproductive public expenditure corroborated with high interest rate, the foreign public debt has a negative impact over growth and economic development.

Governments in most of the cases, borrow to cover cash gaps that result from differences between receipts and payments, also government loans are intended to cover the budget deficit, and in some cases the state is borrowing to finance various public investment projects. Moreover, a situation characteristic developing countries, in a global economy, government are forced to borrow from abroad important financial resources to cover current account deficit of balance of payments.

Underdeveloped capital market and also precarious economic situation of the Romanian economy in transition that has become more a consumer economy, far from being a functioning market economy, has forced the Romanian government to increase foreign public debt, not only to finance the budget deficit but also to support foreign exchange reserves, thanks to a trend of current account deficit that we recorded in the last 20 years in Romania.

Table 1. Current account deficit evolution

Net current account	2006	2007	2008	2009	2010
mil. Euro	-1,298	-1,804	-858	-726	-414

*Statistical data from NBR anual reports

Debt composition matters, so if we analyze the composition of total public debt in Romania, we observe the atypical nature of public debt, where more financial resources are purchased from international creditors.

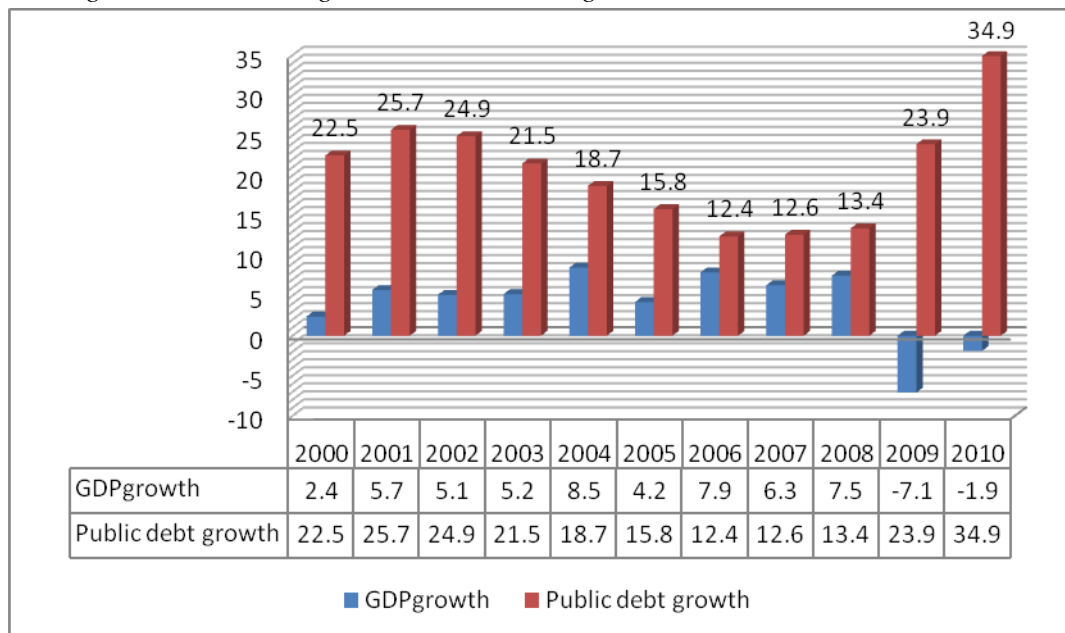
Table 2. External public debt evolution in Romania

Items	2000	2001	2002	2003	2004	2005
External Public debt (mil. EURO)	7,371.70	8,708.50	9,167.50	9,637.60	10,270.00	10,947.20
- percent in GDP (%)	22.10%	20.80%	21.10%	20.10%	16.50%	13.90%
Total public debt, GDP(%)	31.40%	28.70%	28.80%	25.90%	22.40%	19.50%

After 1990, Romania as a developing state, gain acces to the international capital market, by default the risk of sovereign debt crisis has increased considerably. To avoid debt crisis, the government must ensure that the level of purchased debt is sustainable, or in other words, the external financial situation of a country where foreign exchange resources are beyond the external debt service payment obligations.

Given the positive macroeconomical evolution between 2000-2008, this situation favored adoption of a set of expansionary fiscal and budgetary policies, confirming the orientation of developing countries to pro-cyclical policies. The obvious result was a strong commitment to projects and government expenditures over the national economy ability to finance them.

Figure 1. Public debt growth rate and GDP growth evolution between 2000-2010



*Source: Eurostat and annual reports of NBR

Once Romania has become a European Union member state in 2007, among many politic and economic condition to meet, Romania in order to adhere to European Monetary Union, must guide her fiscal and budgetary policy according to the limits set by the Stability and Growth Pact, that are 60% public debt of GDP and 3% limit of public deficit of GDP. Even if Romania was

characterised as an low indebted country, compared to the other EU member states, the economic situation of Romania has rapidly changed once financial and economical crisis stroke

worldwide and and also romanian economy.

The imediate effect of the financial crisis, was the negative impact over real economy

wich can be observed in falling of GDP growth rate in 2009 to -7.1% level, in comparison with 2008. In this hostile environment, the financial situation of Romania has rapidly deteriorated, firstly under the pressure of the state budget widening due the diminished tax revenues and secondly the rising public sector expenditures on social protection like unemployment allocations and pensions, and third point of view a important factor to worsening the economic situation in romanian economy was the decline of foreign exchange incomes due the falling of exports.

In these conditions, romanian government decided to meet this economic challenges by concluding a financial agreement for two-year loan of 20 bilion Euro with IMF, EU, EBRD and World Bank, under the condition of reducing the budget deficit and freezing wages in the public sector. The main cause that triggered and conducted to public loaning was the increasing macroeconomical imbalances, particulary the current account deficit, the savings-investment balance, and the pressures on the external balance of payment emerged in recent years due the trade deficit.

The 20 bilion loan was regarded as a "safety belt", the loan was intended to finance the budget deficit and economic activity, and to support the euro-lei exchange rates at sustainable levels for the economy and population, and to ensure the boost of growth and economic development.

Economists like Van de Ploeg (2005), Breben and Bronsen (2008) sustain that the limits imposed by the Stability and Growth Pact must be chabged or revised due the actual situation of most of the EU member states that are not meeting the Pact's limits of 60% public debt and 3% budget deficit reported to GDP level. On the other hand, Dvorakova (2008) sustain that the main purpose of these limits is that they provide a sustainable debt policy and economic balance. But if we analyze the actual situation of Romania, after 2008, even if romanian state comply the Stability and Growth Pact conditions, the negative evolution of GDP in last two years corroborated with an increased growth rate of public debt, we are concerning about the sustainability of the romanian economy, or the ability to meet all her financial obligations at maturity. If

Romania continues to borrow with the same rate it risks a sovereign debt crisis, in wich the romanian state will be unable to meet his financial obligations.

Public loans represent financial relations that generate costs, and if the government borrows to spend on nonproductive destinations (bills, wages), the scenario case reply to a unique solution, namely that of contracting new public loans, more expensive in order to repay the older public credits that have reached maturity. In that case government will be forced to raise taxes to increase tax revenues and to cut public expenditures on public investment and social protection due the neccesity to repay acumulated public debt.

3. Conclusions

To avoid public debt crisis and cases of insolvency of the public sector, we must take in consideration not only the limits set by EU, through Stability and Growth Pact, but also the government must keep under control the growth of debt ratio, in order to ensure a sustainable level of indebtedness. Debt sustainability is one of the most important conditions that can limit the excesive public indetebtedness and also it can be avoid hte vicious circle of borrowing supported by the incrazed debt burden and high interest rate, which generates new public debt because of the lack of financial resources to repay loans at maturity.

Regarding to te ratio between annual GDP growth rate and annual growth of the public debt rate, we consider to be an important indicator to be considered in the public debt management and public policy.

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Merger Trends and Assessment in the Midst of a Financial Crisis

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Abstract

In this paper, we analyse data on global M&A deals for the last four years, from 2007 to 2010 to understand what are the trends and to answer the question - does a global financial slowdown increase the number of mergers or decrease it? We find that the number of mergers across the globe has gone down, while the average size of a deal has seen only a minor dip. However, as the economy picks up, we expect that companies are looking to M&A as a way to rapidly add to revenue growth in the coming years.

Merger assessment in the midst of a financial crisis is highly challenging. We consider that EU merger control instruments allow for appropriate application in circumstances of economic crisis, whilst ensuring effectiveness of competition policy. The analyse that follows in this paper upon the number of notifications of concentrations at EU level, during the recent financial crisis, reveals a reduction in the number of cases but not in their complexity.

Key words: merger&acquisitions, merger control, competition policy

J.E.L. classification: F02, K21, L40

1. Introduction

While companies combining forces (referred to below as mergers) can expand markets and bring benefits to the economy, some combinations may reduce competition. Combining the activities of different companies may allow the companies, for example, to develop new products more efficiently or to reduce production or distribution costs. Through their increased efficiency, the market becomes more competitive and consumers benefit from higher-quality goods at fairer prices. However, some mergers may reduce competition in a market, usually by creating

or strengthening a dominant player. This is likely to harm consumers through higher prices, reduced choice or less innovation. Increased competition within the European single market and globalisation are among the factors which make it attractive for companies to join forces. Such reorganisations are welcome to the extent that they do not impede competition and hence are capable of increasing the competitiveness of European industry, improving the conditions of growth and raising the standard of living in the EU.

During the crisis, M&A deals were still being done, but the focus was more on taking advantage of competitive weaknesses and building out the bottom line rather than on strategic growth. Post-crisis, companies are seeking more strategic growth opportunities, particularly in markets such as Asia and Latin America.

2. M&A trends from 2007 to 2010

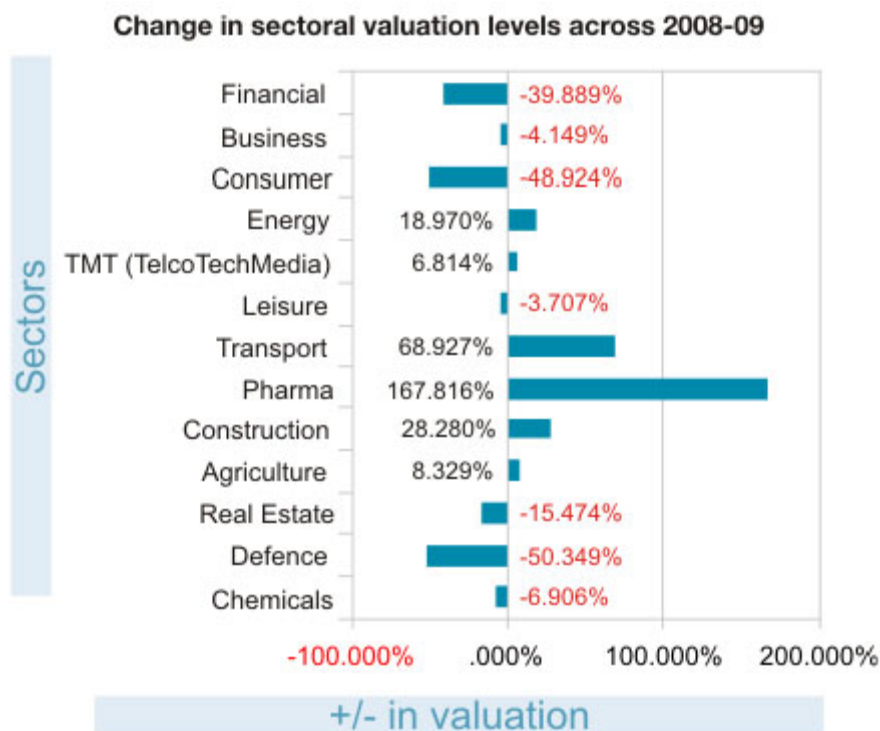
In 2007, Mergermarkets estimated the global M&A market to be doing around US\$ 3,600 billion worth of mergers in about 15,700 deals. Over the next three years, as the financial markets in the West melted and many industries and geographies witnessed negative growth, the number of mergers as well as the total value went down, to hit \$1,800 billion in 9,400 deals in 2009. In short, the total value of deals struck globally halved, while the number of deals came down by 40 percent, indicating that value per deal or the price paid per acquired company has more or less stayed where it was and had not come down dramatically from where it was in 2007, even as the number of deals came down to half.[1]

The world economy has been witnessing some significant geographical shifts away from Europe and to a lesser extent from the Americas, towards Asia. And the M&A scene has not been immune to these. While valuations in Europe more than halved in

2009, Asian economies actually registered growth in valuations. America had already

seen almost an equal decline in 2008 to what Europe saw in 2009.

Figure 1



Source: Nimesh Sharma , *Mergers and acquisitions in times of financial crisis* , in "Dare" - business magazine, 01 March 2010

The impact of the recession has not been uniform across sectors. In 2009, the pharma sector saw the highest increase of 103 percent in actual values over 2008-09, largely because of a giant deal of \$63 billion (Pfizer buying Wyeth). Three out of the top five deals based on value of 2009 came from the pharma sector, adding a total valuation of about \$150 billion.

In energy, mining and utilities, just two deals involving Rio Tinto-BHP Billiton and Exxon Mobil-XTO Energy added a combined price tag of \$98 billion. No wonder energy deals had icing on the cake in terms of best pricing.

In 2008, in comparison, it was the consumer sector that witnessed two of the biggest deals in history, with Altria Group selling off Philip Morris and InBev buying Anheuser Busch Companies for a combined total of \$165 billion. In keeping with the theme of the times, in 2009, in terms of average deal size, the consumer sector was the worst affected if you ignore the miniscule contribution of the defense industry, with deal sizes halving.

The financial services sector saw average deal size lowering from \$477 million to \$287 million (40 percent down). Consumer and financial services make up about 24 percent of total volume of M&A.

Against all expectations, the world in 2010 enjoyed a surprisingly benign economic climate. In 2010, corporate merger and acquisition activity made a huge comeback. Most of the M&A activity involved North American companies, but activity has also increased around the world, and in various market sectors / industries.

Companies have stashed away a record amount of cash, which they have hoarded since the height of the financial crisis when cash was considered king. Acquiring companies have been spurred on by record low interest & lending rates, as well as a North American economy which has been considered as "stabilized". Risk in general, has been perceived to be lower than during financial crisis, and there has been an increase in corporate and investor confidence. Even though stock prices were a lot higher in 2010 than in 2008 or 2009, the

market value of companies have still remained relatively low due to a weak global economy.

The value of deals in the 12 months through November 2010 rose 9% from the same period ended November 2009, to \$786 billion, according to Thomson Reuters. However, the number of deals was flat, and there were few megadeals, owing to uncertainty and perceived levels of risk in the global economy. M&A activity significantly increased during the second half of 2010 especially for large sized (multi-billion dollar) takeovers. Late July and the month of August were notable for heavy merger & acquisition activity. Those months were highlighted by the announcements of :

- 7/29/2010 – Sanofi-Aventis – Genzyme (\$18.5 billion)
- 8/14/2010 -BHP Billiton – Potash Corp (\$40 billion)
- 8/19/2010 – Intel – McAfee (\$7.7 billion)

M&A will continue picking up steam this year as companies aim for top-line growth. Plus, after the extreme cost-cutting exercises of the past few years, in order to grow—or at least maintain—profitability, it will require top-line development that can only be achieved through greater scale, some form of vertical integration, greater geographical coverage or increased products and- services offerings.

The biggest wild card for the year ahead is that ongoing concerns about the economic health of Europe could make banks reluctant to lend and could affect confidence in global capital markets and the ability of sovereign governments to prop up their financial systems.

3. EU Merger Control and the Economic Crisis

In assessing mergers between firms, competition authorities examine whether the merger is likely to result in a lessening of competition. The exercise involves considering the possible effects of a merger against an estimate of what might have happened in the absence of the merger - the so-called counterfactual. It is particularly difficult to determine a plausible counterfactual if expectations surrounding the future competitive dynamics of the market are changing on a daily basis. The

potential for one or both of the merging entities to receive state support further complicates the analysis. In such circumstances, the counterfactual scenario could include the likelihood of government support in the absence of a merger. This could lead to the rather circular scenario of a competition authority speculating that the counterfactual to an anti-competitive merger would be a government bailout that would preserve the existing level of competition. Such a scenario could result in the competition authority blocking the merger, while the government itself may judge that a merger would preserve financial stability at a lower overall cost to society.

EU merger control instruments allow for appropriate application in circumstances of economic crisis, whilst ensuring effectiveness of competition policy. [2]

Generally, economic context can be taken into account to a sufficient extent (cases *Microsoft/Yahoo*, *KLM/Martinair*). However, uncertainty and instability in some markets can pose challenges in terms of predictability of future market developments & assessment of counterfactual.

In EU merger control, the failing firm defence has not played an important role.

Here, we must notice the specific case of the banking sector - rescue mergers. Following the onset of the 2008 financial crisis, governments throughout Europe have intervened in the merger approval process in a number of cases to enable banking consolidation in the interest of financial stability. These interventions raise the question of whether competition regulators should be allowed to follow their standard merger approval processes during times of systemic crisis, or whether special procedures are indeed justified.

It is important to recognise the substantial size of the potential costs and risk to the state of measures associated with systemic financial crisis. As an illustration, the governor of the Bank of England, Mervyn King, stated in a speech on 20 October 2009 that: "The sheer scale of support to the banking sector is breathtaking. In the UK, in the form of direct or guaranteed loans and equity investment, it is not far short of a trillion (that is, one thousand billion) pounds, close to two-thirds of the annual output of the entire economy." [3]

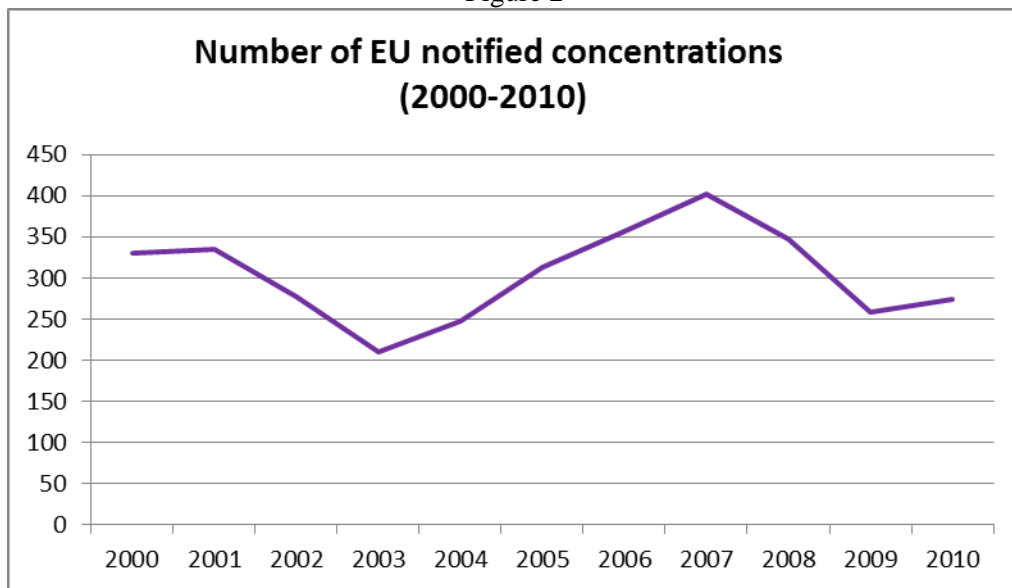
The unusual public cost and widespread scale of the impact of bank failures means that exceptions to standard merger regulation may be required during a financial crisis. In circumstances where it is perceived that a merger may substantially reduce the cost to society of dealing with a banking crisis, the system needs to be flexible enough to allow such an intervention by central government. This can be seen as providing the basis for governments to maintain a financial stability public interest test in the merger framework which may, on occasion, allow anti-competitive mergers to take place.

This need for flexibility in extreme circumstances is reflected in many competition law frameworks. An OECD report on Competition and Financial markets in 2009 noted that the European merger regulation lists prudential rules as a

legitimate interest that can be taken into account meaning that "at least in merger control, stability considerations may override competition concerns". The report noted similar provisions in Canada and Switzerland. In the UK in 2008 a new public interest ground of preserving financial stability was rapidly introduced into UK merger control in response to the proposed merger of Lloyds and HBOS.

The new EU Competition Commissioner Joaquin Almunia noted that mergers and acquisitions play an important role in a competitive and healthy Europe and, for this reason, he said that the Commission should only intervene on the merits of a contemplated transaction where the proposed merger creates competition problems leading to higher prices or less innovation on the market.[4]

Figure 2



Source: author (upon dates available on European Commission, DG Competition)

During the recent financial crisis, we can observe a reduction in the number of cases but not in their complexity.

As we can see in the chart, in 2010, the Commission received a total of 274 notifications of proposed transactions meeting the EU thresholds. In 2009, the volume of EU notifications was roughly the same. The busiest year thus far has been 2007 ("pre-crisis"), when the Commission reviewed more than 400 proposed mergers. EU merger control constitutes, in a way, an economic bellwether. [5]

The year 2010 was marked by consistent and stable merger enforcement by the Commission despite the reduction of notified transactions due to the financial and economic crisis.

For just the 21st time in the 20-year history of EU merger control and the first time in more than three years, the European Commission has prohibited a proposed merger outright. On January 26, 2011, the Commission prohibited, on the basis of the EU Merger Regulation, a proposed merger between Greece's two largest airlines: Aegean Airlines and Olympic Air. The

Commission considered that the merger would have resulted in a quasi-monopoly on the relevant air transport market since, together, the two carriers control more than 90% of the Greek domestic market. [6] This is the first prohibition decision since the *Ryanair/Aer Lingus* case in 2007, which also concerned the air transport market.

Trends that were emerging in the second half of 2010, including increased M&A activity in the middle market, the availability of attractive debt financing, and stronger valuations for corporate assets are likely to extend into 2011. The growing middle class in emerging market economies is expected to play a pivotal role in driving demand for consumer products at a time when food-and-beverage and consumer product manufacturers are seeking growth amid slow economic recoveries in developed countries. We must remember here the PepsiCo's announcement that it would buy a 66% interest in Russia-based dairy products and juice maker Wimm-Bill-Dann Foods for \$3.8 billion put the focus on the consumer sector in emerging markets. Plus, Russia's biggest retailer, X5 Retail Group, agreed to acquire the Kopeyka grocery and discount-store chain for \$1.65 billion. The transaction was the biggest acquisition ever in the Russian retail sector. [7]

Demand for raw materials in emerging markets also is likely to remain strong in 2011, thanks to rapid development in China and India. In the biggest M&A deal globally that was announced in November 2010, Caterpillar, the world's largest construction and mining equipment maker, agreed to acquire Bucyrus International, a Milwaukee, Wisconsin-based manufacturer of surface-mining equipment, for \$8.6 billion. China is continuing to make acquisitions around the world to secure its energy supplies. In November 2010, China National Offshore Oil Corporation (CNOOC) and its joint venture partner, Bidas Energy Holdings, agreed to buy BP's 60% stake in Argentina-based Pan American Energy for \$7.06 billion. Pan American Energy is Argentina's second largest oil producer, and it is stepping up development of the country's biggest oil field, known as Dragon Hill.

4. Conclusion

One interesting fact after our analysis is that in spite of the economic depression, at global level there has been no apparent decline in the average valuation when all geographies are considered as a whole. The decrease in the average valuation of a deal is only a miniscule \$1.3 million. But, at the European level, the analysis indicates valuation losses.

Plus, it was 2008 that had seen a major decline in valuation, of an average of \$42 million per deal, which means that the big impact in the M&A market had already happened in 2008.

We can expect that will be a substantial increase in mergers and acquisitions in 2011, as companies have plenty of cash to spend on strategic acquisitions, particularly in fast-growing emerging markets. Demand for commodities from developed nations, and especially from emerging markets will contribute to the huge increase. Larger companies (both public/private and state-owned) from BRIC nations (Brazil, Russia, India, China), especially Russia, China, and Brazil, will likely be ones that will acquire smaller companies, rather than be acquired.

More, crisis has not affected all sectors (e.g. continuity in energy & pharma vs worsening in air transport sector) and companies equally. It is important to mark the changes in the type of concentrations and underlying rationale (less financial investment-driven / more industrial consolidation; less expansion-driven / more defensive transactions).

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Performance Management of International Reserves National Bank of Romania in Actual Crisis Period

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Abstract

2008 was a year of financial crisis - the world economy has slowed down growth and financial markets have become volatile. Crisis hit in full both private sector and the public.

In this context, National Bank has carried a successful management of international reserves in order to ensure the liquidity necessary to carry out external transactions of the state and the objectives of central bank monetary policy, ensuring adequate foreign compositions, and realizing the availability of gold and currency risk under control. NBR strategy paid off.

Conservative approach in managing foreign reserves and prudence shown, have been translated into a profit amounting to 3,338,305 lei, seven times the 2007 profit. In 2008, to prevent and mitigate the risk of central bank invested in the safest tools on the market, and issuers such as governments turned to other states and government agencies, always watching their rating of their financial statements. Finally, greater importance in achieving this result have had transactions with currencies of NBR to secure liquidity in the market and exchange rate stability.

So, as a result of careful observation and good economic environment anticipation of its development, National Bank acted prudently in the public interest and the results have resulted in yield. In this paper, we try to surprise how the central bank acted to obtain these results, since the institution's role and the means used and ending with the performance achieved in a period with poor expectations .

Key words: Synthesis crisis-performance gold currency reserves return

J.E.L. classification: G20

1. Status and functions NBR

National Bank of Romania (NBR) is the central bank in the financial system in Romania.

Founded in 1880 as a credit institution, National Bank had the exclusive right to issue currency, the leu. Over time, the NBR has enjoyed uninterrupted right, even if its role in national economy, property regime and its institutional dimensions have seen important changes.

If in 1880, only one third of the capital belonged to the state central bank in state ownership in 1929 dropped to 10% of the share capital of the NBR. After the war, the establishment of the communist regime has made important changes in the organization and powers of the NBR. Law in December 1946, from January 1, 1947, passed the state-owned National Bank in 1948 became the Romanian People's Republic Bank, State Bank, subordinated to the Ministry of Finance. Only after 1989, the central bank was reorganized as a modern central bank. During 1991-1998, the National Bank business was regulated by Law no. 34/1991, and from 1998-2004, the Law no. 101/1998. Currently, it is reglementată by Law no. 312 in June 2004 on the Statute of the NBR.

National Bank of Romania is headed by a management board consisting of nine members appointed by Parliament upon the proposal of the standing committees of the two rooms. Appointments are made for a period of 5 years, with possibility of renewal. BNR chief executives exercised by the Governor, Senior Deputy Governor and two Deputy Governors. Both board members and employees of National Bank of Romania are obliged to observe professional secrecy regarding any information not intended for publication, they learned during their duties, including after termination of the bank, any infringement being punished by law .

According to Law no. 312/2004, NBR is the central bank, having legal personality and has the goal of providing and maintaining price stability.

NBR tasks include:

- the development and implementation of monetary policy and exchange rate policy;
- licensing, regulation and prudential supervision of credit institutions, promote and oversee the smooth operation of payment systems for ensuring financial stability;
- issue banknotes and coins as legal tender in Romania;
- exchange arrangements and supervise its observance;
- manage the official reserves of Romania.

Although the NBR supports the general economic policy of the state, its primary objective remains to ensure and maintain price stability.

In its monetary policy, the National Bank of Romania using specific tools and procedures for money market operations and lending to credit institutions and the minimum reserve.

NBR may perform reversible secondary market transactions, purchases / sales or take as security for loans collateralised by claims on the state or its securities, credit institutions or other legal entities may conduct foreign exchange swaps, issue certificates deposits and deposits from credit institutions, under such conditions as it deems appropriate to achieve monetary policy objectives. In lending operations, according to NBR status, it may grant loans in terms of repayment, collateral and interest. Deadlines that may be granted may not exceed 90 days. Lending by the central bank overdraft is prohibited.

In foreign policy, National Bank develop and apply the exchange rate policy and supervises the implementation of the exchange rate regime in Romania.

In managing the exchange rate regime, the central bank responsible for:

- regulate operations with foreign assets and gold, to protect the national currency;
- balance of payments;

- setting exchange rates for their foreign exchange transactions, and average exchange rates for calculating statistical authorization and revocation;
- authorization of legal entities which are authorized to conduct foreign exchange transactions;
- setting ceilings on foreign asset holdings and transactions in gold and foreign assets for individuals and legal entities;
- set the ceiling and external borrowing requirements of businesses and individuals falling exchange arrangements; maintain and manage international reserves.

2. International reserve management

Assets included in international reserves are managed by the central bank that any balance of payments imbalances are mitigated, and the state to maintain its credibility. This function of international reserves is supported by the principle that the currency composition of international reserves should reflect the structure of external debt, while allowing protection against currency risk.

Monetary gold, the bank guarantee issue banknotes in gold convertibility in the past, is the oldest active reserve currency. Over time, coins frequently used international economic transactions (such as the German mark, pound sterling, U.S. dollar, SDR and later the euro) have been incorporated into the structure of state reserves.

So, today, Romania's international reserves managed by National Bank include:

- gold holdings stored in foreign country;
- external assets in the form of banknotes or in accounts with banks abroad;
- other reserve assets internationally recognized, including the right to make purchases from the IMF reserve tranche and holdings of SDRs (special drawing rights);
- bills, checks, promissory notes, bonds or other securities negociabile or bills issued or guaranteed by non-resident legal persons and payable denominated in foreign currency;

- Treasury bills, bonds and other bonds issued or guaranteed by foreign governments or intergovernmental financial institutions denominated and payable in foreign currency.

Over time, foreign reserves have met several functions:

a) were used to cover the movement of banknotes into gold during the gold standard;

b) increase the credibility and the country's external creditworthiness - thus ensuring a good rating by international credit market and favorable credit conditions could get if the country wanted to contract foreign loans;

c) sources of balancing the balance of payments current deficit when foreign money is not covered from other sources (such as foreign investment inflows and loans from abroad);

d) absence of other sources, part of the reserve can be used to pay debt service, including past due installments of loans and interest on public external debt with remaining maturities of future payment;

e) is a condition for transition to current account convertibility of the currency (domestic) and - especially - to achieve full currency convertibility;

f) a means by which central bank intervenes in the currency market (the sale-purchase of foreign currency), to maintain currency exchange rate of national economic policy objectives within the state;

g) strategic monetary reserves to cope with exceptional situations and monetary claims (trade embargo, a state of force majeure, etc.).

h) obtain income from foreign exploitation of these stocks through their investments in bank deposits or negotiable securities and safe.

Regulations governing the administration of international reserves are contained in the Statute Law nr.312/2004 National Bank, Art. 30 and Art. 31. According to these articles, to

maintain liquidity and sound management of banking risks, the National Bank of Romania shall establish and maintain an optimal level of international reserves.

To manage international reserves, National Bank may purchase, sell or conduct other transactions: bullion and gold coins and other precious metals; currencies; treasury bills, bonds or other securities issued or guaranteed by foreign governments; securities issued by foreign central banks.

Also, the central bank is authorized to open and maintain accounts with central banks and monetary authorities, banking or other international financial institutions but also to open and hold accounts and transactions of correspondent financial institutions, central banks and authorities monetary, banking and financial institutions, intergovernmental financial institutions abroad, and foreign governments and their agencies.

3. Performance management of international reserves

National Bank of Romania shall ensure that the policies they undertake to ensure and maintain price stability. Unlike commercial banks, central bank does not seek fulfillment of performance for commercial reasons, such as profit maximization, but only seeks to limit its operating expenses.

However, in 2008, the central bank failed to record a gross profit of 3.34 billion lei, seven times higher than the yield in 2007. It has been used to cover losses from previous years. In addition, with the yield in the first three months of 2009, losses from previous years were fully covered, and in April to resume tax profit NBR with a 80% share. The question arises: How did the National Bank performance in the economic crisis? NBR analysis of financial statements we may provide the answer.

Table 1 Result financial year 2008 (thousands)

Activity	Revenue	Expenditure	Financial Result
Monetary Policy	110.023	1.220.129	-1.110.106
Management of international reserves	6.572.736	1.073.887	+5.498.849
Currency issuance and settlement of payments	144.392	158.407	-14.015
Other operations including operating costs	35.792	331.718	-295.926
Subtotal - operating activities	6.862.943	2.784.141	+4.078.802
Revaluation of assets and liabilities	-	740.497	-740.497
Total	6.862.943	3.524.638	3.338.305

Source: NBR Annual Report for 2008

Profits made by the central bank to obtain a result operating profit of 4,078,802 lei, three times higher than that obtained in 2007 as higher revenue and expenditure by 68% to 3% (Table 1). Profit increase in 2008 contributed 19% reduction from 2007 expenditures unfavorable revaluation differences on foreign currency net assets. Reasons offered by the NBR Annual Report 2008 were profitable growth of international

reserves management operations and reducing losses from monetary policy operations (Table 2). Also NBR's annual report, profit growth of international reserves management operations has been determined, in turn, increases the average volume of foreign reserves and increasing efficiency resulting from administration of international reserves in terms of their performance management.

Table 2 Operational Financial Result financial years 2007 and 2008

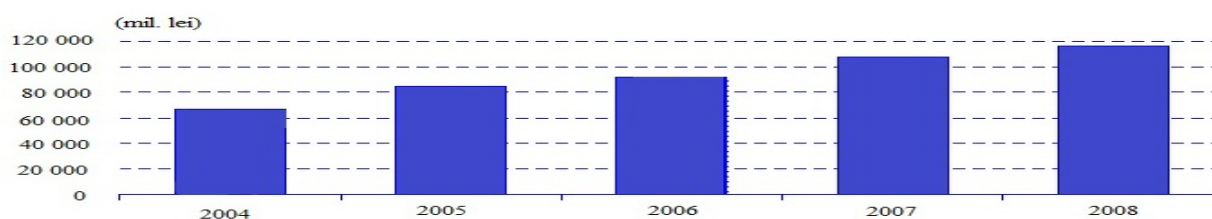
Activity	Result operational activity (Thousands)		Percent Change (%)
	2007	2008	
Monetary policy	-1.273.412	-110.106	-13
Management of international reserves	+2.899.633	+5.498.849	+90
Currency issuance and settlement of payments	-8.342	-14.015	+68
Other operations including operating costs	-242.134	-295.926	+22
Total operating result	+1.375.745	+4.078.802	+196

Source: NBR Annual Report for 2008

Over time, changes in foreign assets of central bank followed a trend ascentent (Fig. 1), reaching the end of 2008 amounted to 116,394,294 lei, by 14.8% higher than in 2007. This increase was driven by increasing international reserves, but currency depreciation against the euro. In 2008 economic crisis turned into financial crisis, leading to annual growth slowdown of the economy. Thus, according to data

published by the IMF, developed countries (USA, Canada, the euro area, Japan, UK, etc..) Recorded in 2008 an average growth of 1% to 2.7% in 2007. Meanwhile, average growth emerging economies and developing countries (such as those in Central and Eastern Europe, China, India, Brazil, Mexico etc..) Was 6.3% in 2008, down 2 percentage points in 2007.

Figure 1 The evolution of foreign assets of the NBR
- end of year values adjusted to inflation - 31.12.2008



Source: NBR Annual Report for 2008

In setting its objectives, according to the NBR Annual Report, National Bank took into account both the global economic slowdown and the decline in interest rates in international markets (the U.S. Federal Reserve lowered interest from 4.25% to 0,25%, European Central Bank from 4% to 2.5%, Bank of Britain to 5.5% to 2%), but also dampened the U.S. dollar depreciation. Thus, for the period April 2008 - March 2009, the Management Board of central bank established two main objectives:

- maintaining a share of 55-85% of total foreign exchange reserves to euros, 10-40% of all U.S. dollar foreign reserves for up to 10% for other currencies;
- portfolio of bonds separation in two tranches:

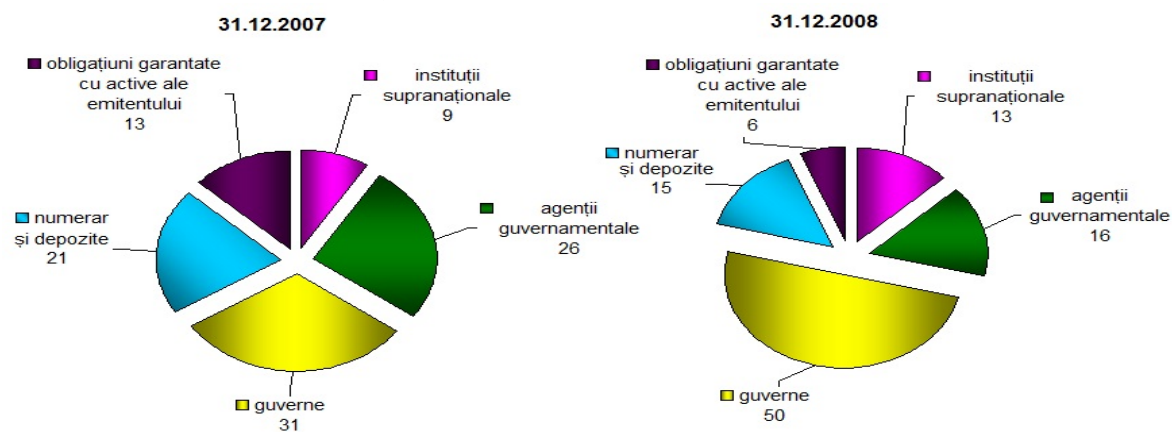
- A medium term investment tranche (approximately 3.2 years) amounting to 3.1 billion equivalent;

- Liquid portion (with a duration of 0.8 years) amounting to 21.3 billion equivalent;

- NBR can take exposures: U.S. government and government agencies or U.S. government sponsored; EU member governments and government agencies or sponsored by European Union member governments; Other governments receiving AAA; Supranational institutions; Private entities issuing bonds guaranteed assets;

• exposure limit private Setting entities issuing asset-backed bonds to 10% of international reserves (over 15% in 2007).

Figure 2 Currency reserve structure (%)

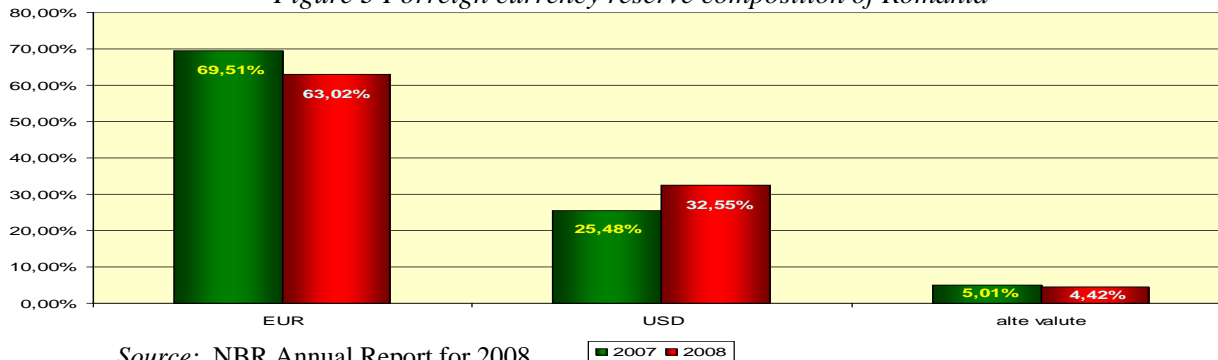


Source: NBR Annual Report for 2008

Management Committee of international reserves (quarries) in the central bank constantly reviewed developments in financial markets and their impact on targets. Lower interest rates has increased the price of government bonds. These are the main

component of the NBR's international reserves, hence the development of bond portfolios than expected. Therefore, the central bank chose a conservative position and prudent management of foreign exchange reserve.

Figure 3 Foreign currency reserve composition of Romania

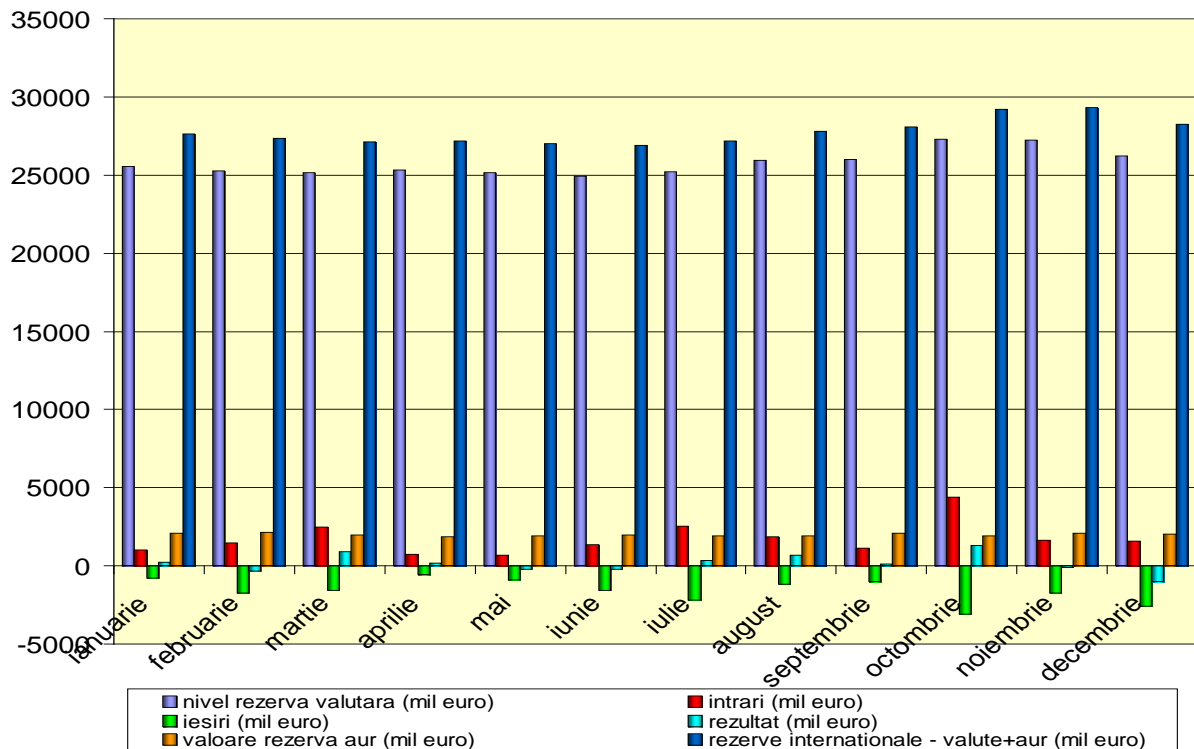


Source: NBR Annual Report for 2008

International Context - resounding failures (such as that of Lehman Brothers), Merrill Lynch acquisition by Bank of America - created panic in financial markets and investors were facing financial securities had a lower risk (such as government bonds short term) to the detriment of assets perceived as having high risk (such as corporate bonds). International reserve management committee decided to reduce exposure to asset-backed bonds through reinvestment amounts falling due only oligatiuni government. Thus, the end of 2008, the share of government bonds in total foreign exchange reserves amounted to 50% versus 31% in 2007 (Fig. 2).

NBR has issued bonds in the portfolio and Freddie Mac and Fannie Mae (two institutions supported by the U.S. federal government and faced with significant problems of solvency in 2008) but have matured and were not renewed. Also changed and the currency composition of foreign reserves of Romania (Fig. 3.). Thus, share the euro fell to 69.51% in 2007 to 63.02% in 2008 while the share of U.S. dollar increased by approximately 7 percentage points to value of 32.55%. The share of other currencies has fallen from 5.01% in 2007 to 4.42% in 2008.

Figure 4 The evolution of international reserves in the period January 2008 - December 2008



Source: Processed on the basis of press NBR presented at www.bnro.ro/Comunicate-de-presa-1004.aspx

National Bank of press releases, we can see that in late 2008 took place an increase in foreign reserves managed by the central bank. Thus, they peaked in October 2008 when they reached 27,318 million euros (Fig. 4). Also, the monthly releases of the NBR are presented and the main inputs and outputs affecting international reserves. Thus, the outputs were represented by changes in

reserve currency created by commercial banks, income from international reserve management, supply accounts to the European Commission. Also, in June of 2008, some entries were the equivalent of Eurobonds issue of MEF. In addition, in the last three months of 2008 were recorded and entries representing transactions in the interbank market. Exits are the payments and

interest rates due to direct external debt guaranteed by the Ministry of Economy and Finance, European Commission payments and changes in foreign currency reserve up by commercial banks. During October to December 2008 were also recorded output as a result of transactions in the interbank market.

Thus, the result of international reserve management was influenced primarily by increased market value of bond portfolios and increase international reserves. They have increased revenue to the record level of 1.45 billion euros, with 330 million euros more than in 2007. However, National Bank Governor said that BNR was the source of profit international reserve management, but the sale price of approximately EUR 4 lei, while the euro central bank acquired in 2005-2008 at a rate of approximately 3 lei. The aim of NBR in the foreign exchange market was monitoring liquidity, although dealers have made speeches on behalf of banks NBR intention to maintain the exchange rate.

4. Conclusions

Acting in public interest, National Bank made a profit in 2008 due to expectations of good economic development, the prudent and efficient management of international reserve management, but also as a result of currency market intervention required to ensure market liquidity and stabilize the exchange rate.

However, the central bank profitability should not be judged in the same way that a commercial bank - National Bank objective remains to ensure and maintain price stability, while commercial banks seek to maximize profit.

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Ethnicity Discrimination in Romania`s Labour Market

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Abstract

By discrimination one understands any distinction, exclusion, restriction, preference, different treatment that puts a person or a group to disadvantage when compared to other persons /groups in similar situations. Discrimination is a general feature of social life and it is rooted into preconception. By preconception one understands rejecting the "other" as member of a group which is invested with negative feelings.

In this article, we analysed the main ethnic groups from Romania (Romanian, Hungarian and Rroma) based on the data provided by the population census (2002), by the Discrimination among employers Survey (2010) and by the European Union Minorities and Discrimination Survey (2009). Rroma population shows the highest level of vulnerability on the labor market in Romania, because they are discriminated both by the employers and by the dominant population as a consequence of the way they are perceived.

Key words: labour market, wage, region, discrimination, ethnicity

J.E.L. classification: J01, J15, J16

1. The study of specialty literature

Modern economic theory of discrimination started with Becker [1] and was later developed by Arrow [2]. They consider that people have certain attitudes towards their co-workers, towards people they supervise and also towards people they buy things from. Consequently they demand some sort of compensation for working with the members of the discriminated group.

Narol [3] defines an ethnic group as a unity that carries culture, namely a social group whose members share a life style

which is going to pass on to the next generation. Barth [4] considered that each ethnic group has its very own culture. In this context we define culture a sum of behaviours, values, specific attitudes that are passed onto the next generations. An ethnic group identifies its own culture as different from the ones of other groups. The markers of a cultural group are: language, religion, origins, etc, and in the case of many populations, as for instance the Rroma, the life style. Marushiakova, Popov [5].

In any society people are categorized starting with the traits (be those stereotypical or not) that are believed to be common to all members of the ethnic group. These traits are usually established on the stereotypes about ethnic groups, Goffman [6] The traits can be mainly positive (see the example of German ethnics of Romanian citizenship who are known to be serious, honest, and rigorous) or mainly negative (the Rroma population: each individual will be seen as a thief, as a dirty person, unreliable, etc. Starting from such discriminations certain social groups like the Rroma population is more discriminated against than other populations [7].

McCall [8] suggested that discriminating against minority groups leads to an increase in the costs brought about by the constant search for jobs. Sloan [9] considered that the probability for a worker to be rejected increases with the duration of looking for employment, and the opportunity cost is lower for the minority group than for the majority one, since the potential earnings of the first group are smaller. The circumstances in the labour market can influence the activity ratio of the workers while the discrimination can lead to unemployment and to the appearance of discouraged work force.

The analysis of the costs related to the discrimination process was done by Amsden and Moser [10] who studied the discrimination based on gender and race. The two authors maintain that legislation against

discrimination will lead to a cost increase in order to find the discriminated groups and then to another type of increase on the part of the employer if the law forces him to interview candidates from the minority groups, candidates whom he will not want to hire anyway.

Carneiro, Heckman, Masterv [11] study ethnicity discrimination in the labour market and explain that this type of discrimination exists because of the difference that exists among ethnicities regarding the specific skills that each ethnicity has. The level of skills is related to the level of education. The above mentioned researchers have shown that in most cases there is a connection between the educational level that the parents have and the one that their children are going to receive.

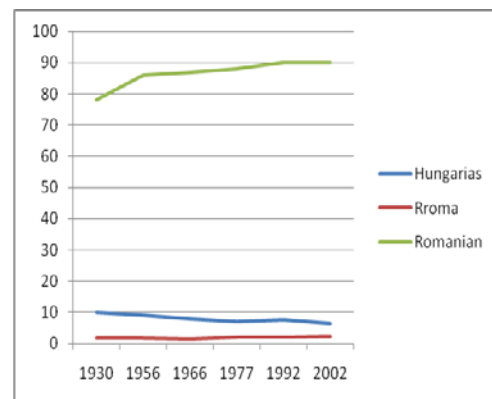
Bertrand and Mullainathan [12] conducted a field research by sending fake CV-s with names that had several ethnic connotations. They concluded that the applicants with names that suggested minorities were less contacted than the other ones.

Bursell [13] analyses ethnicity discrimination in the Swedish labour market. He conducted some field research (testing by means of mail), which look at the level of discrimination on the part of the employer. In order to establish the degree of discrimination on the part of the employer several CV-s were sent, some of them had a Swedish names and some had foreign names. The results indicated that there is discrimination in all the professional fields where CV-s were sent and that the extent of ethnicity discrimination is related to specific fields.

2. Romania's population according to ethnicity (Romanian, Hungarian and Rroma)

The data provided by the latest census indicate that the main ethnic groups in Romania (as a percentage of population structure) are: Romanians, Hungarians and Rroma (Figure 1). Over the 1930-2002 period of time, the population of Hungarian origin decreased from 10% in 1930 to 6.6% in 2002, whereas the Rroma population recorded an upward trend since 1966 from 1.7% to 2.5%.

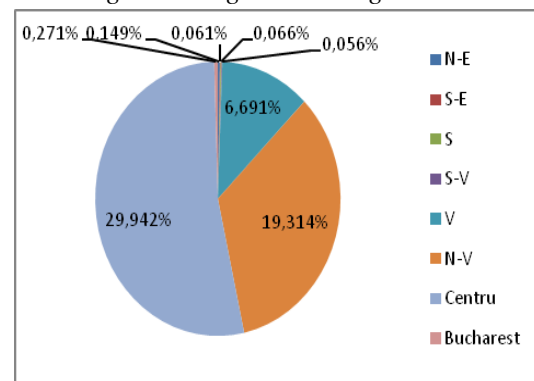
Figure 1: Ethnic structure of Romania's population, according to census data from 1930 to 2002



Source: www.insse.ro

At regional level, there is an uneven distribution of the population of Hungarian origin and they are found mainly in the Central Region (29.9%) and in the Northwest Region 19.31% (Figure 2) as they are more attached to the place and community in which they were brought up/raised.

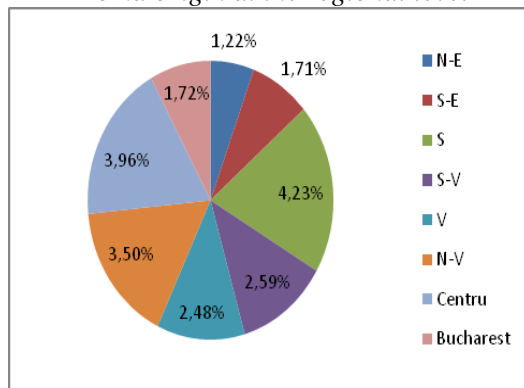
Figure 2: Distribution of the population of Hungarian origin at the regional level



Source: www.insse.ro, Population Census, 2002

In contrast, Rroma are better distributed in the whole country, because they can move easily from one region to another, are more flexible, and the majority of them are found in South and Central Region (Figure 3).

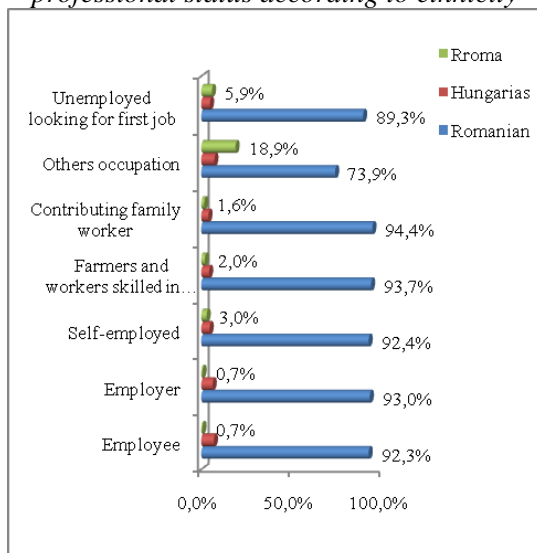
Figure 3: Distribution of the population of Roma origin at the regional level



Source: www.insse.ro, Population Census, 2002

If we analyse the economically active population by professional status based on the three ethnic groups, we notice that there is a large discrepancy among the Romanian and Hungarian workers, respectively, Roma. Hungarians occupy mainly the position of employees, while Roma are comprised in the category entitled other situations in a rather high percentage (18.9%), than those shown above (Figure 4).

Figure 4: Economically active population by professional status according to ethnicity

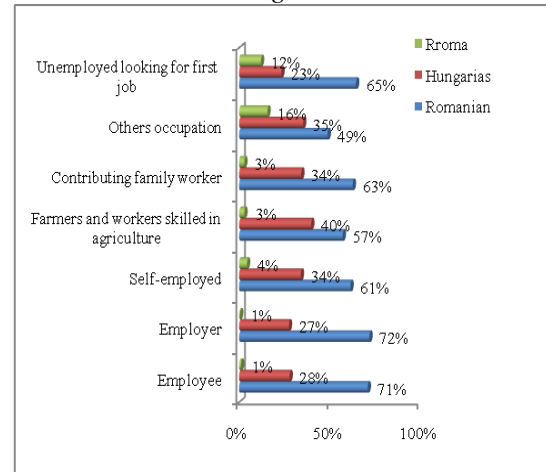


Source: www.insse.ro, Population Census, 2002

At the Central Region level, where resides the majority of the Hungarians, the discrepancies are not so high anymore, therefore: 28% of Hungarians are employees, 40% work in agriculture, 34% work in their own household and 35% have others occupation (segment of which records the lowest gap between Romanians and

Hungarians concerning the economically active population, Figure 5).

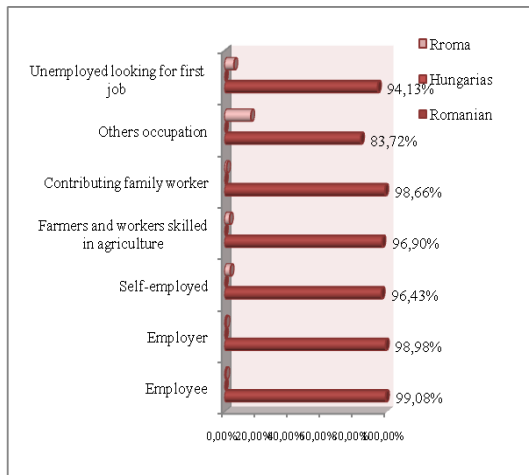
Figure 5: Economically active population at Central Region level by professional status according to ethnic



Source: www.insse.ro, Population Census, 2002

In the South Region, the gap between Roma and Romanians is maintained as recorded at the level of the whole country, because no huge differences are recorded among regions regarding the distribution of the Roma population, compared to the Hungarian population which record 30% in the Central Region. Another explanation of this discrepancy is related to the fact that many Roma do not declare their nationality, in order not to be discriminated against on the labour market. This situation is not common in the case of Hungarian, because these are better perceived by the majority of the population. According to a study made by the RCED (Resource Centre for the Ethno-cultural Diversity, 2003), Hungarians are seen by the Romanian as being: diligent, united and civilized (Figure 6).

Figure 6: Economically active population at South Region level by professional status according to ethnicity



Source: www.insse.ro, Population Census, 2002

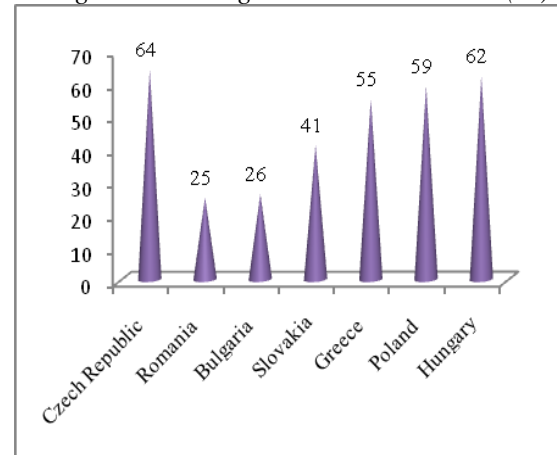
3. Ethnicity discrimination in Romania's labour market

According to the Euro barometer of the European Union (2009), 16% of respondents considered that ethnic discrimination was the most widespread and 46% fairly widespread. However, there are many differences at the E.U. level, thus, in Netherlands, France, Hungary and Sweden it is believed that this type of discrimination is very widespread (their percentage ranges between 78% and 80%), while in Lithuania, Poland and Latvia only 4 of 10 respondents share this opinion. In Estonia, Bulgaria and Romania this form of discrimination is fairly widespread (41%, 40% and 46%).

The survey conducted by the European Union concerning minorities and discrimination (EU-MIDIS, 2009), showed that, on average, one of two Roma asked had been discriminated because of his ethnicity in the last 12 months. EU-MIDIS had examined the following cases of discrimination: when looking for work, at work, when looking for a house or an apartment to rent or buy, by healthcare personnel, by social service personnel, by school personnel, at a café, restaurant or bar, when entering or in a shop and when trying to open a bank account or get a loan. Based on the nine cases mentioned above the average rate of discrimination was determined for the last 12 months in:

Bulgaria, Czech Republic, Greece, Hungary, Poland, Romania and Slovakia (Figure 7).

Figure 7: Average discrimination rate (%)

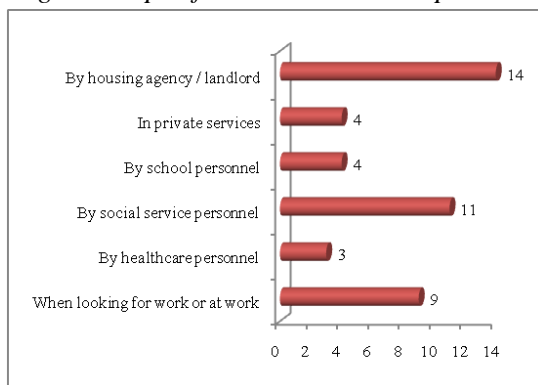


Source: EU-MIDIS

In the Czech Republic was recorded the highest rate of discrimination (64%), but we must start with the presumption that very few discriminated people report their situation to the authorities. According to the same study 79% of the Roma questioned in the seven countries did not report their experiences of discrimination. The reasons behind such a behaviour are related to: distrust that something can be changed (78%), lack of knowledge of the law and of the procedures in case of discrimination (52%), the banality of it (it happens all the time, 44%) and a too much bureaucracy (23%).

In Romania, discrimination against Roma is manifested mainly by the housing agency (14% which means: at a café, restaurant or bar, when entering in a shop and when trying to open a bank account or get a loan), by social service personnel (11%) and when looking for work or at work (9%) (Figure 8).

Figure 8: Specific discrimination experience



Source: EU-MIDIS

Discrimination in the private services for Roma people occupied an important place in all other countries surveyed (Czech Republic-42%, Greece-30%, Hungary-41%, Poland-48%, Slovakia-24%) with the exception of Bulgaria, where working place or looking for a job presents the highest level of discrimination.

According to EU-MIDIS study it was observed a spatial segregation among Roma in the following countries: Bulgaria (72%), Romania (66%), Slovakia (65%) and Greece (63%), which means that they live mainly in areas populated only by Roma. This fact indicates us that they experience high levels of discrimination from the dominant population.

4. Conclusions:

Romania's population consists mainly of three ethnic groups: Romanians, Roma and Hungarians. The latter are largely located in the Central Region and they are perceived by the dominant population in a very good manner (hardworking, civilized, united, etc.). Not the same perception occurs for the Roma population, which is distributed throughout the country, being dominant in the South Region (lazy, lax, etc.).

Discrimination based on ethnicity is widespread, both at the E.U. and at Romania level, especially against Roma population. According to the study made at the European Union level (*European Union Minorities and Discrimination Survey*, 2009), the countries populated mainly by Roma (Greece, Bulgaria, Hungary, Czech Republic, Romania, Poland and Slovakia) have an average discrimination rate of 47%, Romania

recorded a level of 25%. This level of discrimination must be examined in accordance with the number of the persons who declare that they are discriminated, as on average 79% of respondents said they do not report the cases of discrimination they face because they believe they cannot change anything and that the authorities will do nothing in this respect. The Roma population in Romania is mainly discriminated by the housing agency, by social service personnel and when looking for work or at work.

Currently, there are a number of projects which aim at insertion of the Roma population in the Romania's labour market and at reducing discrimination but this remains primarily a problem of perception of the majority population (as we emphasized above, the Roma are perceived in a negative way). There is on the Romania's labour market a spatial segregation of Roma, as they usually live on the outskirts of town, only in Roma communities.

5. Acknowledgment

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The Knowledge Based Organisation – A Major Challenge of the 21st Century

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Abstract

The present context, in the opinion of most specialists, is characterised by “the knowledge based economy, organisation and management”. The novelty of these concepts resides in the transition of the issue of organisation capitals from the tangible to the intangible ones, as the performance of a company is nowadays reflected by the proportion of intangible assets in the total of assets. Adapting to the requirements of the new economy requires an organisation which is knowledge-based, sustainable, simpler and with a lower number of hierarchical levels, a flexible and intelligent one. The transition to the knowledge based organisation generates extensive changes in all the areas of the company, especially in its functions and mission. These aspects need a conceptual and pragmatic solution, supported by scientific research.

Key words: knowledge capital, knowledge based organisation, knowledge function, scientific research.

J.E.L. classification: M10, M21, D83

1. Introduction

Peter Drucker stated, in the past decade that “the one thing we can be sure of is that the world that will emerge from the present rearrangement of values, beliefs, social and economic structures, of political concepts and systems, indeed, of world views, will be different from anything anyone today imagines; in some areas, and especially in society and its structures, basic shifts have happened. That the new society will be both a non-socialist and a post-capitalist society is

practically certain. And it is certain also that its primary resource will be knowledge” [1]. We would like to focus in the following part on certain elements of novelty, from the point of view of management science and company economy, elements which point towards the new type of knowledge based organisation. The specialists in economy and management hold the belief that mankind is evolving rapidly towards a new type of economy, of company and management, and according to the opinion of the renown management specialist, Ovidiu Nicolescu, and others, this new type should be called *the knowledge based economy, organisation and management*, an approach that we are also in full support of. “The fundamental characteristic of the new concept resides in assimilating the top progresses of science and techniques and transforming them into a competitive advantage”. [2]

2. Concept and characteristics of the knowledge based organisation

According to the new theory, the organisation is defined as a market structure whose resource is knowledge and main activities focus on creating, purchasing, protecting, learning, sharing, integrating and capitalizing upon knowledge in order to obtain economic and social performance [3].

In the opinion of the specialist P. Drucker [4], the knowledge-based organisation represents the organisational model of the 21st century, and its main components can be foreseen as follows: composed mainly of specialists, a low number of intermediate hierarchical levels and coordination is insured by non-authoritative means (standards, norms, cooperation rules etc.) The knowledge based company presents

characteristics which are different from the common company of our times. The most relevant are [5]:

- changing the ratio of the assets used, with a view to increasing the intangible assets;
- outsourcing the activities non-essential for the company or those very specialized, and insourcing the complementary, highly specialized ones, influenced by the knowledge of the company, which can ensure its competitive advantage;
- adopting, as a general strategic attitude the knowledge based strategies;
- adopting the internal organisation model analogous to the human cognitive model, which is a model reconfigurable due to accumulated knowledge;
- directing knowledge through training more to the top than to the lower levels, which would leave the lower level managers prepare by themselves;
- raising the measures aimed at increasing cohesion within teams;
- integrating the knowledge managers in the company;
- remodelling the entire managerial behaviour in order to create the organisational and motivational framework necessary for capitalising on knowledge;
- restructuring the system for motivating the employees, in terms of performance rewards, using global, group and individual incentives and promoting exclusively on basis of performance;
- simplifying the hierarchical levels;
- transforming the company in one that teaches change and promotes learning how to learn, continuous learning in obtaining and using knowledge.

We will assist to an increasingly complex variety of organisations, aimed at offering adapting solutions to the requirements of the knowledge based economy, a variety that must be adapted to the specific needs of people, knowledge and opportunities. Therefore, one must not search for an ideal company, but a combination of advantages offered by the intelligent company, the

flexible company, the circular company, the reconfigurable company, the multi-cellular organisation, the virtual organisation, the organisation as a living organism, the satellite organisation, the front-back organisation, ambidextrous or sense-send-respond, etc. Following these elements, the knowledge based organisation will become simpler, having a lower number of hierarchical levels, and the acquired flexibility and intelligence become determining advantages in ensuring its functionality and sustainability.

3. The knowledge capital – the strategic resource of the knowledge based organisation

While the industrial revolution in the previous centuries relied on steam power and financial capital, and the role of knowledge was limited, in a modern market economy characterised by intense globalisation process, intellectual resources and knowledge capital are determining requirements for wealth and power in the 21st century. Knowledge is defined by specialists as cumulative stocks of information and abilities generated by the receiver's usage of information [6]. A particular issue that sets apart knowledge from information is the difference in perception, reception and usage. Only knowledge has the ability to generate added value. Without diminishing the importance of the other resources – technical, material, human, financial informational, financial, in the context of the knowledge-based economy, the knowledge resources have a significant impact in the functionality and performance of the company. Knowledge is the defining element of the company of the future. It is, at the same time, raw material, essential production factor, but also basic finite product of the company. Knowledge capital becomes the most important component in the general economy of the organisation's assets. Due to the fact that the specialised literature often refers to the concepts of intellectual capital and knowledge capital, we would like to present the correct manner of approaching the two. The relationship between the two concepts is one of ratio between total and part, because the intellectual capital includes the knowledge capital and the people who own

it, the economic equipment and networks that take part in the product and service creation processes [5].

An issue of great complexity, which has not received a proper enough solution in order to be implemented and monitored in practice, is the assessment of the intellectual capital. Scientific research must provide realistic methods for calculating the value brought by intellectual capital in the knowledge based organisations.

4. The impact of knowledge on the functions of the organisation

Acclaimed management specialists who analysed the role of knowledge in the organisation of the future, on the one side, and the complexity of the activities generated by the general issue of knowledge in the life of companies, on the other side, have identified the following changes in the functions of the company [6]:

a) changes that affect all the traditional functions of the company, determined by :

- the intellectualisation of work processes at the level of each function;
- the transformation of knowledge in "raw materials" essential for all the activities of the organisation;
- the increase of the creative dimension of work processes within each function and activity;
- the outsourcing of some activities and insourcing of others, on a basis of competitive advantage, which alters the content of the functions where these transfers are operated;
- the transition of the emphasis from work processes to the knowledge involved and their owners;
- informationisation, following the bringing to the foreground of knowledge;

b) the ascent of certain traditional functions and activities following the sharing of new and different knowledge, with an impact in :

- the Research and Development function which becomes primordial, especially in the activity of technical design, through inventions and innovations.

- the commercial function and especially its marketing component register a slight increase in importance, in the context of client orientation, of market globalisation and organisation internationalisation;
- the personnel function, which means the fact that the company cannot fulfil its mission in terms of labour force in its traditional sense, but needs the person from a global point of view (mind, commitment, attachment etc.); the new concept of employee motivation and continuous learning raise considerably the importance of these functions and bring about the separation of a new function – the training function;

c) the necessity of determining new functions for the coordination, protection and integration of knowledge, in short the knowledge function, which would comprise the following activities:

- the commercial function and especially its marketing component register a slight increase in importance, in the context of client orientation, of market globalisation and organisation internationalisation;
- identifying the necessary knowledge;
- purchasing knowledge;
- learning and assimilating knowledge;
- creating knowledge;
- stocking knowledge;
- sharing, using and protecting knowledge;
- capitalizing on knowledge.

We believe that it is necessary to study and define the transformations that must take place in the current functions, taking into consideration the role and importance of knowledge in the organisation. The vital importance of knowledge in the contemporary world requires a new function of the organisation, one that ensures the unity in thinking and action, which is "the function of establishing the necessary knowledge, the areas of available knowledge and the way of ensuring, consolidating and capitalizing on the acquired knowledge". This function will need to have established the component activities, methodology and instrument for achieving and evaluating results. [7] The knowledge based activities take place in the

organisation under two directions, generating functionality and sustainability [3]:

- independently, without overlapping with the daily activity of the company, for example the learning processes within certain training or knowledge creation programs in the creation and design departments;
- integrated in the development of other activities in the company - production etc.

Therefore, it is necessary to add to all the traditional functions a component derived from the knowledge based economy, organisation, management; this is the activity to decide the necessities regarding knowledge in order to accomplish the function, to decide on the areas of available knowledge and of the manner of ensuring, consolidating and using the acquired knowledge. It is necessary to restructure the mission of the organisation, for which knowledge has a double role: new knowledge, derived from the requirements of the knowledge based economy and organisation, as well as from the role of the mission to acquire and use knowledge as a competitive advantage. Acquiring top knowledge in order to transform it into competitive advantage can be done only from two sources: one is the latest in scientific research, which must be identified through documenting and purchasing by means of commercial contracts; the second is personal creation (inventions, innovations), as creation is a dominant component in the activity of the organisation of the future [7] These are requirements that grant a new structure and dimension to the mission of the organisation.

5. Conclusions

In the general opinion of specialists, opinion which we also fully support, we do not need to prepare for the organisation of the future, we are already in it and we must adapt quickly or we run the danger of missing the chances and opportunities. It is a chain reaction and if we disregard it we assume high risks and losses, which cannot be evaluated, anticipated or imagined at this time. The organisation of the 21st century will be a chameleon and, like this animal, will survive through capitalizing on the advantages of change.

We believe we managed to point out certain issues generated by the mutations of the knowledge based organisation, which are still unresolved at a conceptual level, and even less on a pragmatic level, and for which scientific research must find proper solutions.

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Tax Evasion and Underground Economy: Challenges of the Contemporary World

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Abstract

This paper aims to present the dimensions, causes and consequences of negative phenomena such as tax evasion and underground economy. The present economic context, generated by the financial-economic world crisis aggravates these phenomena, which have a bad influence on the degree of taxation, amplifying the effects of the crisis.

Key words: globalisation, tax evasion, taxation, underground economy.

J.E.L. classification: H26;E62

1. Introduction

It is well-known that human nature always has the tendency to place the personal interest before the general one, just like the tax payers try from the earliest times to reduce the fiscal obligations. For this aim, they resort to the most varied and ingenious methods. In the 21st century, which could be generically called “the century of globalisation”, the effects of the interactions among national economies are of great diversity and complexity. Internationalisation and globalisation are phenomena which have amplified the correlation, interaction and interdependence among national economies, creating business opportunities.

It is unmistakable the fact that globalization is a process that has raised and continues to raise a great interest. The opinions of the specialists in the field are divided: some see globalization as a myth, a completed process; others consider it is only in an incipient phase, one that gives birth to a new state of globality the traits of which are far from being fully comprehended. It has

become obvious that globalization represents the inexorable faith mankind is heading towards, as we all are affected to a greater or lesser extent by its irreversible unfolding. [5]

However, unfortunately, these effects, generated by globalisation, are not always positive. We are witnesses to one of these effects: the economic-financial world crisis. In the context of globalisation, the structures in the global economic environment have become more complex, facilitating the formation of financial bubbles and the faster spread of crises at a global level.

The transmission of the unfavourable effects of the crisis from a country the size of USA to other countries, larger or smaller, is based on the increasing independences of the national economies within the framework of the globalisation of markets, including the financial ones.[12]

The economic-financial crisis has spread with a great speed at a global level, and its pace and amplitude show how interconnected it is to the world we live in. The main fiscal effect of globalisation resides in the fact that the control of the tax evasion phenomenon, a disturbing but thriving phenomenon of the contemporary world, which is becoming more and more difficult to achieve.

2. Concept, forms, causes and consequences of the tax evasion phenomenon

Tax evasion is one of the economic-social events of the greatest importance with which all the states are confronted, to a greater or lesser extent. Tax evasion is the main cause for the decrease of fiscal revenues. It is a negative economic phenomenon, present in all the world economies, at different, but high, levels, determined by a range of factors,

which include the psychological ones.[1] Unfortunately, the only thing that can be effectively done in this area is to limit the consequences of the phenomenon. Eliminating tax evasion is an impossible objective. The specialised studies [9], define tax evasion as the licit or illicit procedures with the help of which those interested avoid submitting their taxable matter to the obligations imposed by the fiscal laws.

According to the criterion of legitimacy, tax evasion can be legal, licit, and illegal or illicit.

Legal tax evasion means that the tax payers find certain means and dodge paying taxes, completely or in part, due to some shortfalls of the law. Therefore, this form of tax evasion is only possible when the law either has gaps or presents inadvertences. The tax evader, therefore, uses legal means under the form of gates left open by the lawmaker himself. This fiscal reality can be regarded as an exception from the principle of tax neutrality. In an analysis of the principle of tax equity, C.I.Tulai [11] believes that this principle refers to equality in terms of taxes. V. Bârle [3] shows that equity is a principle of ethics and that it will always have a certain degree of subjectivity, depending on the way in which it is interpreted by the ones targeted – it can be economic, social or fiscal. The actors of this process are the state and the taxpayers.

Illicit tax evasion refers to the action of the taxpayer who breaches the legal prescriptions with the aim of not paying the due taxes. Tax evasion is illegal when the tax payer who is obliged to supply in support of his or her declaration certain justifications, establishes them in a random way with the aim to mislead the authorities or when the revenues undeclared are by their nature materially justified but their insufficiency is to such a degree that the will of the evader becomes obvious.[8]

Illicit tax evasion is an event permanently active in the economy, characterised by a high degree of adaptability to the changes in the economy and materialised in various forms of manifestation, such as:

- submitting false declarations;
- providing fake payment documents;
- creating fake accounting records;
- not declaring the taxable matter;

- declaring lower revenues than the real ones;
- keeping of a double set of books: a real and a fake version;
- sales without invoice;
- issuing invoices without a real sale, which hide real taxable operations;
- manipulating the balance sheet;
- not paying the taxes that are already imposed.

Tax evasion has always been ethically and also legally condemned. From a legal point of view, committing these deeds leads to applying certain responsibility measures, depending on the manner they are done, the subject of the crime and the damage produced.

As for the causes of tax evasion, they are multiple and complex. We believe that one of the first and maybe most important causes is the fiscal burden. From this point of view, one can even speak about a real vicious circle because, the higher the fiscal pressure is, the more extensive tax evasion is, and the more extensive tax evasion is, the more will fiscal pressure weigh on the shoulders of disciplined taxpayers, who fulfil their legal obligations. In this context, establishing limits of fiscal pressure is an issue that has preoccupied specialists even from the end of the 18th century, when economists and legal experts claimed that taxation should be as loose as possible. The increase in fiscal pressure in the past two centuries is based on an expansion of the economic and social role of the state; consequently, taxes and fiscal pressure present the same upward tendency as public expenses. In the category of subjective causes of tax evasion, we would like to mention the possibility to assume the risk or the existence of the phenomenon of corruption of the fiscal authorities.

We believe that the activity of inspection represents a decisive factor in administering the phenomenon of tax evasion. In this context, in order to exert the functions of tax inspection it is necessary to have specialists selected based on criteria of professionalism, also to have an efficient management, with well motivated and high morality implementers.

3. Concept, causes, forms of manifestations and implications of the phenomenon of underground economy

Underground economy exists in all countries of the world, in various extents as compared to the GDP. Defining the notion of underground economy, as well as its most severe component, money laundering, a nuisance on all levels, has been and still is the subject of various studies in the field. They are justified by the need to know their dimensions and size in society, as well as establishing the most efficient prevention and counteraction measures.

The underground economy raises major problems and is a challenge for international organizations as well as for national public authorities. The latter must find solutions for preventing or at least limiting the effects of such a phenomenon on the national and international economy.

The names under which underground economy is referred to in the specialized studies are:

occult economy;

- concealed economy;
- hidden economy;
- parallel economy;
- adjunct economy;
- phantom economy;
- invisible economy;
- informal economy;
- dual economy;
- cash economy;
- grey market;
- unregistered economy;
- secondary economy;
- counter-economy etc.

As for the participants to the activities that form the underground economy, two categories of people can be identified:

- those who obtain revenues exclusively from the underground economy ;
- the people who receive incomes from the legal, but also from the underground economy.

There are multiple forms of manifestation of the underground economy. Among these, we would like to mention:

- tax evasion and fraud;
- the black labour market;

- more severe practices, such as corruption etc.

There is an extensive literature concerning the possible causes of the underground economy, among which we would like to mention the following types:

- fiscal pressure exerted by taxation[4];
- pressure from the regulations imposed by the state[6] ;
- fiscal morality: the attitude of the citizens towards the state[10].

The social impact of underground economy is a strong one and is tightly connected to a series of phenomena such as: different types of crimes, among which we would like to mention:

- drug abuse;
- mafia-type organisations;
- work exploitation through the black market;
- money laundering;
- violating human rights;
- environmental pollution, etc.

The most dangerous structural element of the underground economy is represented by its criminal sector, more particularly the totality of illegal economic activities that refer to the production, fabrication, accumulation, change, redistribution of merchandise, activities and goods outside the civil circuit, as well as other criminal activities oriented towards obtaining a certain part of the product of the legal economy.

For a long time, economic analysts have considered corruption as a cultural and political issue, whose decrease or elimination would be impossible to achieve [2] Thus, corruption suppression was not regarded as an objective of the development reforms, but as a natural component of a country as exogenous as, for instance, its geography. [7] Corruption is a phenomenon that appears in the most varied areas, under different and complex forms and interactions, however, in terms of number and dimension of cases, it dominates the fiscal and budgetary area. Corruption is present in emerging countries as well as in well developed ones. Although the corruption potential is specific to each country, it has been noticed that the types and spread of fiscal and budgetary corruption are influenced by the general fiscal structure of the country and of the fiscal management systems used by the respective country.[7]

As for the black labour, another element of the underground economy, its causes are diverse and usually have a pregnant economic side. Clandestine work allows the one that performs it to increase his or her resources, and the one that uses it to reduce the expenses and, therefore, both avoid fiscal and social expenses.

An important aspect of the underground economy is the negative effects of the decrease and reducing of the development of the official economy. A study by AT Kearney in collaboration with Friedrich Schneider, economy professor at the Linz University, shows the fact that the proportion of underground economy in Romania's GDP reached 35% in 2005; in 2010 it totalled up to 40-50 billion Euros. "When global economy goes through a recession, more and more people will be tempted to act outside the legal framework. This is why it is important to understand the phenomenon so as the states could take the necessary decisions for recovering the lost income and protecting the workers ", said Schneider.

4. Conclusions

The underground economy and tax evasion are major problems of our society, even more so in the context of the present economic-financial world crisis. At the basis of these negative phenomena is the human desire to accumulate money, goods or other values. In the economic life at the beginning of the third millennium, these phenomena are more and more present. We believe that in order to accelerate the overcoming of the crisis, it is important to monitor and limit these phenomena.

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Activity Based Costing versus Traditional Technique

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Abstract

One of the current methods of management is Activity-Based Costing (ABC), method that allows the company to understand more clearly how and on what activity/product profit is achieved. In essence, the method involves identifying all specific activities of a product or service and distribution expenses to achieve them with greater accuracy than with traditional accounting methods. This involves not only costs determining closer to reality, but a better understanding of the factors that determine costs.

Key words: ABC method, traditional commands method.

J.E.L.classification: M41 - Accounting.

1. Conceptual approach on the ABC method

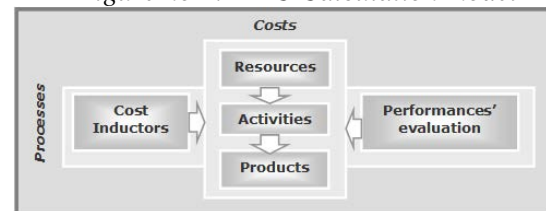
In small production industrial enterprises, a typical situation involves "the existence of good products or services, from a technical point of view, and delivered on time; customers are satisfied; productivity is around or above the industry average." And yet, after the first years of operation and development, profitability reached an unacceptable level because, by using traditional methods, "one may not know for sure what products bring in money and what products spend it." Therefore, it must move towards a new computer system that provides information about the "true cost".

The concept of the ABC method assumes that not the products consume resources but activities do. In other words, **activities consume resources and products consume activities**. After developing this method it was found that the traditional methodology of

calculation of costs may create significant differences in the costs of final products due to the allocation of indirect costs. The difference "may obstruct the final price of outputs and, also, may lead to erroneous management decisions" - say the promoters of this methodology applied today, particularly by large companies alert to any possibility of reduction and cost control.

From those above presented, the **ABC cost calculation model** can be schematically presented as follows:

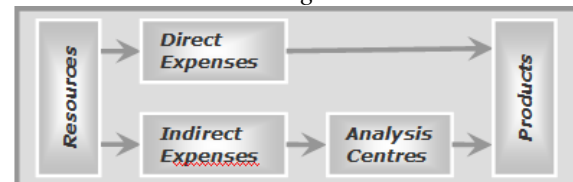
Figure no 1. ABC Calculation model



(Source: Caraiani C., Dumitrana M. (cord.), „Management Accounting and Management Control”, InfoMega Publishing house, Bucharest, 2005, p. 235)

In contrast, traditional technique can be schematized as follows:

Figure no 2. Traditional technique of costs damage



2. Comparative study on ABC method versus commands method

Industrial enterprise "ALFA" manufactures and sells "slewing rings"- "L" type, articles 20101, 20102 and 20103 (coded SRL.20101, SRL.20102 and SRL.20103), according to received orders, for

which production cost is established through the **traditional commands method**.

Data on production, sales prices and costs for the three products manufactured by the company in June 2010 are the following:

Table no 1. Data on production, sales price and costs for SRL.20101, SRL.20102 and SRL.20103 products

Products	Produced and sold output	Unit selling price	Unit cost
0	1	2	3
SRL. 20101	300 pieces	1135.00 lei/ piece	945.86 lei/ piece
SRL. 20102	300 pieces	1813.00 lei/ piece	1510.76 lei/ piece
SRL. 20103	250 pieces	1562.00 lei/ piece	1301.37 lei/piece

Company management is concerned about the costs of the three products, especially of SRL.20101 product, because, at an increase in raw materials costs, as projected for the near future, its manufacture will involve expenditure that will exceed the average market price, which will make it uncompetitive. (According to studies made on the market, there was a slight increase in purchase prices of raw materials (from all known domestic suppliers) and it is expected that the next period, 3-5 months, their prices will continue to grow.)

So, to see which of these three products contribute more to income growth and, therefore, to which the company would have to increase production volume, a request was made for more detailed analysis, using newer ABC system methodology for determining total cost and compare obtained results with those resulting from the application of internal costing system, respective the commands method.

In this regard, supplementary information was collected. The cost of direct labour hour is 12.5 lei. The products are manufactured in batches of 10 pieces.

Table no 2. Data on direct costs incurred for SRL.20101, SRL.20103 and SRL.20102 products

Elements	SRL. 20101	SRL. 20102	SRL. 20103
0	1	2	3
Direct costs on raw materials	160 lei	300 lei	245 lei

Elements	SRL. 20101	SRL. 20102	SRL. 20103
0	1	2	3
- slewing rings balls (lei/piece)	75 lei	150 lei	125 lei
- steel bar 42CrMo11 (lei/piece)	85 lei	150 lei	120 lei
Direct labour (hours/piece)	16 hours	22 hours	20 hours
Equipment operation hours/product	4 hours	6 hours	5.5 hours

Indirect costs are absorbed in the cost of products according to the number of orders manufactured for sale and there were identified on **activities** as follows:

Table no 3. Data on indirect costs

Activities	Costs	Cost Inductors
0	1	2
Indirect production costs	321013.40	
- Equipment maintenance	110466.40	equipment operation hours
- Release manufacturing	67979.30	number of manufacturing orders
- Receiving material	50984.50	number of produced orders
- Quality control	91583.20	manufactured quantity
-Administration	192608.00	monetary unit to direct added cost
Sale	144456.00	turnover
Total	658077.40	-

Full cost determined by traditional method

Table no 4. Determining the total cost by applying the commands method

Explanations	Products		
	SRL. 20101	SRL. 20102	SRL. 20103
0	1	2	3
Full cost total (lei)	283759.30	453226.60	325341.50
Full unit cost (lei/piece)	945.86	1510.76	1301.37

Explanations	Products		
	SRL. 20101	SRL. 20102	SRL. 20103
<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>
Sale price (lei/piece)	1135.00	1813.00	1562.00
Analytical result (lei/piece)	189.14	302.24	260.63

Full cost total = 1062327.40 lei

Determining full cost applying Activity Based Costing method

Table no. 5. Allocation of indirect costs on products

Activities	Costs
<i>0</i>	<i>1</i>
Machinery maintenance	110466.40
Manufacturing launch	67979.30
Receiving material	50984.50
Quality control	91583.20
Administration	192608.00
Sales	144456.00
Total	658077.5

Cost Inducers	Cost Inducers Volume	Cost Inducer
<i>2</i>	<i>3</i>	<i>4</i>
equipment operating hours	4375	25.24946
manufacturing orders number	85	799.75647
produced orders number	10	5098.45
produced quantity	850	107.74494
monetary unit to direct added cost turnover	- *	-
	1274900	0.11330771
x	x	x

* - There is no specific inducer identified for administrative expenses, and therefore it was decided that their distribution would be made according to the direct costs.

Inducers specific to products		
SRL.20101	SRL.20102	SRL.20103
<i>5</i>	<i>6</i>	<i>7</i>
1200	1800	1375
30	30	25
4	4	2
300	300	250
-	-	-
340500	543900	390500

Inducers specific to products		
SRL.20101	SRL.20102	SRL.20103
<i>5</i>	<i>6</i>	<i>7</i>
x	x	x

Indirect expenses distributed on products		
SRL.20101	SRL.20102	SRL.20103
<i>8</i>	<i>9</i>	<i>10</i>
30299.40	45449.00	34718.00
23992.70	23992.70	19993.90
20393.80	20393.80	10196.90
32323.50	32323.50	26936.20
51457.40	82188.90	58961.70
38581.30	61628.00	44246.70
197048.10	265975.90	195053.40

Activities	Total
<i>0</i>	<i>11</i>
Machinery maintenance	110466.40
Manufacturing launch	67979.30
Receiving material	50984.50
Quality control	91583.20
Administration	192608.00
Sales	144456.00
Total	658077.40

After allocating the indirect costs of production, administration and sales on products, we pass on determination of the total and complete cost unit, comparing it to the selling price of products and establishing the analytical result (profit or loss).

Table no. 6. Determination of full cost

Explanations	Total
<i>0</i>	<i>1</i>
Raw material expenses (lei) <i>SRL.20101 = 160 lei/piece x 300 pieces</i> <i>SRL.20102 = 300 lei/ piece x 300 pieces</i> <i>SRL.20103 = 245 lei/ piece x 250 pieces</i>	199250.00
Labour expenses (lei) <i>SRL.20101 = 16 hours x 12.5 lei/hour x 300 pieces</i> <i>SRL.20102 = 22 hours x 12.5 lei/hour x 300 pieces</i> <i>SRL.20103 = 20 hours x 12.5 lei/hour x 250 pieces</i>	205000.00
Direct expenses (lei)	404250.00
Indirect expenses (lei)	658077.40
Total full cost (lei)	1062327.40
Full unit cost (lei)	x
Sale price (lei/piece)	x
Analytical result (lei/piece)	x

Products		
SRL.20101	SRL.20102	SRL.20103
2	3	4
48000.00	90000.00	61250.00
60000.00	82500.00	62500.00
108000.00	172500.00	123750.00
197048.10	265975.90	195053.40
305048.10	438475.90	318803.40
1016.83	1461.59	1275.21
1135.00	1813.00	1562.00
118.17	351.41	286.79

Analyzing the full costs of products, determined by the ABC methodology, and comparing them with prices of sale (competitive), it is noticed that all three products are profitable, SRL.20103 and SRL.20102 products being the most competitive.

For SRL.20101 product, however, although they succeeded in producing it at a lower cost than market prices, the situation is not very favourable under the conditions in which, as mentioned, a grow of raw materials in the near future is forecast.

Comparison of unit costs determined by traditional method and by ABC method

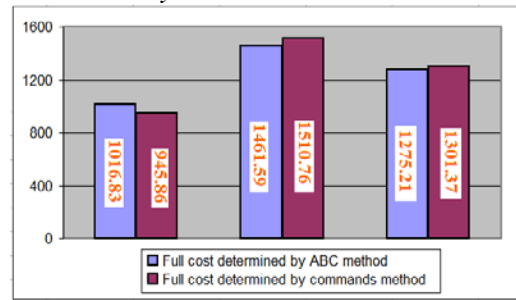
Examining the two sets of results, the company management can notice the difference between the results offered by the two approaches: ABC and the internal used system:

Table no. 7 Comparison of unit costs determined by commands and ABC methods

Products	Full unit cost (lei/piece) determined by	
	ABC method	Commands method
0	1	2
SRL.20101	1016.83	945.86
SRL.20102	1461.59	1510.76
SRL.20103	1275.21	1301.37

Products	Differences	
	in absolute value	in relative value
0	3	4
SRL.20101	+70.97	6.98 %
SRL.20102	-49.17	-3.25 %
SRL.20103	-26.16	-2.01 %

Figure no. 3. Comparison of costs unit determined by commands and ABC methods



Comparing the costs established by the two methods, we find that when costs are allocated on the developed activities, SRL.20101 product becomes more expensive than initially considered, its cost increasing from 945.86 lei/piece to 1016.83 lei/piece meaning with 70.97 lei or 6.98%. How the market price is very close to cost price, any increase of expenses with making of this product or with reducing its production volume will make the product not competitive for business any longer. (The decrease in production volume, fixed costs allocated on fewer made products, will lead to increased production costs/complete)

SRL.20103 and SRL.20102 products are competitive for the firm and, therefore, should be held in the portfolio of products manufactured by the company. To these, we find that by applying new ABC calculation method, costs are lowered as compared to those established by the traditional method, with 49.17 lei/piece, meaning 3.27%, for SRL.20102 product and respectively, 26.16 lei/piece, meaning 2.01%, for SRL.20103 product. In addition, market prices exceed "reasonably" production costs (complete).

In conclusion, based on relevant results and taking decisions based upon analysis provided by the new ABC system, the management company should decide to exclude SRL.20101 product, while they still can maintain its cost below competitive market price, and turn its attention to increasing production volume for SRL.20103 and SRL.20102 products. Even if it would keep manufacturing the first product, the department "Supply" cannot reduce the cost of raw materials needed (as originally leadership thought), and in addition, an increase of production cost/complete or a decrease in market selling price will make the product impossible to sell.

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Energy Efficiency Contracts – A Challenge for Public Institutions

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Abstract

This research contributes to the understanding of the barriers and incentives on the energy efficiency market.

We may say that the universe tends from a chaos towards an organized status, in other words from predictability to uncertainty, if we look to the second law of thermodynamics. Energy is continuously available as unavailable energy until completely disappears. This is commonly referred to as entropy, that in all energy exchanges, the potential energy at a certain state will always be less than that of the initial state, if no energy enters the system.

The aim of this paper is the practical application of a solution meant to increase the quality of the accounting information delivered to the users. Particularly, there was a need to highlight the necessity of adapting the chart of accounts of public institutions, the budgetary classification, to the evolution of contractual relations of public institutions, including energy efficiency contracts. The prospect of approaching the partnerships subject is new in this field.

From the epistemological point of view, the paper provides a mixture of normative research and constructive accounting. The research strategies used included documentary and analytical research, formulation of opinions by benchmarking and case studies.

Key words: European System of Accounts ESA95, partnership contracts, energy efficiency contracts, the second law of thermodynamics

J.E.L. classification: M41

1. General Accounting Framework

According to Ishikawa's observation, the traditional accounting systems have proved to be unable to keep pace with change.

Lately, in literature new models of financial reporting, including an integrated perspective of all the mechanisms that generate and consume value – natural, social, information environment etc. are provided.

Accounting guideline normalization efforts are mainly directed towards convergence and tackle only briefly social and environment reporting issues. These are taken into account by the legal methodologists, who show some opening, but only for financial reporting purposes out of the financial statements.

The accounting practice is in constant motion, according to Professor M. Ristea "presently, by generalization in accounting only one principle can be known, the one of change." [1]

The interdisciplinary nature of the decision determines as an inevitable consequence the multidisciplinary nature of accounting.

2. The General Framework Regarding the Energy Efficiency Contracts (EEC)

2.1. The EU General Framework regarding the Energy Efficiency Contracts

A compressive framework of directives and regulations to improve energy efficiency in energy, using products, buildings and services is in force within the European Community laws. These include the Eco-Design Directive, the Energy Star Regulation, the Labeling Directive and its 8 implementing Directives, the Directive on

Energy End-use Efficiency and Energy Services and the Energy performance of Buildings Directive. The European Commission encourages Member States towards an ambitious implementation and enforcement of these instruments to ensure rapid services and a long-lasting market transformation. Where there is scope for additional legislative and supporting measures to be taken to strengthen and accelerate the development of this market, these measures will also be given priority. [2]

Recently, European Commission (under the Intelligent Energy Europe Programme) initiated two projects that look into energy service market in the EU. The first one is commissioned by the Berliner Energieagentur (Berlin Energy Agency) and is called EESI – European Energy Service Initiative. It aims to broadly promote the implementation of Energy performance contracting in Europe. The second one is commissioned by the Wuppertal institute and is called Change Best Program. It aims to promote the development of an energy efficiency service market. [3]

Buildings have an impact on long-term energy consumption. Given the long renovation cycle for existing buildings, new and existing buildings that are subject to major renovation should therefore meet minimum energy performance requirements adapted to the local climate. As the application of alternative energy supply systems is not generally explored to its full potential, alternative energy supply systems should be considered for new buildings, regardless of their size, pursuant to the principle of first ensuring that energy needs for heating and cooling are reduced to cost – optimal levels. [4]

2.2 The Romanian General Framework regarding the Energy Efficiency Contracts

“We will leave a steam engine free of charge to you. We will install these and will take over for five years the customer service. We guarantee you that the coal for the machine costs less, than you must spend at present at fodder (energy) on the horses, which do the same work. And everything that we require of you is that you give us a third of the money, which you save.” [James Watt, 1736-1819] [3]

Public private partnerships (PPPs) are developed as a way of fulfilling public tasks in partnership between a public sector authority and a private enterprise. The agreement shares the risk of the project while, generally, the public entity retains the ownership of the project and the private entity transpose the project into practice. This approach develops new dimensions in the new global era. The partnership shows the common interest of the parties involved, joined efforts, understanding of the each limitations. The PPPs are mainly established for infrastructure related projects and represent a key element for delivering modern, high quality, more competitive public services. For example, the PPPs developed by UK Government have three broad objectives in mind, namely:

- to deliver significantly improved public services, by contributing to increases in the quality and quantity of investment,
- to release the full potential of public sector assets to provide value for the tax payer and wider benefits for the economy,
- to allow stakeholders such as the users of the service, tax payers and employees to receive a fair share of the benefits of the PPP.

A new approach is the PSPPs as a development PPPs, referring to public social private partnerships. We can say that it represents an extension of the PPPs in social and educational services. For the public side of the partnership this means that solutions are found for public tasks of the common good or welfare provision, firstly through a cooperative form of outsourcing (including financing) and secondly by involving additional partners from private and social entities in doing things which the state has responsibility for. For the private side of the partnership it provides possibilities for new kinds of business activity through the cooperation with the state and social entities. In this way, social entities have the opportunity to act in their ideal role of intermediaries between the state and private sectors. [5]

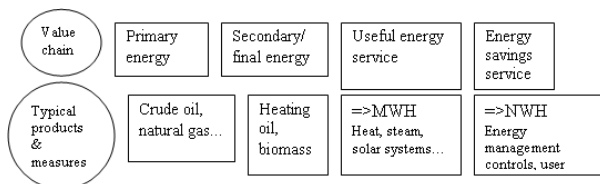
3. Transposing of EU Provisions into the Romanian Legislation

In 2008, the Government Ordinance no. 22/2008 transposed into the Romanian legislation the EU Directive 2006/32/CE8 regarding the energetic efficiency to final users and energetic services.

The Government Ordinance 22/2008 defines the energetic services that constitute the foundation for the energetic performance contracts.

The same ordinance also defines for the first time in the case of Romania the energetic services companies (ESCOs).

Figura 1. Energy services – definitions



Source: after Beyl & Schinner 2008

4. National Strategic Framework

Romania has engaged in reducing the energy consumption with 13.5% by 2016, relatively to the medium level of energy consumption between 2001 and 2005.

The National Strategy for Energetic Efficiency (approved by Government Resolution no. 163/2004) and the National Action Plan for Energetic Efficiency (approved by Government Resolution no. 1661/2008) presents specific measures for the achievement of these objectives.

In 2010 an updated framework of the Directive was adopted, strengthening the energy performance requirements aiming to reduce the carbon footprint of public buildings to an energy standard of nearly zero by 2018, and for this to be extended to all buildings by 2020. It is expected that this will reduce the overall EU energy consumption by 5-6%, resulting in a 5% drop in emissions.

These studies show there is a huge market potential for ESCOs within Energy service contracting.

The increase of energetic efficiency within the public institutions will have a socio-economical impact. According to the current legal norms, the impact upon public institutions is of approximately 40 years, sometimes longer. The potential reduction of energy expenses for these buildings is very high.

In July 2009, the European Commission adopted a set of measures aimed at simplifying the management of the Cohesion Policy. Local authorities aiming to improving local energy management can receive financing for:

- construction or renovation of buildings for disadvantaged groups
- creation of "green" jobs and training sessions (e.g. energy managers, technicians, architects, builders, counseling services etc.) 100% funded by the European Social Fund
- development of specific financial instruments (urban funds, financial incentives for loans etc.).

In the future the biggest impact will be done by utilization of Structural Funds. In this context the funds for educations units rehabilitations process are included in Regional Operational program 2007-2013, Priority Axe 3 "Improvement of Social Infrastructure, chapter 3.4", "Rehabilitation/ Modernization/ Development and equipment provision for education infrastructure in primary, secondary, university and continuous professional training sectors education infrastructure". Official call for projects launched in April 2008. The program is managed by the Ministry of Regional Development and Tourism. [6]

Total available budget is 284.91 Meuro, from which 85% from EU funds and 15% from national contributions.

The project has 3 major target groups:

- primary, secondary and university units: 130 units;
- creation and development of pre-university and university campus (complex of buildings): 30+35 units;
- centers for contributions professional trading: 15 units;

A specific point in projects eligibility criteria is "utilities modernization" which, probably, can be a subject for increasing energy efficiency

Eligible project initiator:

- local authorities as defined in Public administration Law no.215 from 2001;
- public universities certified according to the Law no. 88 from 1993;

Due to the many legal, financial and organizational barriers, a Green Card on this subject has not been developed yet.

5. Financing Mechanisms

Energetic efficiency contracts may include, in addition to the energy supplier and the beneficiary of the means of improving the energy efficiency, a tertiary that provides the capital for the certain measure.

The German energy efficiency contract model stipulates that the payment of the capital provider is made from the savings obtained from the reduction of energy expenses, as a direct consequence of the implemented measures for the improvement of energetic efficiency.

The owners and legal administrators of public commodities subjected to some CPE projects may take commercial loans to finance the investment and the operational and maintenance expenses or they may resort to private financing by signing public private partnership (PPP) or concession agreements.

Based on the legal provisions in place, the most important principle of public finance is that it is mandatory to spend public funds according to their destinations mentioned in the budget. All the financing activities of programs and projects at the level of public institutions should comply with this basic principle.

Making of payments directly from the collected income is forbidden too, except for the cases in which the law stipulates otherwise. No expenditure from the local public funds can be engaged, ordered and paid if there is no approval according to law and do not have budgetary provisions and financial sources.

However, the local public administration authorities may contract or secure loans according to the law in effect, only with the permission of the commission for the authorization of local loans.

In accordance with the law of local public finances, the local authorities "are forbidden access to loans or to secure any kind of loan

if the total annual debts representing the outstanding installments of contracted and/or secured loans, the reprises and afferent commissions, including the ones afferent to the loan pursued for that year exceed the limit of 30% of the total revenues."

The contracted or secured loans that ensure the pre-financing and/or the co-financing of projects that benefit from pre- and post-adherence EU funds are excluded from the rule of 30% of the total revenues of the particular authority.

6. The Accounting Operations Applied to Concessions

According to ESA95 regulations, when the assets (in the form of constructions or other structures) are counted as governmental assets registered in the State Balance sheet, the capital expenses are registered into the accounting the moment they arise, not at the end of the restoration period. The pay in installments of the constructor may establish the moment in which the accounting registration is made.

However within Romanian accounting, the economic agents from public institutions register the assets that come from private sources after the concession contracts expire and the commodities are amortized.

7. The Role of Local Authorities – Examples of Associations

The association "Energy Cities Romania" is a nongovernmental organization, established in 1994 under the Phare Programme with support of the Energy Cities network. Since 2006, the association headquarters moved to Brasov.

"Energy Cities Romania" meet the 31 municipalities interested in improving energy efficiency in urban public services (heating, public lighting, water and gas supply, storage and transportation of waste etc.) and the promotion of renewable energy sources and protection of environment.

Main activities:

- Participation in regional, national and European projects;
- Organization of conferences, seminars and other meetings at regional, national and international level;

- Establishment of a database at local and national level;
- Support to local authorities in elaboration and monitoring of a sustainable energy policy;
- Dissemination of information about experiences, technologies and energy efficient equipments;
- Representation of members at national and European level.

8. Study Case – Brasov City

- Vice-President of the European Network "Energy Cities" – European Association of Local Authorities for Sustainable Development in terms of energy;
- President of National Network "Energy Cities Romania" – Support structure at national level of the Mayors Convention initiative;
- "Action Plan for Sustainable Energy" (SEAP) approved by the County Council in August 2009.

In 2010, The Energy Programme of Brasov City for 2010-2012 was prepared and submitted for approval to the Local Council. The programme was approved by the Local Council Decision no 157 / March 2010.

The priorities for Brasov City included under the program are:

- Administrative buildings,
- Public Lighting,
- Under graduate educational institutions,
- Public transport,
- Residential sector.

Premises:

- Analysis of annual consumption along with the measures considered in selection of the energy rehabilitated buildings;
- Benchmark year for monitoring is 2008;
- Analyses and comparisons were made by type of activity: nursery, primary and high schools;
- The monitoring was made monthly on each institution – 2008/2009/2010;
- During the year 2010 have been closed or merged 15 kindergartens, 3 primary schools and 4 high schools;
- The general level of comfort in educational institutions has steadily risen during the period analyzed;

- Prices of utilities increased constantly during the period under review, and additionally VAT increased from 19 to 24% - in 2010.

Figure 2. Success Story: Kindergarten no. 19 – Barbu Lautaru Street

Savings in kWh 58%
Savings in RON 79%

Measures: central heating installation (disconnection from district heating), building the attic

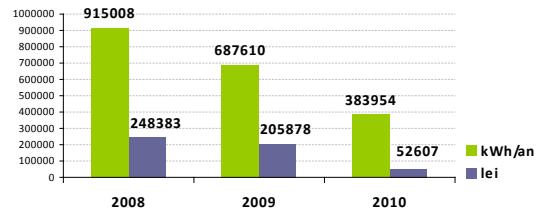


Figure 3. Success Stories: High Schools "Sfintii Voievozi" and "N. Titulescu"

Savings in kWh 52%

Measures: central heating installation (disconnection from district heating), energy rehabilitation building B

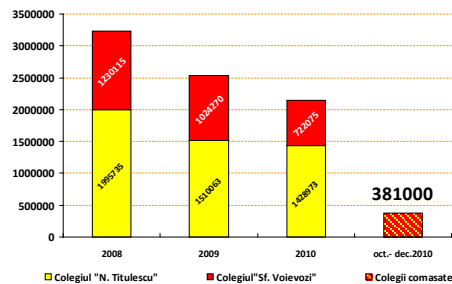
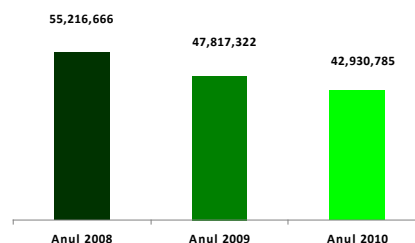


Figure 4. Evolution of total energy consumption in educational institutions during the monitored period

Consum total în kWh (grădinițe+școli+licee)



Consumption reduction 11%

Total savings 12.286 MWh/year

Local authorities have a key role in mitigating climate change. More than half of the emissions of greenhouse gases are

generated in and by cities.

At the same time, 80% of the population lives and works in cities, and consume up to 80% of energy. [7]

9. Conclusions and Recommendations Regarding the Accounting of Energy Efficiency Contracts in Public Institutions

The question that was raised during the research about the validity of the instrument could be explored in the further research.

Since the economical operations in accounting are registered the moment they arise, the accounting cannot include future operations whose value is unknown.

Complicated administrative procedures and non-compatible accounting rules are also among the most frequently mentioned regulatory barriers.

Since the main objective of this kind of contractual relation is the economical efficiency not the technological solution and is necessary for the implementation of an accounting model that can highlight the value of the reduction in the energy invoice of the institutions as well as in the payment of services provided by different companies from the value of energy saving, we recommend that in order to monitor the efficiency, a extra-accounting evidence must be developed in which the amount of energy to be reduced is estimated for each period as a consequence of the restorations together with the amount of energy that was effectively saved during that period.

Moreover, the introduction of a budgetary-economical classification assigned to a code that reflects this type of economical efficiency contracts is recommended.

For now, Romania has a legal framework regarding the energetic efficiency services that follow the EU requirements through the adaptation of European Directives.

However, an authority that desires to implement CPE models will confront with practical difficulties associated with the modes of applying these regulations. There is a need for an institutional framework that can

assist in the implementation of first CPE projects in Romania. [8]

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Perspective for the Development of Romanian Cultural Events

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Abstract

This paper analyses the importance of events as a major component of the tourism industry. Among its characteristics, the cultural events have grown to represent a special method to attract tourists all over the world. More than that, the leisure activities have become sophisticated with various opportunities to enjoy free time.

In this context, it is important to identify positively influence of cultural events for increasing the Romanian tourism.

Key words: tourism, cultural events, development

J.E.L. classification: L83

1. Introduction

Over the years, the tourism industry has turn into a major player on the global economic market. Its basic sectors are more and more important, as tourists have become especially demanding. The change of tourist desire from a passive vacation to an active one has determined the tourism firms and operators to reevaluate their offers and conceive new and unique ideas for an enjoyable holiday.

The lodging facilities, the food and beverage ones, and the transport system were considered the main framework for producing and commercializing the tourism products.

The globalization process has deeply impact all economic fields, including also, the tourism activities. Competition between small or large tourism organizations has accentuated and therefore it appeared necessary to anticipate the tourists' needs and wants and to offer a new and different product. As a result, the leisure facilities and services have represented a method to diversify the offer by surprising with the

variety they encompasses: sports, events, cruises, theme parks, marinas, etc.

The events sector influences the tourism circulation, stimulating the lack of dependence from sezonality, with perspective in any period of the year. But the development of the event industry must be connected to the general and tourism specific infrastructure, in order to obtain the proper positive response. In this circumstance, the growth of tourism represents the basic strategy for the development of other sector component, like the event one.

2. Cultural events

The events spectrum is a large one containing activities such as [1] : *business and corporate events; cause-related and fund-raising events; exhibitions, expositions and fairs; entertainment and leisure events, festivals, government and civic events, hallmark events, marketing events, meeting and conventions events, social events, sport events*. This allocation offers a detailed perspective over the events' diversity and also possibility to be appealing to different kinds of tourists.

Other authors present the events by underlining the main contents [2]: *cultural events, sport events, and business events*.

Regardless of the way event activities are explained, the fact that there are a multitude of theme and there are several possibility to fructify theme make this one of the most important aspect of tourism growth.

More than that, the events must contribute significantly to the development of a destination, by enlarging the number of tourists received, by promoting the destinations' attributes, and local communities particularities, the tourism attractions, and so on. Hence, the events activities offer important benefits, and a strategic planning event has the ability to

determine representative outcomes like [3]:

- Generating the possibility to enhance the attributes of a destination, and to determine important benefits, but also to be known as a tourism destination;
- Influencing the importance of the destination by efficiently attracting tourists that are interested in returning and also profit by word of mouth;
- Developing the competitive position as a major destination, for the tourism market;
- Producing an increase number of tourists, and therefore increasing the revenues obtained;
- Generating interest for all activities and facilities offered by the destinations;
- Improving the proper marketing activities of the local tourism organizations, by using special promoting ideas, attract media, and others; Etc.

Participant to events survey

Fig.1

	percent
Australia	2
Belgium	8
Canada	2
Finland	8
France	7
Germany	15
Italy	10
Japan	0
Korea	1
Mexico	4
New Zealand	2
Norway	15
Poland	8
Spain	12
Sweden	11
Turkey	0
UK	10
SUA	2
Media	6

Society at a Glance, 2009: OECD Social Indicators, OECD Publishing 2009;

International survey presents different countries regarding the free time activities. Among the main activities specific for leisure are watching TV and listening to radio, sports, visits and socializing activities but also, event participating as usually spectators. The percentages are very low in rapport to 100%, the higher position been occupied by Germany, Norway, Spain, UK and Italy.

The cultural events has a significant importance as it usually marks local community events, particularly festivals with themes like: art , music, film, food, science, religion, wine and others. It also refers to spectacles and leisure events as fairs.

These events are generally interesting for both the foreign tourists and the local ones because of the rich content in cultural community values and traditions. The main purpose of the festivals is to celebrate the locals by electing a theme that represents their social view and ideology and cultural heritage.

Over the time, tourism has grown these local event have become more well known and shared with a variety of travelers. This context resulted in international tourism events, providing a unique insight into a society's traditions, their culture, religion, music, customs, and language.

Cultural events are now perceived joined to the destination they occurred in, as a symbol to the notoriety of the city or country. For example:

Munich, Germany – Oktoberfest, India - Holi Festival, New Orleans, LA - Mardi Gras, Brazil - Rio de Janeiro Carnival, Dublin, Ireland - St Patrick's Day, France, Cannes - Cannes Film Festival, Pamplona, Spain - Running of the Bulls, Montreal, Canada - International Jazz Festival, Berlin, Germany – Love Parade, are just a few of the most popular events that captivates tourist all over the world.

Based on the research of specialists a structure of cultural event can be developed, based on the purpose of the event [2]:

High-profile general celebration of art generally tries to reach higher standards, and obtained increased levels of incomes.

Festivals that celebrate a particular location – there aim is to bring people together to celebrate their local destination. The difference of size is strictly connected to the organizations, which are volunteer groups or the local authorities.

Art-form festivals remark specific form of arts, focusing on the special audience appealed by this segment, offering the possibility to realize unique events.

Celebration of work by a community of interest refers to categories of people such as seniors, young, or disabled.

Calendar takes into account the religious and cultural festivals.

Amateurs art festivals attracts a variety of people, with accent on the competitiveness degree and has no particularities explained.

Commercial music festival has an important role due to the large number of participant.

3. Romanian cultural events and perspectives

Romanian tourism has always taken into account the importance of tradition and heritage. Promoting the cultural resources and objectives has been an essential element in presenting Romania as a famous tourism destination.

The tourism sector has increased its importance by accentuating the traditional characteristics of popular art, of handcrafting and famous artistic creations like [4]: *crafts and cottage articles* – Horezu, Curund, Marginea, Vama, *dance, music, traditional clothing* –Tara Motilor, Tara Maramuresului, Tara Zarandului, *local architecture and technique, traditional events* – Samba Oilor, Targul de Fete, Festivalul Narciselor, Cocosul de Horez,etc.

Beside this, there are cultural events that are well known, offering some examples such as: *music festivals* – George Enescu Festival, Cerbul de Aur, Artmania Festival, Sibiu, Transilvania International Guitar Festival, Jazz Spring Festival, Bucharest, Europafest, Peninsula, Bestfest and others; *cinema festivals* – Dakino Buharest International Film Festival, Comedy Cluj, Alternative international Short Film Festival, Astra Film Festival, Anim'est Animation Festival, etc; other festivals – Sighisoara Medieval Festival.

Despite the various forms of cultural display and marketing activities the number of tourists has declined, indicating a lack of a general policy that can be orientated to different types of tourism. For instance, the main event facilities are in limited number as the figure below can demonstrate:

Romanian Spectacles-Events Institutions

Fig. 2

Event institutions	units		
	2003	2004	2005
Legitimate Drama	57	57	59
Puppets' Drama	25	24	24
Opera	7	7	7
Musical theatre, music hall	9	8	
Philharmonic and symphonic orchestra	18	17	18
Traditional Orchestra	8	7	6
Folklore groups	22	24	24
Circus	1	1	1
Total Units	147	145	146

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The image is a poorly described one, for more than half of the institutions have provided the same number of units, and some of them have registered lower positions. The results are determined by the little interest in the spectacle – cultural activities of the local residents and also the reduced number of tourist with little or less knowledge about them.

Regarding the participation as spectators, in the analyzed period, per total it can definitely, be observed the reduction of participant, taking into consideration the same reasoning that underline the necessity of the tourism promoting activities.

An interesting cultural aria is represented by folkloric groups that attract the highest number of participant, even though, in the course of the three years the evolution is a negative one. It can be concluded that this cultural event of folklore is more appealing by the Romanian specific character that offers an image over the historical ideology and social and cultural life.

Participation in Romanian spectacles

Fig. 2 thousand pers

Event Institutions	2003	2004	2005
Legitimate Drame	1.188	1.249	1.121
Puppets' Drama	556	572	536
Opera	260	331	319
Musical theatre, music hall	237	187	153
Philharmonic and symphonic orchestra	259	281	301
Traditional Orchestra	234	281	135
Folklore groups	1.966	1.399	1.358
Circus	86	113	276
Total Units	4.786	4.413	4.199

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Therefore it is necessary to formulate a set of priorities for the development of general tourism and extra for the cultural event domain.

On one hand tourism is strictly dependent of the equipment or *infrastructure*, so the restoration and creation of lodging, food and beverages, transport and leisure infrastructures. On the other hand, the activities related to the *tourists' information* accessibility must be reorganized in an efficient way. For instance, there must activate tourism information centers that provide a variety of information and can be easily reached. Also, creating a national database with the major information about tourism event can definitely influence the degree of transparency to the consumer and their choices.

The *state* involvement it's a priority because it generates important investments by offering the legal context and production deductions.

Another important part is *the marketing* of the destination, or the activities. On relating to this, first it should be the realization of marketing studies, based on accurate numbers, influencing the necessary actions to be used. Also a marketing tool, a special measure is the collaboration of the public sector with the private one to unify the destinations' perfect image. More than that, it is imperious to create a notorious country brand, using a strategy to promote Romania's

best features but in concordance with the development of all tourism facilities and services.

At an international level, cultural events determine billions of tourists, not only because of the nature of event, but also stimulated by the facilities offered. In conclusion, the cultural events can positively influence the development of Romanian touristic potential by different improving actions:

- Fructifying in a superior mode the historical landmarks, with special attention to the restoration and preservation of heritage buildings and museums;
- Creating and improving a diversified touristic equipment for event purposes;
- Promoting the cultural events within a long period of time and permanently investing in the promoting activities;
- Attracting well known event celebrities that have a special impact on tourists demand- famous DJ, Sportsman, etc.;
- Investing in new cultural event activities, with a large spectrum and future perspectives;
- Accentuating the traditions and costumes in offering a unique event product;
- Providing special amenities and facilities for the display of festivals, and for accommodating and serving local and foreign tourists;
- Educate the mentality of local residents toward tourism and event; etc.

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Financial Performance and Social Responsibility: Romanian Scenario

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Abstract

The form and content of the capitalist world economy is fast evolving and we find capital being increasingly concentrated and centralised as the battle of market competition intensifies. Companies have to keep running just to stay in the same place so intense is the competition. One of the factors that make the critical difference between the companies is the public perception of a business's value systems that are best exhibited by initiatives in discharging its Corporate Social Responsibility (CSR). This study explores and tests the sign of the relationship between corporate social responsibility and financial performance.

Key words: Corporate social responsibility, financial performance, correlation, companies

J.E.L. classification: C10, M14, G34

1. Introduction

Corporate social responsibility (CSR) is now seen as an integral part of corporate strategy.

The field of corporate social responsibility has grown exponentially in the last decade. A larger number of companies than at any time previous are engaged in a serious effort to define and integrate CSR into all aspects of their businesses. An increasing number of shareholders, analysts, regulators, activists, labor unions, employees, community organizations, and news media are asking companies to be accountable for an ever-changing set of CSR issues. There is increasing demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance.

The definition of corporate social responsibility is not abstruse. Corporate social responsibility, it is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities (PJC 2006). The notion of corporate social responsibility as a part of the core business operations of a company, rather than a separate "add on", distinguishes it from corporate philanthropy which may be funded out of operations that are damaging to the communities in which business is conducted. McWilliams and Siegel (2001) describe CSR as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law." [1]

Social responsibility is an ethical or ideological theory that an entity whether it is a government, corporation, organization or individual has a responsibility to society at large. This responsibility can be "negative", meaning there is exemption from blame or liability, or it can be "positive," meaning there is a responsibility to act beneficently (proactive stance). Businesses can use ethical decision making to secure their businesses by making decisions that allow for government agencies to minimize their involvement with the corporation. Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, selfregulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms.

2. Empirical studies of csr and financial performance

In academic circles, extensive research has been conducted to assess the empirical association between CSR and corporate financial performance under diverse geographical contexts. Theoretical ideas on the impact of CSR practices on firm profitability appeared in the management science literature as early as in the beginning of the 20th century (Crane et al., 2008)[2]. The discussion later developed both in the economic literature with a focus on the cost and revenue implications of CSR practices as well as in the financial theoretical literature where simple stock return implications for investment carried under environmental, social, and corporate governance considerations were put forward.

The results of previous studies, however, are largely indeterminate. According to Margolis and Walsh (2001), one hundred twenty-two published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance.[3] The first study was published by Narver in 1971. According to “instrumental stakeholder theory”[4], companies with superior social performance tend to perform better financially by attracting socially responsible consumers (Bagnoli and Watts, [5]), alleviating the threat of regulation (Lev et al., [6]). A notable source is a meta analysis undertaken by Orlitzky et al, who integrated 30 years of research from 52 previous studies and used meta analytical techniques to support the proposition that corporate social performance and corporate financial performance are positively correlated and statistically significant. Interestingly, the meta analysis found a higher correlation between financial performance and a company’s management of its social impact than between financial performance and a company’s management of its environmental performance.[7]

As commented by Dowell et al. the majority of empirical works about the theme has been completed using samples of corporations from U.S.A. and Europe[8]. We consider the concentration of the research in well-developed markets as an additional factor in the determination of caution against

generalizations of the findings and also as a motivator to new research in other markets. Besides economic development, the institutional framework may also interfere in CSR [9].

3. Objective of the study

In this paper we have examined the relation between corporate social responsibility (CSR) and financial performance. And compare the dependency of corporate social expenditure on financial performance.

Hypothesis

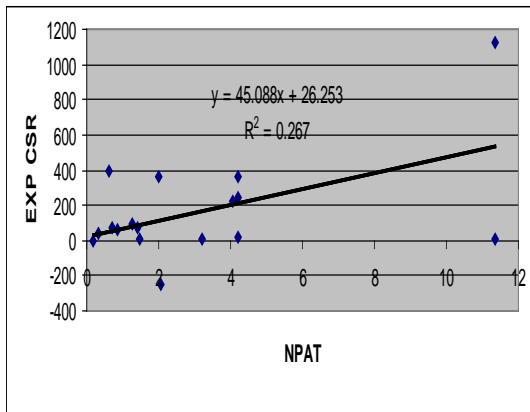
H1-CSE(corporate social responsibility) and FP (Financial Performance) is an independent from each other and CSE does not depends upon FP.

Methodology

The study is descriptive in nature because the study is a comparative analysis of expected with actual expenditure incurred and an attempt has been made to explore the relation between CSR expenditure and financial performance. We examined the relationship between financial performance and corporate social responsibility across the companies for the 2008 financial year. Data was gathered from publicly available information, as well as information from CSR Romania. Data has been analysed by using correlation and regression.

Results

It is being observed under various studies that there is a positive relationship between financial Performance and Social expenditure. To validate the same has been applied on financial performance (FP) i.e, NPAT and Corporate social expenditure(CSE). By applying the Pearson correlation at 0.01 level , the correlation coefficient for the same is 0.516 which rejects the Hypothesis-I.



4. Conclusion

The analysis reveals that there is a positive relationship between CSR and financial performance and the descriptive and inferential measures shows that Corporate social expenditure depends upon the financial performance of the Company. But at the same time we can conclude that most of the top roumanian companies are spending nothing on part of their social responsibilities.

The roumanian companies are not providing detailed information about their spending upon the social projects rather we are following the descriptive measures for reporting and just specifying in the report, the area where company is having its projects. No specific annual spending, budgets and details of social projects are disclosed by companies. By promoting and partaking in environmental conservation, the company profits in the long run. Corporations have realized conserving the environment is a vital aspect of the well-being of a company in the long run. If all resources are used up and destroyed, future success is not feasible. The company should focus on improving ways to better the manufacturing process of the goods so as to reduce air pollution as much as possible. It should also play an active role in the community and sponsor projects for the betterment of society and those less fortunate.

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Coordinates and Approaches in the Practice of Internal Audit

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Abstract

Internal audit contributes through its processes to achieve the best working conditions within an entity and to reach the proposed objectives. Increasing the entity's performance requires an effective coordination between the internal audit department and its risk management processes and internal control.

Key words: internal auditing, internal control, risk management.

J.E.L. classification: M42

The effective functioning of an entity refers in practice to the existence of various internal audit departments whose objective is to plan and develop audit missions.

Planning an audit mission requires the elaboration of an audit strategy regarding the nature, duration and determining the methods and techniques to be used during the audit process. [1] For a better mission planning, the auditors should take into consideration some issues regarding: the business objectives, the risks associated with the developed activities, the system of risk management and the internal control system.

The development of internal audit firstly requires the collection of the information and then their analysis and assessment. The documentation of the information is an important step in accomplishing the mission. Reporting the results of the audit mission takes the form of an audit report. This should include recommendations and measures on the proper functioning of the activities within the entity.

The practical coordinates of internal audit highlighted some features already established such as:

Universality of the internal audit function

Internal audit operates in all entities, whatever their field of activity and monitors most of their activities.

Internal control is considered to be its main object of activity. Due to the fact that internal audit aims to improve the internal control system with the recommendations made to the managers, and how internal control is universal, it results that this function can be the feature of universality.

Internal audit is a function of managerial assistance through which auditors help managers to increase the entity's performance in accordance with the monitored activities. Given that managers are everywhere, the internal audit assistance has consequently expanded in all areas, which allows us again to mention the universality of this function.

Independence of the internal audit function

To understand the internal audit function is essential to start from the existence of the internal audit department within the entity. This department operates independently of other departments and aims to supervise all activities in order to increase performance and achieve goals.

This is possible by:

- risk assessment activities;
- according to the results of risk assessment they establish the effectiveness of internal controls;
- management reporting of findings;

- advice given to improve the management activities carried out within the entity;
- how to implement oversight recommendations.

According to these responsibilities, internal audit provides an independent and objective opinion on risk management, internal control and governance of the entity.

Frequency of the internal audit function

The internal audit function aims to increase the value added within the entity. This can be achieved through effective audit aimed at reducing risks that are subject to activating a system by implementing internal controls to identify areas of inefficiency and increased performance.

The audit work is an ongoing activity but also a regular activity. Audit departments can always work in an entity, but there may be situations where the conduct of audits is related to risk assessment activities.

Auditors may audit an entity for 8-12 weeks and then return after a period of 2-3 years depending on the risks to which the entity activities are subject to. Thus, the internal audit activity is regularly scheduled, held on the basis of standards, based on a running program, and all mentions, ideas and recommendations are presented in a report assessing the entire activity within an entity.

The measures undertaken by internal audit are constantly changing, they are measures adapted to the new field regulations, to the available financial resources, and to the social and economic environmental influences. The effects of the economic crisis may have negative influences on the internal audit activity on a long term, so it is necessary to refocus and reorganize this function. Here are some attributes that maximize the internal audit function in these conditions [2]:

- focus on risks;
- aligning all operational processes;
- technology;
- quality and innovation;
- culture oriented to the client;
- efficiency in terms of cost.

We believe these attributes are beneficial in improving the internal audit activity. But to develop activities in accordance with the new trends/attributes, entities should allocate substantial financial resources to audit departments. Large entities allocate resources in order to implement a risk management

department, and internal auditors participate in courses and training to acquire different abilities.

The problem occurs in small and medium-sized entities that do not have sufficient financial resources to keep pace with these trends. Moreover, internal audit is seen as a structure that evaluates the internal control environment.

Therefore, we need first a reorganization of internal audit at the level of these types of entities, which do not only cover internal control but also risk management and governance entity.

The reorganization of these departments will make entities improve their activities and adapt to new trends.

Conclusions

Internal audit by its characteristics, scope and pursued objectives contributes to the improvement of the activities adding value to the entity. The proper planning and implementation of internal audit will contribute to the smooth running of the entity even in conditions of economic crisis. Moreover, taking into account the reorganization of internal audit according to the attributes that maximize this function we observe that this fact brings various benefits to the entity.

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The Importance of Sovereign Rating for Romania in the Crisis Context

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Abstract

The sovereign credit risk rating for Romania had significant changes in the 1996 – 2008 periods, from category B- with negative perspective, as the lowest level, to BBB-, with positive perspective. The objective of this paper is to explain the importance of sovereign rating for Romania in the crisis context. The first part of the article is a short presentation of the sovereign rating literature regarding the concept and the risk sources. The second part highlights the relation between foreign currency long-term sovereign rating, foreign direct investment and debt cost. The paper find evidence that sovereign rating influences capital inflows and debt cost.

Key words: sovereign rating, rating agencies, foreign direct investment, credit spreads

J.E.L. classification: G24

1. Introduction

Our paper aims to answer to the following questions: What country risk means for rating agencies? What is the relationship between the sovereign rating and the volume of direct foreign investment? What about the relationship between the risk grade and the cost of debt? How did sovereign credit rating influence the inflow of direct foreign investment in Romania?

The first part of the work briefly presents the main concepts and the reference literature on the relationship between the risk grade and the international assignment of financial capitals. The second part presents the evolution of sovereign rating of Romania during the years 1996 – 2010. Also, it is emphasized the influence of sovereign risk on the direct foreign investment and the cost of

external debt. The statistics about Romania suggest, similarly to the hypotheses validated into the reviewed bibliography, a negative relationship between the sovereign credit rating and the direct foreign investment. The main conclusion of the work is that the degradation of the sovereign rating negatively affected the inflow of direct foreign investment and the cost of debt.

2. Theoretical references

Country risk is a synthetic indicator on the quality of business conditions within a country. On the global risk assessment market there are various tenderers that can be classified in accordance with the nature of activity as: rating agencies (Standard & Poor's, Moody's, Fitch and others), professional companies (P.R.S. Group, Euromoney, Institutional Investors and others) and big banking groups (Citibank, Credit Lyonnais, BNP Paribas and others). The country risk does not encounter a unitary methodologic approach, being surrounded by many conceptual confusions. The risk grade meaning is not the same for all the mentioned organizations, being strongly influenced by the assessment objective. Thus, the professional companies have as main activity the consulting services for banks, private non-banking companies, governments and international multilateral institutions. Therefore, the country risk grade mostly shows the general country risk, understood as a complex indicator covering the total risks inherent to capital investment abroad. In case of banks, the analysis of country risk drives at reflecting the credit conditions, and the country risk indicator is not disseminated to the public. Rating agencies have as main activity the risk assessment, completed by the issuance of risk grades. In accordance with the rating agency Standard&Poor's,

“Sovereign credit ratings reflect Standard & Poor's Ratings Services' opinions on the future ability and willingness of sovereign governments to service their debt obligations to the nonofficial sector in full and on time.”(Standard & Poor's, 2008). Fitch uses for the same concept the term of sovereign issuer default ratings, and Moody's the term of government bond ratings. In this work the reference is to the sovereign risk assessed by rating agencies. The meaning of risk classes is the following: AAA – extremely powerful capacity of a debtor to take up its obligations, AA – very powerful capacity, A – powerful capacity, BBB – appropriate capacity, but sensitive to potential changes within the business environment, BB and B – speculative bonds with low vulnerable capacity, respectively more non-payment vulnerable, CCC and CC – currently vulnerable bonds and very non-payment vulnerable, C – very vulnerable bonds or debts involving contractual restructuring, SD (selective default) and D – payment cease.

Ratings, including the sovereign ones, are important signal for the world investors, subjects of the system of internationally capital allocation, due to financial disintermediation and globalization. The recent world financial crisis has once more emphasized the importance of credit risk grades, as it is demonstrated by the official investigations conducted by the regulating authorities from the European Union and USA (European Securities Markets Expert Group report to the European Commission, 2008, Stability Forum Financial Report (FSF), 2008, Report of the International Organization of Securities Commissions (IOSCO), 2008, Annual Report on the Nationally Recognized Statistical Rating Organizations (NRSRO), Securities and Exchange Commission, USA, 2009). The conclusions to these reports show that investors take into account the rating when making decisions and rating agencies have contributed through their grades to the cumulation of tensions on the financial markets, inducing insecurity. There must be mentioned the fact that the assessment of sovereign risk by agencies is estimated as satisfactory in terms of accuracy. The financial crisis has been worsen mostly by the too high credit risk grades associated to the derived instruments.

Besides the official reports, there are other studies concerning the relevance of sovereign risk for big international investors, financial market and economic growth. A synthesis of the reference works for this article is displayed into the following table:

Table 1. Influences of the sovereign credit rating

Study	Conclusion
Cantor and Packer (1996)	92% of the variation in credit spreads can be attributed to ratings, and the effect is more powerful in case of rating degradation against upgrading.
Erb, Harvey and Viskanta (1999)	There is a strong relationship between country risk and sovereign bond yield spreads for emerging markets.
Kaminsky and Schmukler (2002)	Modification of sovereign rating affects both the assessed instruments and other instruments of credit from the country referred to. The modification contributes to contagion, and the contagion effect has regional nature.
Cantor and Mann (2003)	There is a positive correlation between the ratings assigned by Moody's and the cycle indicators.
Setty and Dodd (2003)	Credit rating agencies influence credit spreads and the flow of capital to developing countries.
Reinhart and Rogoff (2004)	Sovereign default risk, measured by sovereign rating, affects capital flows.
Kim and Wu (2007)	Sovereign credit ratings affect capital flows.
Borensztein, Cowan, and Valenzuela (2007)	High country risk increases the financing cost for the private entities and reduces the volume of private capital flows.
Altman et al. (2008)	Rating influences the bonds margins. The weaker the risk class, the higher the margins, and the relationship is a long term one (more than 20 years).

Source: personal adaptation in accordance with the mentioned studies.

In conclusion, sovereign rating influences the cost of bonds and the volume of external financing, and the influence is more powerful for developing countries and emerging markets, characterized by weaker risk grades.

3. Romania's case

The sovereign credit risk rating for Romania incurred significant changes during the years 1996 – 2008, from category B- with negative perspective, as the lowest level, to BBB-, with positive perspective. In 2005 Romania entered for the first time the investment grade category, but in 2008 it was degraded to speculative grade by two big agencies out of three that dominate the world market: Standard & Poor's and Fitch. The evolution is the following:

Table 2. Sovereign Rating, Romania, 1996 - 2008

Period	Mar. 1996	Apr. 1997	Jan. 1998	May 1998	Oct. 1998
FCR*	BB- /st.	BB- /st.	BB-/-	B+ /st.	B-/-
Period	Apr. 1999	Aug. 2000	Mar. 2001	Jun. 2001	Apr. 2002
FCR*	B-/-	B- /st.	B-/+	B/+	B+ /+
Period	Feb. 2003	Sept. 2003	Sept. 2004	Feb. 2005	Sept. 2005
FCR*	BB- /+	BB+ /+	BB+ /st.	BB+ /+	BBB- /st.
Period	Nov. 2005	Sept. 2006	Apr. 2007	Nov. 2007	Oct. 2008
FCR*	BBB - /st.	BBB - /+	BBB - /st.	BBB - /-	BB+ /-

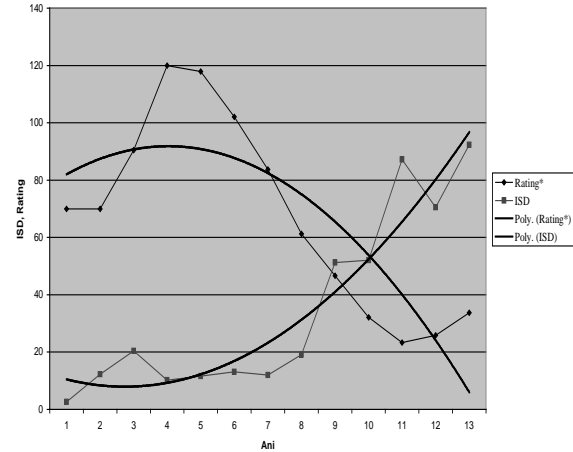
*FCR=foreign currency long-term sovereign rating.

Source: Standard&Poor's, 2008

From October 2008 to 2011 Romania held BB+ category, turning to stable outlook in 2010. To observe the relationship between the sovereign rating and direct foreign investment (ISD) in Romania, the risk grade was turned into numbers. Thus, the best grade held by the country under survey, BBB-, positive outlook received the score of 20, then the score was increased by a ranking of 5, up to the highest sovereign risk into the reviewed period, B-, negative outlook (which received 120 points). Referring to ISD, the investment volume was divided by 100 to ensure compliance with the assessment scale. Further to these

adjustments, the following relationship resulted:

Figure 1. Sovereign rating - Foreign Direct Investment (ISD), Romania, 1996 - 2008

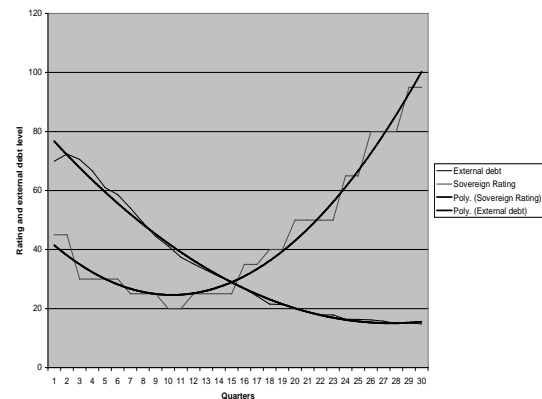


Sources: Eurostat and Standard&Poor's, 2008

The chart points out the reverse relationship between rating and ISD flow, relationship which appears also into the works from table 1.

Besides ISD, external financing can take the form of the external debt. In accordance with the reviewed works, when rating improves, the cost of debt decreases, fact leading to the hypothesis that the debt volume should increase. Therefore, holding the transformations applied to rating and dividing the total external gross debt by 1000 to assure comparison, the following chart resulted:

Figure 2. Sovereign rating and total external debt 2001 – 2009

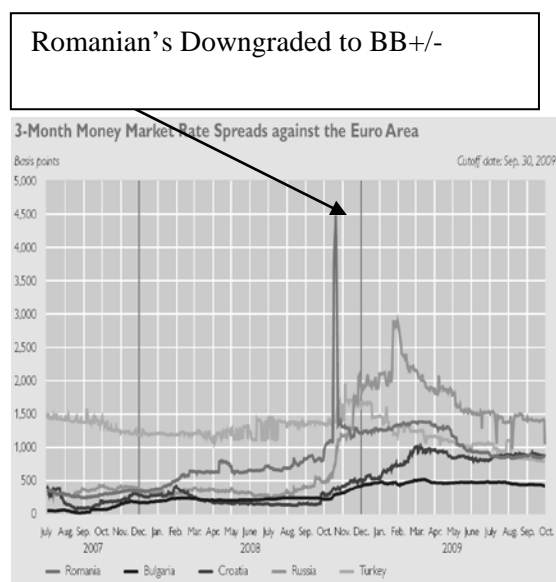


Sources: Eurostat and Standard&Poor's, 2008

The chart shows the fact that the external debt increased gradually as the risk diminished and the rating improved up to the year 2007. Beginning with 2008, the risk grade lowers but the external debt grows as the financing need increases within the context of ISD diminution having as background the international financial crisis. Therefore, the reverse relationship sovereign rating – total external debt is doubtful.

In respect of the debt cost, the analysis checked whether the improvement/degradation of the risk grade determines the decrease/increase of the debt cost. Therefore, the following chart is relevant:

Figure 3. Impact of FCR to 3-Month Money Market Rate Spreads against the Euro Area



Sources: Standard&Poor's, 2008 and Bloomberg, 2009

The above chart emphasizes the fact that Romania's entry from investment grade to speculative grade in November 2008 was accompanied by the immediate abrupt increase of the interest margin. It is thus confirmed the direct relationship between the debt cost and sovereign rating, mentioned into the reference literature.

4. Conclusions

The Romanian sovereign risk grade has been generally ranging during the last fifteen years within the speculative class, except September 2005 – November 2008. During

those three years, the Romanian state was considered an investment grade debtor, but on the low threshold, the limit of this category.

Statistics referring to Romania, in chart form, show a reverse relationship between the sovereign rating and ISD and a direct relationship between the risk grade and the external debt cost. It appears that sovereign rating influences Romania's conditions of access on the international financial market.

5. Acknowledgements

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Factoring, a Financing Alternative for Romanian Exporters During Crisis

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Abstract

Factoring, a product used in dynamic business environments worldwide, is a quick solution for the issue of working capital locked in the loan provider, ensuring a productive use of financial resources. During the economic crisis and given the very limited access to traditional financing schemes, factoring may be a suitable alternative for some companies in Romania, particularly those operating in the provision of goods or services. Factoring is therefore a solution to short-term finance company unsecured debt on assignment for specialized factoring company. As an alternative to standard loans, factoring is a low risk way of financing increasingly requested by Romanian companies.

Key words: factoring, factor, adherent, debts.

J.E.L. classification.: G21

1. Introduction

In current conditions, when the economy is showing signs of weakness, banks are increasingly hard to credit, capital market is moving slowly, companies do layoffs, people are very careful with their money and consumers pay their bills late. New more stringent risk policy applied by banks, with low liquidity on the market have made many SMEs no longer qualify for a bank loan or facilities extensions are no longer taken, which eliminates chances of development or even survival in the market (4).

Due to current market constraints (mainly depreciation on real estate, which limits access to traditional forms of borrowing), the factoring may be an alternative for those

companies that have significant amounts earned from sales of goods and services to the third parties who want to gain quick access to financing their businesses. According to several statistics available to the public, the potential development of this alternative financing is indeed significant.

2. General considerations on factoring operation

2.1. Definition of factoring

Factoring is a commercial credit contract involving a company specialist (banking company or a specialized financial institution) called factor and a company supplying products or services known as the adherent. The adherent seeks to charge the bills before the deadline and the factor seeks for a benefit, usually a percentage of the invoices he settled in advance. In other words, factoring is a financing solution to short-term unsecured company, based on assignment of claims in favor of specialized factoring company (8).

Debtors' insolvency risk and the risk of failure to pay on time (risk of cash) are the factor's responsibility, without any possibility to return against the adherent as an appeal. If the factor does not accept the bill, it can be cashed within a term contract, without assuming the risk of failure to pay, while the adherent is obliged to notify customers about the factor's overtaking, to which they must refer their payments.

Factoring companies also deal with customer management and billing management, and bring insurance against default risk of debtors (full-service factoring).

2.2. Advantages and disadvantages of factoring for the adherent

The main **benefits** of the factoring transaction for the adherent are as it follows:

- A company that chooses the factoring transaction as a financing alternative will assign the claims arising from invoices for goods and services provided to third parties, to the company, in return for factor's prompt payment of the value of these receivables, less an amount representing the factoring fee. There are variants of factoring in which payment is made in several tranches. Therefore, factoring allows adherent to dispose of the necessary capital to continue trading, to reduce the cycle of rotation of the working capital by only a single financial institution immediate payment of bills, to focus their attention on the real trade and, finally, to realize an increase in turnover and profits. The period for obtaining cash is much shorter than for a loan, without having to comply with a specific destination as in the case of a loan. In addition, the number of documents necessary to obtain financing through factoring is much reduced compared with the documentation necessary to obtain a loan (7).

- Generally, the factoring is regarded as a sale of receivables, inside which the full risk for paying claims by the borrower belongs to the factor, the last one having no right of recourse against the adherent in case of borrowers payment default. All income costs and loss account of the risk involved insolvency are thus eliminated for the adherent. However, some factors also provide a right of recourse financing, which means that the risk by failure of payment of claims goes to the adherent. By taking over the "clients" area from the adherent's assignement and by taking advantage of the current account system, the factoring helps simplify adherent's accounting and reduce its functional tracking device for receiving financial and accounting bills, ensuring the reduction of funds for its daily business being also able to use funds for other purposes. The factor performs all operations related to the adherent bills, processes them by inserting them into the system or information, along with their collection. At the end of each month it prepares reports on complex financial transactions performed. Also, the

factor becomes the adherent manager and adviser in selecting both customers in terms of their trustworthiness, and in its commercial trade policy guidance, the adherent thus losing a part of its economic and financial autonomy. Factor's involvement in its client's business management -the adherent- is accompanied by a wide range of services, as well as aspects of modern methods of management and accounting studies and analysis of external market situation, legal services, intended to make the adherent more operational, to enhance safety and expanding market by establishing relationships with partners of an obvious ability to pay.

- Given that the factoring is essentially an assignment of receivables, the factors, having obtained all debts from the adherent, generally do not require any other warranties.

- Factoring does not require a change in the company's ownership structure. This means that shareholders are not expected to give up their share capital or to accept new partners.

- There are no geographical limits on factoring operations. A factor can work in any area and the customer can have trading partners from all over the world;

- The adherent takes full advantage of discounts and sales granted for early payment discount, as well as of those granted for volume discount. If a business can save between 2-5% of the cost of raw materials needed for production by the mere fact that the adherent has the money to pay for them within 10 days, this significantly reduces the real cost of financing through factoring;

- Bu using factoring the adherent ceases to offer discounts for immediate payment. As long as exporters cash their debts immediately, they will not have to give discounts for immediate payment. The adherent is able to offset the cost of factoring by obtaining these savings and taking advantage of the discounts received for immediate payment.

- Factoring is not a loan, but a special form of mobilization of outstanding debts in the future. Therefore, the exporter may, apart from mobilizing the factoring of overdue debts, to resort to bank loans and cover other additional needs.

Factoring disadvantages for the adherent are as it follows:

- Overdue debts usage takes place at more than 80% of the total debt, the rest being reinvested at the payment deadline imposed by the importer, after deducting the interest and commissions due to the export factor;

- The exporter may use factoring only for short-term debts (usually up to 120 days and exceptionally 180 days);

- The operation can be carried out with recourse to the exporter. – The exporter may have obligations to deliver/import and to provide over the credit limit set by the import factor and can thus be concerned with seeking other funding sources;

- All financing expenses are the exporter's responsibility, together with the fees imposed by the export factor.

2.3. Types of factoring operations

Depending on the method of debts financing, factoring transaction can embrace two forms (1):

- **traditional / old line factoring**, when the factor pays the bills when they come into his possession, giving credit to the adherent till the payment deadline, so that it holds an interest (discount rate);

- **maturity factoring**, which occurs when the factor pays the bills at the deadline.

Depending on the business settlement, there are the following types of factoring (5):

- **national factoring** –it is estimated that 80% of the global factoring operations are internal ones, which imply that the factoring agreement is concluded between the factor and the adherent for invoices issued for goods and services supply inside the adherent's residence country;

- **international factoring**, which currently has a faster development than that of the national one, especially because of the fact that it is dealt with export financing activities, which significantly increased in the last ten years. External financing can be a direct import or export factoring, inside which the factoring company maintains business relationships with foreign buyers or suppliers, or with a two-factor system, where an export factor uses the services of the import one, in the buyer's residence country.

3. Romanian Factoring Market

Factoring operations in Romania are briefly covered by legal stipulations in certain incidents and regulations issued by The National Bank of Romania, generally in connection with activities undertaken by commercial banks and non-bank financial institutions. The applicable law issued by NBR includes factoring operation for the general credit activity, which can be performed only by commercial banks and non-bank financial institutions (NFI), without providing a definition of factoring operations. In the absence of specific regulations, the legal status of these operations is represented by the general rules applicable to debts transfers.

Currently, the factoring market in Romania is concentrated in the hands of the ten strongest players, mainly of commercial banks. Only three larger companies are separate entities dealing strictly with only factoring: Sterling Factor, Factoring Company and ING Commercial Finance.

Factoring IFN SA Company is the first company in Romania specialized in factoring services, whose shareholders are Transylvania Bank and Intermarket Bank Austria AG, a leading Central and Eastern Europe factoring services. Factoring IFN SA Company is a member of Factors Chain International (FCI), one of the largest global professional services. It provides bills funding services, debts and debtors management and collect debts at maturity. It represents the perfect option for companies that need money. It secures payments of 80% of the total amount of goods in less than 48 hours after delivery together with external customers checking and processes handled by specialist companies or banks (9).

Sterling Factor Company is a non-banking society specializing in providing factoring services for international and national factoring, the only one of its kind in Romania. Sterling Factor is a group of Romanian-American joint venture, with a real partnership with over 40 countries including Australia, Canada, France, Hungary, Great Britain, Spain, USA, Turkey, Italy, Greece, Germany, etc.. Moreover, compared to other banks from Romania, Sterling Factor Company has also covered Russia. The services provided by the

company are default insuring risk, bills collection and cash advances. Sterling Factor deals with collecting bills, watching as they are paid on time and will report on the bills to be collected. Cash advances stand for a percentage of 60-80% of the bill value, 48 hours from goods delivery.

In the past years, banks have been seriously involved in providing factoring offers for small and average companies. The top four players in the factoring market, BRD Groupe Société Générale, BCR, Raiffeisen Bank and ABN Amro gather together 85% of the market. In addition, the top players, BRD and BCR, are proving to be the most aggressive in the field, the tending market of the first sharing this year to 42% while the second goes for 30%. The competition which takes place between factoring companies often focuses on large retailers, which bring along dozens of suppliers who serve them. For example, the BRD holds as main customers the supermarket chains Carrefour and Auchan.

By using factoring services in national and international currencies offered by BCR, customers benefit from immediate funding for the delivered goods or services, collection monitoring, bills registration and foreign borrowers default risk covering. The financing represents 80% of invoice value at the time of purchase and 20% upon invoice, the cost for companies being profitable.

BRD - Groupe Société Générale, besides financing debts, also deals with the debts management service, consisting of their administration, collection and, if necessary, cover the default risk of borrowers. Through this service, BRD-Groupe Société Générale aims to develop and improve payment behavior of companies by respecting the contractual maturities.

Raiffeisen Bank offers this product in several versions, intended for business: factoring with recourse (no pay, no risk covered), non-recourse factoring, national and international factoring. Over 80% of Romanian factoring volumes come from small and average companies and 95% of the customers also come from the mentioned area.

Factoring has been on the Romanian market since 1994, but came to the attention only in the last five or six years, as small business developed. Till 2005-2006,

factoring market players focused more on companies with export activities.

If the turnover was of 20 million Euros in 1999, there was in 2004 a substantial increase in volume, reaching 420 million Euros. After steady increases over 100% of the activity recorded in 2004 and 2005, factoring market in Romania reached 750 million Euros in 2006. Factoring in Romania market value was 1.7 billion Euros in 2008, representing a significant increase of 63.64% over 2007 and put Romania on the seventh place in a market ranking which recorded the strongest growth in 2008. In 2009 the factoring market volume decreased to 1.4 billion Euros from which 1.05 billion Euros came from national factoring, while 350 million Euros were issued by the external one.

However, Romanian factoring services remains quite small (0.52%) compared with the average EU level (7 to 7.5%) and global (3.45%), which theoretically means that Romania has great potential for development of these financial activities (2).

In 2008, in Romania, factoring market represented only 1.5% of the National Product, compared with 3% EU average or even 9-10% of NP in developed countries. In Poland, the share of factoring in NP slightly decreased to 2.2% last year, while in Hungary has remained constant to 3.2%. The biggest factoring market is in the UK, where business players in this area exceed 10% of NP.

According to several specialized companies, Romanian factoring market has high growth potential, taking into account the fact that its share in NP is about half from the European's average and more and more companies are choosing to assign invoices in order to obtain cash, in a time when access to traditional lines of financing from banks is limited.

In 2009, the Romanian volume of factoring transactions as a share of NP is 4-5 times lower than in Slovenia, Hungary and Poland. According to data presented by Next Capital Company, even Bulgaria has overcome Romania from this point of view.

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EU funds absorption in Romania through Sectorial Operational Program for Human Resources Development between 2007 and February 2011 – an analysis

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Abstract

One of the opportunities to finance succesful projects represents the european funds that Romania can access through the Operational Programmes implemented for 2007 2013 period. After more then three years the absortion level of these funds remains very low and the projects aproved to be financed face many difficulties during the implementation process. In this paper we try to indentify the state of the financing process for the most accessed operational programme – human resources development.

Key words: European funds, human resources development, projects.

J.E.L. classification: G01

1. Introduction

EU funding represents, at this time especially, one of the best ways to fund ideas that most often do not have another chance to turn into viable projects that will support the achievement of overall goal of increasing the living standards and the competitiveness of the Romanian economy so as to exceed the minimum criteria required by European Union for its members so that they no longer come under the Community policy to mitigate disparities.

Fresh EU member state, Romania prepared in compliance with EU cohesion policy its own development strategy for the period 2007 to 2013.

Framework documents for the implementation of national development policy basically refer to three elements: the National Development Plan, National Strategic Reference Framework and

Operational Programmes.

Romania's National Development Plan for the financial period 2007-2013 is the strategic planning document for multiannual financial programming, approved by the Government and developed into a broad partnership that would guide the socio-economic development of Romania under Cohesion Policy European Union.

NDP is the document upon which were developed the National Strategic Reference Framework 2007-2013 (NSRF), which was agreed with the European Commission strategy for the use of structural instruments, and the Operational Programmes which will implement these funds. The development strategy of the NDP for 2007-2013 is a reflection of Romania's development needs in order to reduce the gaps compared to EU as soon as possible. NDP 2007-2013 strategy focuses both on communitary strategic guidelines on cohesion, as well as the Lisbon Agenda and the Gothenburg objectives.

Romania's National Development Plan for 2007-2013 provides six national development priorities for 2007-2013 as a result of the SWOT analysis made by the authorities:

1. Increased economic competitiveness and development of the knowledge-based economy
2. Development and modernization of transport infrastructure
3. Protect and improve the environment's quality
4. Human resource development, promoting employment and social inclusion and strengthening the administrative capacity
5. Development of rural economy and increase productivity in agricultural sector
6. Reduce development's disparities between different regions of Romania.

National Strategic Reference Framework (NSRF) is the strategic reference document for programming Structural Funds and Cohesion Funds in Romania. This document is prepared by each EU member state, according to the new *acquis* on Cohesion Policy.

This document will not serve as a management tool, but as a strategic document setting out the priorities of intervention of the Structural and Cohesion Funds in the reference period.

The NSRF explains how they will be implemented Structural Instruments in Romania between 2007 and 2013.

NSRF creates the links between national development priorities set in National Development Plan 2007-2013, and priorities at European level - the Community Strategic Guidelines (CSG) for Cohesion 2007-2013 and the Integrated Guidelines for Growth and Jobs 2005 -2008.

The basis for the development of this strategic planning document in the medium of the Structural Funds and Cohesion was the National Development Plan 2007-2013, approved by the Government in December 2005.

The main purpose of the NSRF strategic objective is to strengthen the economic, social and regional cohesion in Romania, as well as fit and proper to establish links with European Commission policies, particularly with the Lisbon Strategy, which underpins the policy-making economic development and create new jobs.

NSRF has been prepared based on the National Development Plan (NDP) 2007-2013 and is implemented through Operational Programmes.

2. Sectoral Operational Programme for Human Resources Development (SOP HRD)

One of the most accessible operational programmes is SOP HRD which represents the strategy for human resource development through the intervention of European Social Fund in Romania.

The general objective of SOP HRD is the development of human capital and increase competitiveness by linking education and lifelong learning with the labor market and providing increased opportunities to

participate in a modern labor, flexible and inclusive market for 1,650,000 people.

The general objective of SOP can be divided into several specific objectives: promotion of education and initial and continuous training, including higher education and research; promoting entrepreneurial culture and improving quality and productivity; facilitate labor market insertion of young people and long-term unemployed; development of a modern, flexible and inclusive labor market; promote insertion / reinsertion into the labor market of inactive people, including rural areas; improving public employment services; facilitate the access of the vulnerable groups to education and the labor market.

SOP HRD funds seven areas of activity, known as "priority axis". Each of these priorities is in turn divided into several subdomains, called "areas of intervention."

SOP HRD strategy includes 6 priority and a dedicated technical assistance priority axis, as follows:

The financial plan of SOP HRD was elaborated in accordance with the financial plan of the National Strategic Reference Framework 2007-2013. SOP HRD will be financed from European Social Fund. ESF allocation for SOP HRD is 3.476 million euro, representing 85% of the total value the Programme. National contribution is estimated at 613 million euros.

Priority axes set for the human resources development in Romania are supported by the proposed financial allocations, indicating the importance given to each of the three main areas of intervention of ESF in Romania through SOP HRD:

1. Promoting lifelong learning and the adaptability of labor force and enterprises (AP 2 and 3), accounting for 38.37% in financial allocation;

2. Promoting active employment measures for the inactive population, especially for people living from the subsistence agriculture, youth unemployment and long-term unemployed and the labor market integration and social inclusion of vulnerable groups (AP 4, 5 and 6): 34 , 21%;

3. Education and training in support of growth and development of the knowledge-based society, aiming at modernizing the educational system and initial and ongoing professional training, including university

education and research support (AP 1): 23.55%.

The financial allocations for each priority axis have considered the extent of the problems identified in the SWOT analysis performed for creating the National Development Plan. Figures and indicators in the time of analysis were compared with the revised Lisbon Strategy objectives in terms of the knowledge society, mainly the participation in lifelong learning, adaptability and the promotion of scientific research in the economic sectors with high added value. For these objectives has been taken into account the in order to achieve equilibrium allocations of Lisbon and the Community Strategic Guidelines on cohesion, proposing the active employment measures and intensified action to promote social inclusion of persons belonging to vulnerable groups. For this purpose, have been proposed and priority key areas of intervention that addresses these two complementary directions of development of human resources and targets that will be achieved by the end of 2015 were set .

Financing the projects under SOP HRD started in 2007 and, in theory, should represent an opportunity for those ideas that come to solve identified weaknesses in human resources in Romania. In practice, however, the rate of financing is still very small. To see the funding situation for the SOP HRD we did an analysis of the projects submitted and accepted for funding under this operational programme.

3. The project financing activity through Sectorial Operational Program for Human Resources Development between 2007 and the end of February 2011

To evaluate the level of financing of the projects from European funds available for Romania through structural instruments between 2007 and 2013 we conducted and analysis regarding the projects submitted and financed by the SOP HRD starting from 2007 and until the end of February 2011.

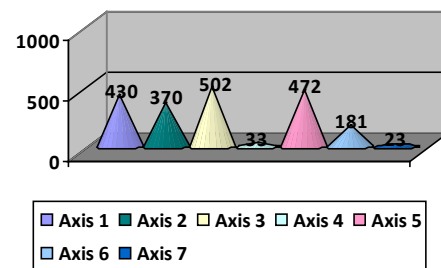
The analysis performed takes into account both the quantification of contracted projects and focus on each key area of intervention in one hand, and the values of these contracts

on the other hand. The database used for the analysis was provided by the Management Authority of the Sectorial Operational Programme for Human Resources Development and regards the period 2007 february 2011 which represents aproximatively the half of the entire period set to implement the communitary policy from 2007 to 2013 and use the financial allocations from European Union.

The first goal of our analysis is to identify how many projects were contracted for each priority axis of the programme.

Figure no. 1

Number of contracted projects for the seven axis of the SOP HRD



Source: data processing by author

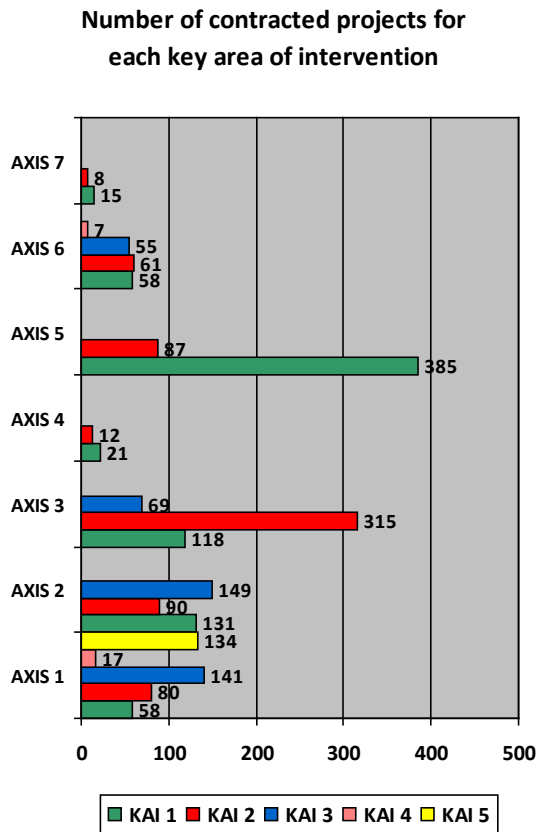
From the chart above it appears that most of the approved projects were contracted under Axis 3 (Increasing adaptability of workers and enterprises). In this context, it is noted that only 3 axes, 1 (education and training in support of growth and development of knowledge-based society) and 5 (Promoting active employment measures) exceed the 400 projects.

The underlined situation leads us to the conclusion that these are the lines of action in which the beneficiaries of the projects identified more opportunities. Not far from leading positions we find axis 2 (correlation of lifelong learning and the labor market) that the 370 projects with exceed 4 the axes (Modernising public employment service), 6 (Promoting social inclusion) and 7 (Technical) together.

Axis 6, although numbers less than 200 projects, it clearly exceeds the last two grades. If for priority axis 7 is somewhere normal that the number of projects to be lower than in other cases, the same could not be said about the axis 4 which reflect the lack of efforts to increase the efficiency of the Public Employment Service. Remains to be

seen to what extent, in the upcoming period, the number of projects approved for each axis will increase.

Figure no. 2



Source: data processing by author

The graph above shows the distribution of the contracted projects on each key areas of intervention (KAI) for the 7 axes. Thus, within the priority axis 1, which refers to five KAI, were contracted 430 projects in total. Most of them (141) concerns KAI 3 respectively human resources development in education and training.

Also in the axis 1, 134 projects were contracted in the KAI 5 (Doctoral and post-doctoral programs to support research). Each of the others DMI have less than 100 projects approved, the order is as follows: KAI 2 (Quality in higher education) - 80 projects, KAI 1 (access to initial education and vocational training) - 58 approved projects and KAI 4 (Quality in continuous professional training) - only 17 projects.

Within the axis 2, which includes three key areas of intervention have been contracted a total of 370 projects. Among these 149 concerns KAI 3 (access and participation in CPT). The other two KAIs are relatively close, namely: KAI 1 (transition from school to work) - 131 projects and KAI 2 (Preventing and correcting of early school leaving) - 90 projects.

The priority axis 3 also has three major areas of intervention, the number of approved projects amounting to a total number of 502. Here it is noted that KAI 2 (Training and support for businesses and employees to promote adaptability) recorded a greater number of projects than KAI 1 (Promoting entrepreneurial culture) and KAI 3 (development of partnerships and encouraging initiatives for social partners and civil society) together. Thus, the order is: KAI 2-315 projects, KAI 1-118 projects and KAI 3-69 projects.

The two key areas of intervention under Axis 4 recorded in total only 33 projects. Under these conditions on the KAI 1 (Strengthening Public Employment Service to provide employment services) were contracted 21 projects and on KAI 2 (training personnel of the Public Employment Service) 12.

In the axis 5 is observed a significant difference between the two major areas of intervention which together account for 472 projects. Thus, under KAI 1 (Developing and implementing active employment measures) were contracted 385 projects, while KAI 2 (Promoting long term sustainability of rural areas regarding the human resources development and employment) have only 87 projects approved (four times less).

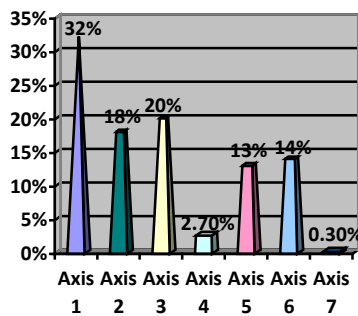
The four major areas of intervention of the axis 6 projects summarize 181 approved projects. . Thus, the hierarchy of the axis is: KAI 2 (Improving access and participation of vulnerable groups in the labor market) - 61 of projects, KAI 1 (the development of social economy) - 58 projects, KAI 3 (Promote gender equality on the labor market) - 55 projects and KAI 4 (trans-national initiatives for an inclusive labor market) - only seven projects.

In the axis 7, which has two major areas of intervention have been contracted a total of only 23 projects, distributed as follows: KAI 1 (Support for implementation, overall management and evaluation of SOP HRD) - 15 projects, KAI 2 (Support for SOP HRD promotion and communication) - 8 projects.

Another element analysed is the percentage allocated for each axis of the programme from the total financed value (the value of the finance agreement which can be different from the final value of the project depending on the capacity of the beneficiaries to make expenses from its own funds before reimbursement. At the end of february the total value of the the contracted projects was about 3.3 billions EUR.

Figure no.3

Percentage from total financed value for each axis



Source: data processing by author

The graph above shows, in a detailed manner the percentage distribution of the values of contracted projects on each priority axis of SOP HRD. Thus we note that axis 1 (education and training in support of growth and development of the knowledge-based society) aggregates the most consistent amounts contracted through projects developed by the beneficiaries, reaching the threshold of 32% of the total value approved.

Axis 3 (Increasing adaptability of workers and enterprises) includes projects whose the total value is 20% and is closely followed by axis 2 (correlation of the lifelong learning and the labor market) by 18%.

The values resulting from projects related to axis 6 (Promoting social inclusion) and 5 (Promoting active employment measures) are close. The difference between the two is only 1%.

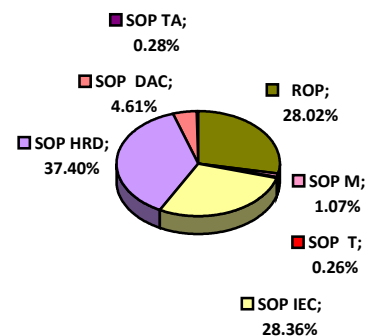
Under axis 4 (Modernizing Public Employment Service) contracted projects account for 2.70% of the total value of the programme under this axis being situated only 7 (Technical) with 0.30%.

4. Conclusions

The Human Resources Development Operational Programme is the most accessed operational programme for the period taken into account for our analysis as the situation of the submitted and also the approved projects to be financed under the seven operational programmes for Romania for 2007-2013 period prove.

Figure no.4

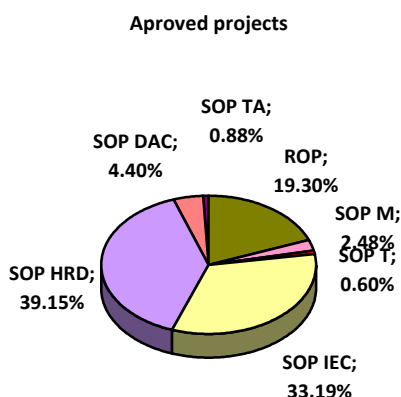
Submitted projects



Source: data processing by author

Figures reveal that the total projects submitted most were within the Human Resources Development Operational Programme SOP HRD (37.40%). Increase of Economic Competitiveness Operational Programme SOP IEC and Regional Operational Programme showed similar values in this regard, each exceeding the threshold of 28%. Romania's other operational programmes together account for 6.22% of all projects submitted.

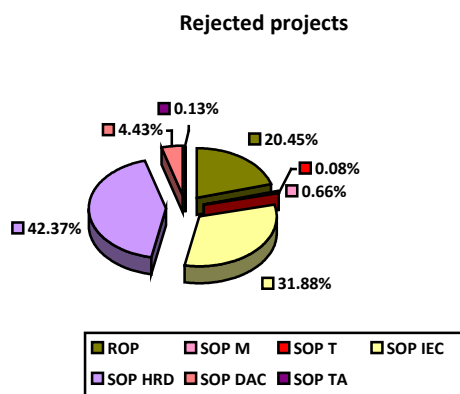
Figure no.5



Source: data processing by author

Human Resources Development Operational Programme has the largest share of the total approved projects reviewed by 28/02/2011. SOP Increase of Economic Competitiveness ranks second in terms approved projects, only 6 percent apart. Well below expectations, we find the projects approved in Regional Operational project totaling only 19% of the total. In the other operational programmes chart illustrates the delicate situation closely facing our country on the line absorption of EU funds.

Figure no.6



Source: data processing by author

The analysis showed that the number of rejected projects is very high, clearly exceeding the total number of approved projects. This leads to the conclusion that there were numerous deficiencies in the drafting. Most affected have been the Sectoral Operational Programme Human Resources Development, Sectoral Operational Programme Increase of Economic Competitiveness and ROP.

In conclusion regarding the financing process through the SOP HRD we can consider that, even the number of rejected projects was relatively high, this operational programme is the most accessed of the all operational programmes and within the programme the priority axis 3 represents the leader on terms of contracted projects.

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Communication Analysis for a Tourism Enterprise

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Abstract

The implementation of a global communication strategy does not stand for a measure that could be put into action one day or another, but it requires a long way which is often blocked by obstacles or in danger of being lost. For such risks to be prevented, the establishment of an elaborated system of communication assessment (in its various forms, and also at a global level) is crucial (and unfortunately non-existent even in the incipient forms at SC THR “Black Sea” in Eforie Nord). The global communication strategy implies an agreement between the internal communication strategies and the institutional and commercial ones. On the one hand, a separation between those strategies cannot be done accurately, and on the other hand, it may affect the approach that led us to debate the theme of global communication.

Key words: global communication, strategy, objective, institutional communication, logo.

J.E.L. classification: D83, M14

1. Introduction

Effective communication is the key to success in modern organization. Inside the company, this effective communication strengthens the employees' confidence in the organization's mission and vision, connects the employees to the reality of that particular business, fuels the company's development process and helps facilitate the change in employee's behaviour. On the outside, the company image, the discovery of new business opportunities and the relationship with the society depend largely on how well this continuous process of communication is designed and managed.

In other words, companies communicate increasingly more, however - taking into consideration the technological progress – they prefer the more modern and faster ways of sending and receiving information. Measuring the communication process becomes thus mandatory in order to design, apply and modify – where necessary- the communication strategy of a company or organization with the purpose of increasing its profit.

Communication plays an important role in the enterprise activity, while implications of the communicational process are like waves propagation at the level of all organization functions. Of course, some might wonder how the separation of communication process from other factors that lead to the development of a company succeeded. The answer is simple: communication stands for the foundation on which other factors that depend on the company are built: investments, advanced management, human resources and the intelligent use of HR, brilliant ideas, tenacity.

Designing and implementing the communication strategy (both external and internal) may not be easily achieved, while global communication involves extremely complex phenomena regarding both the content and the required stages. Therefore, the elaboration of a communication strategy should be made rigorously on the basis of a well founded plan while taking into account the features that define each component of the global communication.

The communication strategy should under no circumstances be detached from the enterprise overall strategy; instead it should be integrated first in the overall strategy and afterwards at the managerial levels. Therefore, the communication strategy stands for a factor which conditions the implementation of the overall strategy,

representing at the same time a component of the enterprise's strategy.

2. Communication Analysis for S.C.THR "Black Sea" S.A. in Eforie Nord

For the communication analysis, we started with the exploration of the following strategy: S.C.THR "Black Sea" S.A. in Eforie Nord. Speaking of this society, unfortunately, strategic planning is not given the worthy importance. However, analysis activity, as well as the exploration of some internal documents and of information provided by the society, make possible the identification of some strategic coordinates for the S.C.THR "Black Sea" S.A. Starting with 2008 (until 2012), the company has opted for a reorganization strategy, attainable by selling many assets of the company while rehabilitating the others (conversion to three and four star objectives).

Sales of assets should be made by means such as public auction, direct negotiation or real estate leasing. For the 2008-2012 period, the touristic company has developed an investment program, amounting to 67,43 million Euros, to modernize the assets that remain part of the patrimony.

Regarding the internal communication within S.C.THR "Black Sea" S.A. in Eforie Nord, we have noticed the following applied methods:

- internal communication methods by means of printed materials: internal magazines, newsletters, flyers etc¹;
- oral communication methods: informational meetings, open discussions, direct informing from the head of the organization, committees and working groups, conferences, seminars and speeches;
- electronic methods of communication: internet, e-mail and videos;
- communication methods by means of display units: fixed display panels, notice boards, banners;
- training and improvement courses for the organization's staff inside that organization.

In regard to the external communication, the most important methods used by S.C.THR "Black Sea" S.A. are:

-external communication methods for establishing mass-media relationships: news releases, press releases, articles for specialty magazines, announcements, press photos, press briefings and press review – national press speeches at the national press regarding the HORECA sector and forwarded by the Directorate of Marketing by e-mail;

-external communication methods for developing relationships with customers: e-mail mk@efonet.ro;

-training and improvement courses for the organization's staff outside the organization.

Out of the two external communication components at S.C.THR "Black Sea" S.A., the institutional communication is somehow neglected or 'obsolete', the commercial one being more developed.

For the commercial communication analysis at S.C.THR "Black Sea" S.A. we began with the organization's marketing plan for 2008. This analysis intends to emphasize the fact that unlike the configuration of the internal and institutional communication actions, the marketing communication is much more rigorously designed, following closely the theoretical points regarding the strategic development.

The first section of the marketing plan aims at *defining the organization's offer*. Thus, it is divided into two categories: *basic services* (accommodation, meals, entertainment, therapy) and *additional services*. These are themselves divided into two categories: **for money** (phone, fax, selling items of immediate necessity, beach items rentals – deck chairs, sun umbrella, iron hire – parking, fitness room, pool, air conditioning) and **free of charge** (touristic information – sport events programs, entertainment programs, organized tours programs, public transport timetable, sending and receiving messages – mail distribution, publicity touristic materials, reception press, baggage handling and storage of baggage in special arranged places, keeping valuable belongings in safe deposits, keeping forgotten objects and announcing them, waking up tourists on demand, shoe cleaning, hair dryer, first aid medical kit, booking seats at shows, concerts and in public transportation, special activities – folklore evenings, wine tasting – emergency call).

Furthermore, the organization has proposed to attract a social category represented by middle-income youth, including high-school students and university-students. Attracting this new market segment depends mainly on the diversification of services and products offered to young people, as well as on both the improvement or modernization of the existing entertainment places and the creation of new ones addressing this segment of people (modernization of day and night bars, discos and summer terraces etc.). This attraction depends also on the general level of development and maintenance of each and every resort.

Analyzing this organization's touristic market, we have sketched a *profile of the actual customer*, as well as of the *potential customer* for each unit belonging to S.C.THR "Black Sea" S.A. In our opinion, for the next period of time, the potential customer will remain the traditional one, while the actual client is represented by the Romanian tourist with middle income and by the foreigner tourist with low income.

The marketing specialists within S.C.THR "Black Sea" S.A. have identified the so-called 'crucial factors' for each category of touristic unit, that is criteria which decisively influence consumer's choice, directing him/her towards one of the locations or another.

Starting with these elements, but also taking into consideration the particularities of the touristic sector in Romania, the Marketing and Sales Director has established some main objectives for the year 2008:

- to increase the quality of the offered services;
- to improve the contracted structure by reducing the predominance of CNPAS with about 5% for the benefit of the travel agencies;
- to develop the touristic product by introducing the 'all inclusive' system in the Cleopatra complex of Saturn;
- to develop the market, as well as entering new market segments, and reaching both the business segment and the events segment by arranging the places designed for the involved category;
- to provide with adequate tools/equipment (the Bran-Brad-Bega and Cleopatra complexes), as well as to enter new

markets abroad (Czech Republic, Ukraine, Moldova, Belarus, the Russian Federation);

In addition to this realistic goals, the Marketing and Sales Director has also established some more general objectives that are divided into eight domains (positioning, product policy, price policy, distribution policy, promotion policy, environmental policy, process policy and personnel policy), being also accompanied by some strategies.

Regarding the promotion policy, the following objectives have been established:

- promoting the SC THR " Black Sea" SA. Brand;
- promoting the new touristic complexes that will be reintroduced in the touristic circuits after modernization (Cleopatra and B-B-B);
- promoting complexes that have therapeutic bases within, such as: Sirena, Balada, Cerna, Hora.

At the same time, two stars hotels and restaurants of great importance in the company's offer will be also promoted: Venus Hotel, Minerva Hotel, Aqua Park Cleopatra, Balada (the leisure and entertainment centres are one of the 'magnates' that attract clients), Lidia Hotel, Măgura Hotel, Capitol Hotel.

In order to implement these objectives, the following methods have been chosen:

- registering in catalogues, magazines, presentation guides, specialty works;
- presentation of the organization and its services in national and local newspapers, radio and TV, internet;
- manufacturing and distributing publicity materials (flyers, leaflets, brochures, maps, catalogues, posters, personalized matchboxes and sugar bags, banners);
- participation in trade fairs, scholarships and travel fairs.

By following these plans we can say that just as in the past few years, actions have been approximately the same, with few minor changes. Moreover, during 2004-2007, actions categorised as 'communication related' (commercial or institutional) can be mentioned:

- promoting the main touristic locations (primarily www.infoturism.ro.) (The action (operation) was included in the

2007 plan, but was only partially achieved. The main hotels in the company's portfolio have been included on the website, however without details concerning facilities, payment or entertainment possibilities. Furthermore, there is no direct connection between the company and the hotels registered on the site).

- organising international nights in restaurants within three stars hotels (Turkish, Italian, German and Spanish nights- music and dishes specific to each nationality)(The goals of such an action are related to promoting the image, improving the quality and diversifying the touristic product. The action was included in the plan for 2007.)
- hosting some TV Shows, located in S.C.THR "Black Sea" S.A (2007)
- opening Eforie Club (the Union Complex and the "B's") as well as offering loyalty cards to club members (2007);
- providing personalized uniforms for pool personnel- lifeguard, waiter (2006);
- including "Menu of the Day" (Day Speciality) in all company's nourishment units;
- establishing a "Happy Hour" program, especially during the periods previous and subsequent to the peak season - May, June and September (2007);
- promoting Romanian specific evenings at "Nunta Zamfirei" (Zamfirei's Wedding) Restaurant (2007);
- selling spaces for advertisement such as the inside and outside walls of one and two star hotels (in my opinion, this action has unfavourable results for the company's image. The spaces used by third parties could be designed in such way to offer elements of distinction);
- increasing the entertainment activities in front of the "Vraja Marii" (Sea Spell) bar by employing a DJ and an animator (entertainer) as well as including various contests (2008);
- participating at various culinary salons (2007).Although these actions were undertaken, the impression left is that the marketing and institutional communication is slightly chaotic, but it is possible to be only a subjective perception. However, no

counterarguments that things would be different have been brought by the organization, considering that at the organization's level there is no concern for the assessment and quantification of communication effects.

In our opinion, the institutional communication at S.C.THR "Black Sea" S.A. has several shortcomings, some of them having quite relevant justification.

Under these circumstances, the issue of building a company's image which may function at the same time as an umbrella for all these subdivisions is a difficult thing to do. Analyzing the means used in the institutional communication, we stopped first at the institutional publicity. The local mass-media components are used as channels in the institutional publicity. From our point of view, the society having a target audience across the country should have a much more aggressive publicity in the national mass-media.

The company has a logo that you can tabulate as a mixed one, resulting from the association of the logotype with an icotype. (Fig. 1) The logotype contains an acronym (THR – Tourism, Hotels, Restaurants) and also the society's name "Black Sea". The icotype (stylized waves), together with the blue colour, refers to the company's activity object – coastline tourism. The symbolism in the logo is not a metaphorical one and does not refer to a specific positioning of the company or to some privileged values.

The S.C.THR "Black Sea" S.A. Eforie Nord logo



Finally, we make an analysis of the company's site, emphasizing the main characteristics. Thus, the website of S.C.THR "Black Sea" S.A. offers a substantial informational content. The information is well structured and organized into links that have clear names and that appear on the website's first page.

The first/main page of this company contains the following links: "About Us", "Resorts", "Treatment", "Entertainment", "Prices", "Photo Gallery", "Special Offers", "Contact", "Reports", "AGA", "Auctions", "Announcements", "Hotels", "Restaurants", "Villas".

The site also provides with useful current information which is not related to the organization's services, such as the weather forecast and the currency exchange rates. This information is daily updated. The website is designed both in Romanian and English, a fact which is necessary as long as the company aims at foreign customers also. The graphic is not overloaded, but it remains constant on all links. The main colours used are blue and red, the former being presented in the company's logo as well.

Given its configuration, the website can be considered a tool of communication with the media thanks to the information published in the "Auctions" and "Announcements" links.

The main methods by means of which the website can be promoted are: exchanging links (with Transilvania Travel agency), registering in many more tourism portals and introducing the site in many search engines (www.google.com, www.altavista.com).

Besides these arguments, it is fair to recognize the website's weak points as well. First of all, in some links we may find 'dull' expressions which are unable to arise interest in the potential customers and which don't have a counterpart in reality: *"the clear, competitive strategy which is based on the quality of services and the entire organization's focus on client is what makes S.C.THR "Black Sea" S.A. to be recommended"*, *"the recreational possibilities on the Romanian coastline are multiple and varied"*; *"Tourists who choose those truly unique destinations spend unforgettable moments"*; *"pools can be also considered oasis of relaxation and tranquillity"*.

Comparing the website of the S.C.THR "Black Sea" S.A. with sites belonging to hotels abroad, one may observe the lack of some elements that are otherwise presented in quasi-all similar websites that I visited: a statement of the company's vision and mission, a link that allows a virtual verification of accommodation possibilities in a given period or a virtual system of

booking, a link that allows making a virtual tour, or a link that facilitates cost calculation of a certain package tour.

We have discussed about a diffused image, about a slightly suggestive logo, about a slogan having no impact, but all these are conclusions of an empirical analysis. These judgements which are poorly substantiated should not mislead to the idea that everything regarding the institutional communication at the level of S.C.THR "Black Sea" S.A. is inappropriate.

This is why, a study of the perceived image is truly necessary. Moreover, one should add studies regarding the organizational culture, the competitors' image and the potential target audiences.

Depending on these, one could re(position) the enterprise's image, taking into consideration both the external environment elements and the supporting elements in the internal environment. Once this positioning is achieved, we may have a framework that includes not only all institutional communication actions, but also some internal and commercial communication ones.

3. Conclusions

To conclude with, we would like to emphasize the fact that the implementation of a global communication strategy implies research between all communicational strategies, i. e. internal, institutional and commercial. On the one hand, a separation between them cannot be done accurately and on the other hand it may affect the approach that led us to debate the theme of global communication. Furthermore, imposing a global communication strategy is not a process that could be achieved in a few days time; on the contrary it consists of a long track, often liable to be blocked by obstacles or to become lost. In order to prevent these kind of risks it is essential to implement an elaborated system of communication evaluation (in its diverse forms, but also at a global level); unfortunately, this implementation is non-existent even at its incipient forms at SC THR "Black Sea" SA.

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The Efficiency of Internal Public Audit Activity for the Local Public Administration

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Abstract

The public administration is subject to major changes, due to major changes within the Romanian society and ever growing requirements of efficiency, effectiveness and economy. Given a certain conflict between support activities which are at times most expensive and these requirements, a race is on for optimizing these activities from a financial point of view.

This paper is the result of a research that has taken place in the years 2009 and 2010, and proposes a way to reach a better state regarding the internal public audit.

Key words: Internal public audit, centralization, decentralization, rural communities, correlation analysis

J.E.L. classification: D73, H21, H72, H83, M42, R51.

1. Introduction

Economic, political and social transformations in our country after 1990 have confirmed clearly that local public administration management compliant to today's growing demands isn't possible without a profound knowledge of the economic realities in all their complexity. From this perspective the acknowledgement of the economic reality of local communities is an objective necessity of their management, a major and indispensable dimension for exactly identifying the development stage and the way in which the administration must respond to the needs of its subjects.

One of the main demands for the public administration, and one of the main problems of the local administrations at the same time

is the efficiency of public funds spending (Matei, 2009: p. 35, 36), especially for such activities that do not constitute primordial preoccupations. Such an activity is the internal public audit, whose organization is mandatory for each and every public institution from Romania. The efficiency of support activities in Romania's public administration thus is not only a desiderate, but also a necessity, given the budgetary restrictions on the rural level. Public auditing, which is meant to insure the efficiency of public institutions activity is actually interfering with its own object of study.

2. Statistical considerations

According to the Romanian Statistic Yearbook 2008, Romania had on July 1st, 2006 a population of 21.584.365 inhabitants, of which 9.765.435 rural inhabitants. Romania is thus demographically, a strongly rural based country, with 45,24% rural inhabitants. Excluding Bucharest, with a registered population of 1.931.236, the quota of rural inhabitants rises to 49,69%.

Romania has 2823 rural communities in 41 districts, an average of 69 communities per district. The most rural communities can be found in the districts of Dolj and Olt with 104 communities each, while the fewest communities are located in Ilfov (32) and Salaj (39). The 2823 rural communities count 12.144 villages, meaning an average of 4 villages for each rural community. The most villages can be found in the district of Alba (658 villages), and Arges (577 villages). The fewest villages are in Tulcea (51 villages) and Ilfov (102 villages).

We can thus ask ourselves, can be the internal public audit in rural communities made more efficient? Is the existence of at least one internal public auditor in rural administrations efficient? Can another organization of the internal public audit be a

more efficient and economical solution, which could bring substantial economies to the local budgets?

In order to answer these questions and to guarantee the opportunity of taking some variables into account, a series of states of facts must be determined based on some calculated indexes:

- Urbanization degree of the district: meaning the ratio of the urban population to the total population of Romania;
- Weight: the weight of the population of one district in the total population of Romania;
- Villages per community (*Vill/Comm*): the ratio of the number of villages in a district to the number of communities in the same district;
- Inhabitants per community (*Inh/Comm*): is determined by dividing the amount of rural population of a district to the total population of that district.

However, for the final conclusions not only statistical data but also qualitative factors like the relief of the districts or the possibilities offered by the existing infrastructure have been taken into consideration. Also, the research did not concentrate on each district, but on specific groups of districts, which have been built according to historical criteria. Thus, the following regions have been built: Banat, Transilvania, Muntenia, Moldova and Dobrogea.

This grouping has been chosen for the easying of the data analysis for the following reasons:

- Historically, the districts in these regions have known similar economic and demographic developments;
- Statistically, the standard deviations (*StDev* in table 1) of the mentioned indexes have shown mostly lower values than the standard deviations for the whole statistic population.

Table 1. – Standard deviations for the historic regions

	<i>Urbaniz.</i>	<i>Weight</i>	<i>Vill/Comm</i>	<i>Inh/Com</i>
StDev Banat	0,0626	0,0077	0,2188	642,62
StDev Dobrogea	0,1521	0,0152	1,5202	592,45
StDev Moldova	0,0370	0,0076	2,4994	388,32
StDev Muntenia	0,0921	0,0077	1,5330	776,03
StDev Transilvania	0,1203	0,0068	2,0774	378,34
StDev Total	0,1107	0,0077	1,8988	740,31

source: <http://www.comune.ro>, accessed on Aug. 9th 2010

In table 1 the values of the standard deviation that exceed the national value are shown red. It can be observed that these values still lie around the national values. This confirms the hypothesis that the historic regions have known similar developments. The grouping in five regions has been proven to be statistically sufficient.

Table 2. – Grouped demographic data

<i>Region</i>	<i>Urbaniz.</i>	<i>Weight</i>	<i>Vill/Com</i>	<i>Inh/Com</i>
Banat	56,57%	6,72%	4	2.774
Dobrogea	59,99%	4,49%	2	3.196
Moldova	42,35%	19,11%	4	4.256
Muntenia	44,67%	34,15%	4	3.601
Transilvania	55,06%	26,59%	5	2.996
BUCURESTI	100%	8,95%	0	0
Nat. Values	54,68%	100%	4	3.127

Source: <http://www.comune.ro>, accessed on Aug. 9th 2010

3. Correlation analysis

In order to draw the right conclusions about the gathered data, the degree of to which these variables depend of each other must be studied. This offers information about certain states of fact that can influence the qualitative analysis. Thus data interpretation will differ according to the different correlations between data sets. In this case, the finding of a deterministic link between these variables is not important, but the mere determination of its existence.

For this a correlation analysis has been carried out. This kind of analysis refers to the calculation of one or more correlation coefficients between different data sets. For our purpose the Bravais-Pearson Correlation coefficient has been used, to determine the linearity of the dependence of two variables, and is calculated according to the formula below (Bourier, 2005):

$$r_{xy} = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2 \cdot \sum_{i=1}^n (y_i - \bar{y})^2}}$$

(Formula 1.)

Where:

r_{xy} = Bravais – Pearson correlation coefficient

x_i, y_i = data from set X and Y, corresponding to index position i;

\bar{x}, \bar{y} = average values for X and Y data

i = current index between 1 and n;

n = sample size.

The calculated main coefficients are shown in table 3.

Table 3 – Main correlation coefficients for calculated indexes

Correlation	Value
Vill/Comm – Inh/Comm	-0,14393
Inh/Comm – Urbanization	-0,38214
Urbanization-District population	0,30009
Urbanization – Vill/Comm	0,09266
Rural pop - Urbanization	-0,34461

4. Qualitative analysis

The major step forward made by Romania after 1990 for the modernization of the public administration was the transmission of competency at the communal, urban and district level, and implicitly, the creation of a new organization and coordination form for public policies. Law 215/2001 for the public administration stipulates the founding of public services in the main activity fields of the city or community, according to the local note and needs, legal terms and allocated budgets. There is however a distinction

between the different categories of services (Profiroiu, 2010, p. 153): public services and comminatory services of public utility. The result of these actions was the decentralization of power, authority and decision. The decentralization process has also imposed the need for verification and control in the public administration and the need to extend the preoccupation areas up to the rural public administration. This is also stated in Law 672/2002 regarding the internal public audit, which specifies that every public institution must organize internal public audit.

Yet, as an activity organized within the public administration, internal public audit is subjected to the same performance requirements as the public institution in whose ranks it is organized in. Here we observe a first conflict between the formal legal demands and the economic requirements for one and the same entity. Starting from the idea that 2823 communities have the need for at least 2823 internal public auditors, we ask the question of efficiency of a completely decentralized verification and control system at the level of rural authorities. Without taking into account the all expenses, only salaries, material costs and basic investments, we can say that the yearly amount necessary to organize internal public audit at the rural level is of about 150 million Lei. Although at the level of the national budget 150 million Lei are not an impressive amount, these savings must be regarded upon from the perspective of local communities. For each of the 2823 communities, savings of 150 million Lei represent an average additional income of 53.000 Lei, which can be used to finance other activities.

A possible way of making this domain more efficient is to conduct the internal public audit at a district level. Thus the control degree of the local councils on the rural administrations is increased by centralization of the audit activities at a district level. This is also stipulated as an „escape hatch” for those public institution that cannot for various reasons organize the internal public audit, and in internal regulations of public institutions as well. Clearly, a public institution which cannot organize the internal public audit, must be audited by the organization that is hierarchically superior. Such a measure

would have a few negative effects, but would be mostly beneficial. The negative implications are:

- Growth in transport expenditures;
 - Growth in auditors workload;
 - Possibility of increased procedure errors.
- The advantages of such a measure are more important. From these we enumerate:
- A unified audit methodology;
 - Compliance with the reorganization plans of the public sector;
 - The need to optimize the auditing process and procedures;
 - Independence of the auditor towards the audited entity;
 - Reduction of the demand for highly trained workforce;
 - Increase in transparency of the internal public audit.

5. Conclusion

The modernization process of the Romanian public administration must take place under the sign of permanent change in the sense of optimizing all processes that take place within it. The decentralization process is in this regard one of the essential steps that have to be completed in order for the public administration to respond to the needs and requirements of the statute of an EU member state.

In this regard, the fact must be mentioned, that a decentralized public administration is more susceptible to errors of procedure or operational errors, than a central one, errors which must be prevented and avoided in order to insure a coherent and efficient administrative process. Thus it is imperative that the control and prevention system is a national one, meaning central. We grab the idea that a central system of control and prevention (e.g. internal public audit) can guarantee the efficiency, economy and effectiveness of a decentralized public administration.

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Opportunities for Upgrading the Local Community Budget

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Abstract

Financial decentralization, along with financial globalization, are currently two of the phenomena that concern professionals involved in reforming the local government finance and accounting systems, that are trying hard to become a language of communication for those interested in knowing the position and financial performance of local communities in Romania, as well as internationally. To meet the need of informing the taxpayers interested in knowing the methods of incorporation and usage of resources, of training financial creditors in administering their capacity for repaying any loans, as well as all the interest parties (including central government), local communities have turned to instruments they have at hand: budget and accounting.

Key words: budget, accounting, loans, transfers, local community

J.E.L. classification: M41, M49.

1. Introduction

Pressures on the balance of local budgets began to raise, local authorities being forced to choose from two possible alternatives:

- to **use loans** as a result of budget deficits recorded, the initiative of the legislature to impose restrictions on their use is laudable, debt financing being provided only for public investments only for local interests and local opportunities for refinancing debt.
- to **receive transfers from the state budget**, and thus to show an increasing reliance of central governments. The consequence is limitation of the financial autonomy of local communities, transferred grants being conditional or unconditional, as central authorities'

intention is to support certain policies or strategies in certain areas or to fund certain categories of expenditures of local authorities.

Faced with such alternatives, local authorities search for those tools based on modern financial management that reflects best:

a) **financial position** as an expression of net worth available to the community at a certain time, reflecting that part of the public assets that are not encumbered by debt;

b) **financial performance** as a result of the "profitability" confirmation to the activities of the local community in the delicate, complex and lengthy process for the formation of public financial resources and their allocation by destination;

c) **cash flows** as a consequence of receipts and payments transactions conducted at the administrative-territorial unit and as an expression of financial creditworthiness to ensure the creditors of financial loans that local communities have called them, determined in time the existence availability of cash "kept" in the treasury accounts or covered shortages most often by fund working capital or cash loans.

The first area of analysis was the local budget (of local communities) often defined as a financial planning tool where resources are mainly from taxes, while their maximum allocation is determined by the structure of the budget appropriations approved by the budget law year.

The financial[1] mechanism of functioning of public institutions is relatively simple, taxes and fees collected from the local budget are depersonalized and finance public spending categories that coincide with the structure of public services, despite the fact that it is approved annually by the budget law (as mentioned above) is still defined by the extensive process of decentralization of public services and their proximity to citizens.

The ordered structure of public managers known as primary, secondary or tertiary credit officers are doomed to meet the rigors of public expenditure execution so that ultimately services can be provided under maximum quality and permanence.

Results soon appeared because of the various implications that they have primarily on increasing revenues consisting of: increasing revenue from the tax on buildings, increasing land tax revenues, increased income from shares deducted from the income tax, registration of income from the construction authorization tax.

Although these are revenues specific for local communities and by following the rigors of law, some facilities may be granted to investors finally representing an investment that local authorities can do, we established a function name "extra income local budgets function" which will help local decision factors to quantify the additional revenue that foreign investments can generate.

Analysis[2] of skills' transfer regarding costs, based on principles of efficiency, equity, accountability and macroeconomic balance, led to the following conclusions:

1) sharing public services between levels I and II is based on the administration of public services closer to citizens;

2) public services is entrusted only to those authorities which have full management and financial capacity to manage them;

3) criterion of territoriality is a key criterion used in the sharing of responsibilities between the local government I and II.

Skills transfer regarding income is based on subsidiary principles, the connection of income with the assumed responsibilities, equity, predictability, neutrality, objectivity and conditioning transfers, and dedicating two methods in literature:

1. Method of custody / allocation
2. Revenue sharing method

2. Method of custody / allocation

Method of custody / allocation, led to the delineation of a new sphere of public finances belonging to the local communities, thus making the concept of public finances known as local government finances. Studied

in countries like Poland, Hungary, Czech Republic, Estonia, the method led to the system resources assigned to two categories of income:

- own revenues that the authorities can manage in conditions of limited fiscal autonomy, with the tax base and/or tax rate determined at central level;
- additional shares (piggy back), in which local authorities can add to the national tax rate some additional flexibility, the tax base and tax administration is under the responsibility of government. The relatively simple method has not led to the expected results, sometimes responsibility transfer is not fully covered by resources.

3. Revenue sharing method

Revenue sharing method, designed to solve the problem of financing public services, studied for the same countries Poland, Hungary, Czech Republic and Estonia is that both base and tax rates are set centrally, while funds are shared between central government and local authorities based on certain criteria.

Revenue sharing, in international practice takes place on two ways:

- on a derivative base (the origin of collection);
- as transfers divided on the basis of a formula, cost reimbursement of public services provided or based on ad hoc decisions.

The combination of methods of determining the volume of inter-administrative transfers to local authorities with the methods of allocating the transfers between the local authorities, in international practice, new types of transfers have resulted:

- Type A transfer - contributes to local authorities with a greater fiscal capacity being considered anti-equalizer;
- Type B transfer - provides horizontal balance, is used to reduce discrepancies between the administrative-territorial unit;
- Type C transfer - is allocated between local authorities, is a conditional transfer based on the reimbursement cost of public services;
- Type D transfer - is allocated between local authorities based on an ad-hoc decision, with regard to discretionary criteria. It can be conditional or unconditional;

- Type E transfer - is a central transfer, with general purpose, the amounts are allocated based on a principle of derivation;

- Type F transfer - is based on the fact that the amounts are apportioned between local authorities using a formula, by a general purpose;

- Type G transfer - comes from the central level based on ad hoc decisions, and between local authorities are the amounts are reimbursed by the reimbursement amounts;

- Type H transfer - is based on the same ad-hoc decision on central to local level, division between the administrative-territorial units being achieved on the basis of that ad hoc decision. It is the central transfer;

- Type K transfer - is a special-purpose transfer, it is based on both the situation at the central allocation amounts to the local level and between the administrative-territorial cost-based reimbursements.

Financial decentralization will lead eventually, both for Romania and internationally, in the community, regardless of the type of transfer sought, to issues of balancing local budgets.

Financial resources are the most important wealth available to local communities at a certain time, being a means of financial support of the public services for citizens.

Because most of local revenues are represented by tax revenue, we conducted a review of international taxation, and got to the following conclusions:

1. The level of local taxation is determined primarily by the level of expenditure that are the local authorities' responsibility;
2. Correlation tax - liability means that where local revenues are a small percentage of total revenue and the responsibilities of local authorities is also reduced;
3. In federal countries, the relative importance of taxes and fees are generally lower than in unitary countries, since the federal government collects income countries while the unitary countries are the area of interest of local authorities;
4. In countries where local revenues are compared higher as the percentage of GDP and total revenue, local authorities have more confidence in local income taxes;
5. Local authorities in some countries have access to only one tax (property or

income) while local communities from other countries have access to two or three local taxes (fees).

As most local taxes are usually formed as a product of the tax base and tax rate, an important issue in local taxation is the limited fiscal autonomy, determined by local communities' possibility to establish:

- a) tax base without restrictions at national level;

- b) tax rate;

- c) tax base and rate, consequence of a full fiscal autonomy.

The analysis of fiscal autonomy situation, at international level, highlights the following trends:

- local authorities set the tax rate and base in very few countries;

- revenue division between central government and local authorities is different: by setting division conditions under the law, by changing revenue division agreement with local authorities or the determination by the central government division arrangements.

Two indicators are representative for local communities, who are represented by:

- 1) *feasibility of local taxes* - new indicator that came at the reform table, which will help local communities to assess the profitability of maintaining a tax or an entire tax system, after deducting all expenses in income tax administration or local tax system as a whole, two forms are identified:

- a) *feasibility of uniform tax*, expressed as the average taxpayer unit;

- b) *feasibility of aggregate tax*, set at the whole tax system.

- 2) *tax depreciation* - the second indicator will be useful to local authorities to determine the number of years, on account of tax increment, they will recover their public investments made especially in infrastructure.

It is necessary to use a new model in which both the tax base and the tax rate to be determined independently (for property taxes), to be based on:

- determining the amount of tax on the market value of goods determined by the Tax Assessment Office functioning under local authorities;

- setting the tax rate as a ratio of budgetary resource requirements (determined on the basis of budget planning) and the tax value.

Of particular importance, is to clarify the situation of a new source of income which will find its rightful place with the completion of a delegation of public service management, whose essence is to ensure the operation of public infrastructure to service operators, for a known monthly amount known as a monthly fee.

The models available for feasibility and tax depreciation, along with community fee (thought at least monthly at depreciation level recorded in the linear regime) together with the new model of assessment for local taxes will be useful for authorizing credit officers called to provide the best management for financial resources.

At the opposite, and not insignificant, is the consumption of public resources, which ultimately gives life services for citizens in terms of efficiency, effectiveness and economy.

The next analyzed area, based on functional classification of public expenditure, is based on studying the effects of decentralization on the financing of public services provided by the local government expenditure.

Although the reform in the university education system is quite advanced, based on core funding from the state budget and additional funding from local budgets, crossing to financing on the standard cost of the current phase is a necessity to improve the rendered quality of university education.

The health reform soon appeared, the task of local communities is truly optional, which is to finance the costs of maintenance, household repairs and investment in buildings where health care facilities, medical and social assistance and nurseries, as they operate.

Capital expenditures were in turn examined separately, in addition to the presentation of important issues arising from the establishment of the capital investment program (CIP), the financing of public investment - analyzing the scenario from their own sources of financing versus borrowing and financing sources prioritization of investment objectives, we believe that the real benefit to local authorities will be the mathematical model that will help them plan the amount of financial resources that involves a public investment.

After a rigorous scientific foundation of the principles of the budgetary procedure - the principle of universality, publicity, monetary unit, annual, budget specialization and budget balance, known in literature, the schedule and budget policy statement due to macroeconomic changes they have made has enjoyed a special attention.

While macroeconomic policy statement sets out the macroeconomic indicators on which the local budget will project future budget years, the budget calendar has been much simplified in terms of work, presenting the disadvantage that it ignores the real needs of local authorities.

Financial foundation of the local budget was another area where traditional methods of analysis - automated method, the increase/decrease method, direct evaluation method with modern methods - the method of planning, programming, budgeting, management by objective method, method of zero budgeting contribute to the projection of budgetary indicators.

Another method based on time series analysis involves understanding the revenue system, the forces and events that have affected revenues in the past, obtaining information in a timely manner and implementing a sound judgment.

Applying the method involves the following steps:

- establishment data series and its graphic representation;
- calculating the slope and level of the central year;
- establishment of the right trend and forecasting for years N and $N + 1$.

Approval, execution and control of local budgets, as known in the literature was the subject of this paper, trying to debate and bring some improvements in the current budget process established forms, but we believe that a special attention should be given to the budget standards that will "win", we hope, more "ground", making his place in the everyday concerns of specialists.

Another[3] concern regarding the modernization of the local budget was the identification of specific modern financial management tools to help support establishment and resource allocation decisions of credit officers, in this category there are:

- **consolidated local budget**, which is a summation of each credit officer's budget, financed wholly or partly from the local budget equivalent of a consolidation, in order to ensure an overview of financial performance in each local community. Together with local budget, annex budgets are emerging for those public institutions that have provided the link with the local budget subsidies and government budgets for those service operators whose capital is wholly owned by local authorities.

- **budget programs** - the second instrument of financial management including as a "required" budget in official documents of the European Union, is defined as a coherent set of actions that relate to the same main budget, designed to achieve a defined goal or set of goals and indicators that are established by the program, to evaluate results achieved within the approved funding. We consider useful in the budget programs, to determine the average cost of capital when used as sources for funding their own and borrowed sources. We appreciate that the budget for programs will be a useful tool for developing investment programs and those of major repairs.

- **costs financing plan** - is another tool for financial management, being a preliminary step for developing the operating budget and "connected" capital without respecting the true principles of the budget, local budget revenues with allocations of resources in conditions of legislation.

- **operational budget and capital budget** - are based on connecting the income grouped in current income and capital with the consumption part of budget resources structured by the same criteria, resulting in: functional budget - the current work of local communities, whose final balance if surplus can constitute its own source of investment financing, capital budget - a characteristic development work, is a tool for quantifying the financial resources necessary to support public investment.

- **budget as an economic variable** was analyzed in terms of links between the budget surplus and taxable income, the relationship between local government gross domestic product and the links between the budget surplus and tax rate.

- **multi-annual budget** is the last form of financial management tools studied, which includes phasing financial resources over several budget years, to pursue investment policies formulated by local authorities. The American humorous metaphor about the camel getting his nose in the tent, to be followed by the rest of the animal in the coming years is a good illustration of the problem of multi-annual budgeting.

4. Conclusion

Presenting the budget as a financial plan, budgetary standards ensure that the scheme of consolidation and reconciliation of all transactions of receipts and payments are presented in a consolidated statement. In keeping with the idea of this budget as an operations guide, the second standard aims to compare data from the past with the present and tries to explain the relationship between capital and operational expenditure. The third standard presents the budget as a means of communication that must be understood by the ordinary reader, to be accompanied by the mayor's report and to highlight key policies and strategies supporting tax data. Finally, the last standard requires the budget to be presented as a public policy, to be explained major modification of existing policies, as well as new ones. Budget standards aim to transform the budget from a play with "voiceless" actors in a means of communication with stakeholders.

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The Specifics of Expenditures' Execution at Public Institutions of Culture

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Abstract

According to public finance legislation, budgetary credits approved by the state budget can be used at the request of the principal credit officer, only after opening credits or supplying funds by the Ministry of Finance, by opening accounts on their behalf.

The Minister of Culture allocates budgetary credits approved by the state budget for the own needs of its' institutions, by drawing up the application for opening credits (two copies) to the Ministry of Economy and Public Finance and for the current and capital expenditures of the subordinated institutions, in relation to their tasks, based on the available budget on credit allocations.

Key words: expenditures, public institutions, culture, budgetary credits, allocation

J.E.L. classification: M41, M49.

1. Introduction

At the request of granting funds from the state budget, the Minister of Culture, as chief credit officer shall consider the following:

1. funding request will not exceed the budget appropriations and according to approved destination - current expenditure and capital expenditure in relation to their use of resources made available earlier;
2. ensuring efficient use of funds allocated from the budget for expenditures necessary to fulfill its own actions and the ones of the strictly subordinated institutions;
3. budget expenditures based solely on documentary evidence produced, endorsed and approved by authorized persons in the department of economics, finance and administration.

Application for opening credits is used to opening credits in the principal credit officers' level. It includes the nature and purpose of the loan requested and the breakdown of the loan to the budget classification structure and overleaf there is a separate summary statement for their own activities and its separate subordinated institutions from open budget appropriations, the ministry retains the amounts necessary for their own expenses which have been entered on the other side of the demand and distributes within three days the appropriations budget based on budgetary provisions, compiled and submitted to the Treasury in four copies:

- an approved copy returns to the chief officer (Ministry of Culture);
- an approved copy shall be sent to the central treasury;
- an approved copy shall be sent to the local treasury, the county or the sector in Bucharest that institution in the field of culture has opened accounts;
- an approved copy serves to the institution in the cultural field which is funded for registering the distribution of loans in its own accounting.

2. Execution of expenditures in public cultural institutions

After the promulgation and publication in the Official Gazette the budget becomes operational, moving to its execution, this is done during the budget year. Budgetary provisions for income represent the minimum limits to be achieved, excluding revenues from loans that represent the reached maximum limits. In turn, budgetary expenditures approved by the law represent the maximum limits that can not be overcome, public institutions are obliged to respect the budget runs just destinations for each budget allocation.

Cash execution in cultural institutions is carried out by treasuries where they have open accounts. Cash execution in the Ministry of Culture is made by the city treasury of Bucharest. Cash execution of budget in the culture county, and cultural institutions under the Ministry of Culture and local government is done by local treasuries to which they are subordinated. Treasury seeks framing costs in the budget approved by the credit officer.

The stages of expenditures' execution are: commitment, expenditures' liquidation, spending authorization, payment of expenditures.

Commitment[1] is the decision that generates the obligation of the Ministry of Culture for Culture county, cultural institutions under the Ministry of Culture and subordinated to local administration to pay a certain amount.

Commit to make expenditures. The commitment to any expenditure takes two forms: legal commitment and budgetary commitment.

a) **Legal commitment** means any legal act which results or could result in a liability to the cultural institutions of a person, a "service rendered" on public funds. Legal commitment may take the form of a public contract, purchase order, agreement, contract work, act of control, loan agreement etc. Therefore, at the conclusion of a legal commitment the credit officer is required to check the provider's "capacity" to perform the service that is subject to legal commitment and good faith on the one hand and secondly to ensure that the institution has the necessary budgetary resources available to honor obligations under that commitment.

b) **Budgetary commitment** is the act that amounts from the budget reserves needed to cover expenses. Therefore, budgetary commitments can not exceed the approved levels of the budget appropriations approved. Budgetary commitments are:

- individual budget commitments
- overall budget commitments.

Uncommitted budget appropriations and budget appropriations committed and unused at the end of the budget year are void of law. In individual and provisional legal commitments and in individual and global commitments, the subdivisions of the approved budget have to be specified.

Expenditure's liquidation is in the budget execution phase which verifies the existence of commitments, the reality of the amount due is determined or verified, the conditions in which the legal commitment are checked based on documentary evidence of the transactions. Expenditure's liquidation operations are conducted by the credit officer.

Credit officers of cultural institutions will check:

a) existence of commitments and conditions in which the performance of the obligation is fulfilled;

- if an approved legal commitment exists
- if an approved budget commitment exists
- if the deadline for payment of the obligation corresponds with data contained in legal commitments.

Documents proving the existence of commitments are contract, order, provisional legal commitment and budgetary commitment.

b) the reality of the obligation to pay if the goods were delivered, work performed and services rendered, or - if there is a way to justify payment: enforcement, loan agreement, etc. Documents certifying the goods delivered, work performed and services rendered are tax invoices or bill and for salaries and allowances collective payrolls are used, prepared by the specialized department, unless an individual liquidation is required.

c) reality of the amount due - if the requirement is stated in the invoice matches the data recorded in the institution stating "service performance" (minutes of the reception, for fixed assets; note reception and finding the differences, for material goods other than fixed assets).

The credit officer or person empowered to make liquidation personally checks supporting documents and confirms that this check was performed.

If all conditions relating to liquidation expenses are met, the credit officer will apply to documents evidencing the obligation of payment (invoice, payroll state) the "Good to pay" visa. Granting the "**Good to pay**" visa shows that the service was properly made by the supplier and that all items in the bill have been checked. In this way it is confirmed that: the goods supplied have been received, specifying the date and place of receipt, the

works were performed and services rendered, goods supplied have been registered in accounting and management, and accounting note specifying the recording; other conditions stipulated by law are met.

If all conditions relating to liquidation expenses are not met, the authorizing officer does not register on the documentary evidence of payment (invoice, payroll wages) the "Good to pay" confirmation.

The documents certifying completion of the expenditures' liquidation phase underlay the registration of asset in the accounts of cultural institutions to reflect the services provided and the obligation to pay creditors against third parties.

3. Authorization of expenditure and payment authorization

Authorization of expenditure is the phase in the budget implementation process which confirms that deliveries of goods were made or other claims have been verified and that the payment can be made.

Authorization of payment is the internal document by which the credit officer instructs the head of the financial-accounting department to prepare the payment instruments for expenditures.

The document used for payment of expenses authorization is "authorize payments". It contains data on: the financial year in which the payment is recorded, the budget division to which the payment is recorded, the payment amount (in figures and letters) expressed in national currency or foreign currency, as appropriate, information identifying the payee, nature of expenditure, method of payment (bank transfer or cash), date and signature of the credit officer or the person delegated with such powers; visa of authorized persons in specialist departments, which confirms the correctness of the amounts of payment, delivery and receipt of goods, works and services implementation, existence of another title that justify the payment and, where appropriate, the institution's record in managing property and its accounts.

The original supporting documents are sent to economic and financial departments so that the documents for payment to be prepared. Authorize payments by the target person entitled to exercise the preventive

financial control are void and of no value to the head of the economic-financial department.

Payment of expenditures is the final phase of budget execution by which public institution is released from its obligations towards third parties-creditors. The payment shall be made in lei, and according to the destinations within budget appropriations approved under the laws, through treasury and public accounting units that they have open accounts. Payment is provided by the coordinators of economic and financial departments within the open and unused budget appropriations or availability in accounts, as appropriate.

The payment instruments used by cultural institutions, the cash check and the payment order for the state treasury are signed by two persons authorized to do so. The payment instruments must be accompanied by supporting documents, which certify the accuracy of payment amounts, receiving goods and services performance, closed under legal commitments.

Materialization of budget management is carried out by drawing up the budget execution account at the end of the budgetary year. It reflects the purpose of executing operations of revenue and expenditures and leads to the determination of the observance of budgetary provisions mode.

The budgetary account shall cover the revenue receipts and payments for expenditure actually incurred during that budget year regardless of the financial year to which they relate.

The operations remaining outstanding in a year budget are reflected in the executive account of the following year.

The preparation of the budget execution account is done centrally by the Ministry of Finance based on the balance sheet and cash accounts on the implementation of the budget, prepared by each public institution. These documents accounting reports are centralized, vertically, within each government agency (chief credit officer) then submit to the Ministry of Finance, the budget implementation situation in the field of activity.

Public cultural institutions are required to conduct double entry accounting with the accounts provided in the general accounts.

The correspondence functions each account established under the rules are not limiting. They can be developed within each institution, in compliance with the economic content of the operation, accounting requirements based on the principle of rights and obligations and the legal provisions in force.

In this respect, the credit officer may development accounts with the development plans in the analytical accounts and monographs containing specific operations in the area of activity.

Public institutions of culture usually organize and lead their accounting in separate compartments, led by chief financial officer, chief accounting officer or other person empowered to perform this function. These individuals have higher economic studies and together with subordinated staff respond of the organization and management of accounting.

Economic and financial transactions accounts are held in the Romanian language and currency. Accounting for foreign currency operations is made both national currency and foreign currency, according to regulations issued in this regard. The operations of foreign currency receipts and payments shall be accounted for in the daily appreciation communicated by the National Bank of Romania.

Documents supporting the underlying accounting records of the liable persons that have been prepared, endorsed and approved, and those that were recorded in the accounts as appropriate.

Public institutions record economic and financial transactions at the time in supporting documents which make journal entries, accounting records and other documents as appropriate.

Documents underlying accounting records may acquire only a supporting document quality that provides all the conditions lay down by laws. Documents supporting the underlying accounting records of the liable persons that have been prepared, endorsed and approved, and those that were recorded in the accounts. The forms that are specific to economy that don't have a special enrollment and numbering requirement on financial and accounting activities can be adapted to the

characteristics and needs of public institutions, with the condition of providing the minimum information content and standards of preparation and use.

In public institutions accounting, records are made, mostly, on those documents common to all industries (invoices, bills of consumption, receipts, payroll wages, etc.). However, specific documents are used such as:

- request for opening the budget appropriations;
- the budgetary provision for the allocation of budgetary appropriations;
- the budgetary provision for the withdrawal of budgetary appropriations;
- the budgetary provision for repayment of budgetary loans
- daily food record.

In order to open budget appropriations, credit officers draw request to open the budget appropriations for each chapter of expenditure approved by law, with breakdown: expenses (personnel expenses, expenditures for goods and services, etc.) and capital expenditures. This document is required for any quarter credits necessary expenses (both for costs and expenses of the principal subordinate officers). The application will be presented to competent Directorate of the Ministry of Finance until day 20 of the last month of the quarter.

4. Conclusion

In the event of termination of business, public institutions give their documents to state or military archives, as appropriate. The computer system of automatic data processing in each institution in the cultural field is used to ensure data is recorded in the accounting processing in accordance with applicable accounting standards, testing and maintaining their technical supports.

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Performance Audit and its Role in Improving the Management

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Abstract

If we are to give a definition to the attention of managers, the audit is what a responsible should do in order to ensure that it has control over his business if he had time and if he knew how to act [1]. The internal audit activity has three basic functions: it is a leadership position because it primarily concerns the responsible of the company, it is a job that needs to be learnt and in which improvisation cannot be accepted and in the implementation of which time is required, from where it arises the need to seek experts in order to perform this task.

Key words: Concepts, postulates, reliability, performance, review, preliminary investigations, collecting evidence, performance audit.

J.E.L. classification: M40, M42.

1. Introduction

Auditors often use to call themselves practitioners, starting from the point that they seek practical solutions to practical problems. For this reason, there is the danger that some practitioners believe that they do not need theories to explain what they do or what they should do.

Audit theory is largely a descriptive theory and, in a lesser degree, a normative theory, as providing guidance on how auditing practices should be. Thus, audit theory should provide a logically coherent and conceptual framework for determining audit procedures necessary to achieve the audit objectives, respectively for assessing current practices and procedures in order to improve them.

2. Theories ad concepts regarding the audit activity

Some authors believe that postulates are essential for the development of a discipline and represent the fundamental structure for formulating any theory. This is compounded by the fact that the postulates can be regarded as hypotheses that cannot be proven, but which represent the basis of the inductive process, while likely to be modified by virtue of science. Thus, Mautz and Sharaf have developed a list of audit postulates based on a rigorous study of nature and audit activities. Although formulated over 40 years ago in the form of the proposed postulates and, despite the changes occurred in the economic life of the companies which determined the evolution and the improvement of audit practices, their postulates seem equally valid nowadays.

These postulates are:

- audit bases on the idea that both the financial statements and the financial information are verifiable;
- objectively, there is no long-term conflict between auditors and company management or audited institution;
- functional control structures reduce the possibility for fraud or irregularities to occur in the course of an patrimonial entity;
- applying the generally accepted accounting principles (national or international accounting standards) lead to a true image in the summary financial situations;
- where there is no evidence to the contrary, it assumes that what was true in the past will be true in the future (by extension, what lead to a particular result in the past, as long as there is no evidence of changing conditions, will lead to a similar result in future, too);

- financial statements don't have fundamental errors;
- to examine financial information undertaken in order to issue an independent opinion on these, the auditor operates exclusively within the powers delegated to an auditor;
- professional status of an auditor requires certain professional obligations.

David Flint made seven postulates. For centuries, Flint noted, delegation of responsibilities and assuming responsibilities for the accountability in managing money and other resources represented tasks for which unloading responsible persons was made only by the audit. Thus, audit postulates made by Flint have as central element concepts of responsibility and accountability through which the audit finds its justification.

These postulates are:

- basic requirement in an audit is the existence of relations of accountability;
- accountability is too complex and / or of a too high importance so as the discharge of responsibilities can be made without an audit;
- essential features of an audit consist of independence status and the exclusion of any relationships that may constitute constraints of reporting and investigation;
- the audit object is likely to be evidence-based verified;
- responsibility standards, such as standards of behavior, performance, achievements, quality of information may be established for those who assume responsibility;
- the significance, the importance and the purpose of audited statements are clear enough so that the credibility attributed to them through the audit can be clearly expressed and communicated;
- audit generates positive economic and social effects [2].

Audit concepts held by Mautz and Sharaf are: audit evidence, audit diligence, fair presentation, independence and ethical behavior. Over time, they have added new ones, such as objectivity, materiality, reasonable assurance, audit risk, etc.

Gray and Manson propose a systematic structuring of the concepts of auditing into four distinct categories, determined by the fundamental audit principles contained in the

Code of Auditors from the UK, presented in Table 1:

Table 1. The structure of the audit concepts

Category	Concepts
Credibility	Competence
	Independence
	Integrity and ethics
Audit process	Risk
	Audit evidence
	Reasoning
	Significance level
Communication	Reporting
	Fair image
	Association
Performance	Audit diligence
	Standards
	Control of quality
	Strictness

Source: Gray I., Manson S., *audit process: principles, practice and cases*, London, Thomson Learning, 2008

Credibility is the extent to which users trust the auditor and, in his opinion, has as main direct impact the fact that auditors should ensure that it is perceived as a competent, independent person, having an honest behavior and appropriate ethics.

The audit process refers to how the audit engagement is carried out. Auditors seek to obtain evidence to prove the statements (made by management) regarding the issues presented in the financial situations. Moreover, during the audit process, auditors assess the risk of failing in detecting elements that affect the image presented in the financial statements. They use professional reasoning to continually assess the events that may have a significantly enough impact on the financial statements to alter the image of the company, its activities and performance.

Communication: Reporting can be regarded as a component of the communication process of opinions by all those interested auditors (external users). On the other hand, the communication may involve contacts with the management company auditors, shareholders etc. The concept of fair presentation, originally concept of accountancy has also a major importance in the audit, being very closely

related to materiality and professional reasoning.

Performance: The last category captures the qualitative aspects of the work of an auditor, all efforts in meeting the audit, with the utmost care in accordance with professional standards. In other words, auditors should have their own quality control procedures to ensure that services are appropriate for them.

Although they are structurally presented, the relationship that exists among different concepts is obvious. Thus, for instance, legitimate assumption that the process of obtaining evidence is achieved with full professional care, by applying all diligence audits, emphasizes the relationship which exists between the concepts of audit evidence, diligent audit respectively.

According to several authors we can define the audit activity as '*the professional expression of information in order to express an independent and responsible opinion in relation to quality criteria, in terms of reliability, privacy and performance*' [3].

3. Performance in audit activity

As shown above, performance captures the qualitative aspects of audit activity, in meeting all efforts to accomplish all diligent audits with the utmost care and rigor in terms of quality and in accordance to professional standards in use.

We often talk about performance. But is the meaning of that term known? The term performance is rarely defined even in works in which performance is the central subject matter. Everything happens as if the meaning of the word performance were so clear that its definition would be trivial. However, the meaning of performance is not the same.

Michel Lebas notes the difference which exists between: 'a performance', 'performance' and 'being performing'.

'A performance' is generally attributed to a measured result, higher than the one following the previous results. Therefore, 'performance' always indicates a positive connotation. 'Performance' can be both positive and negative and refers to past results. The adjective "performing" tends to be rather used to talk about future, future results, so it is an indicator of potential, of dynamic.

Annick Bourguignon identifies three major meanings of the word performance:

- Performance is *success*. Performance is not in itself; it varies depending on 'successful' representations of firms, on 'actors'.

- Performance is *the result of the action*. This meaning contains nothing but value. Performance measurement is understood as the evaluation of the results obtained from the execution of a process, an activity.

- Performance is *action*. In this sense, performance is a process and not an outcome that appears at a particular time [4].

The concept of performance is defined differently by the business partners, according to their interests: managers are focused on the overall performance of their business; present and potential investors are interested in the profitability of their investments; employees are interested in the business stability and profitability; lenders are interested in the creditworthiness of the company; customers, in the business stability. Therefore, performance measurement can be done differently depending on users' objectives. But what interests us is the definition of performance which can satisfy all users.

In the diversity of definitions there are three major guidelines that are not divergent: the definition of performance based on the level of achievement of its strategic objectives; the definition of performance based on creating the value; the definition of performance based on productivity and business efficiency of the company.

Performance measurement is a system of control techniques designed to ensure that the achievements of various responsibility centers of the company are in accordance with the rules established for each of them and to impose positive or negative sanctions if the fulfillments deviate substantially from the rules chosen. The determining standards constitute an important issue to be questioned.

Measuring performance goes beyond simple observation; it aims to enable better decision-making performance conditions. Management control, performance management system should therefore highlight the indicators of performance measurement and guiding.

4. The concept of performance audit and its importance in improving the management

In Romania, this concept has been restored to its legal rights with the entry into force in early 2003 of the law no. 672/2002 regarding the public internal audit.

The performance audit examines whether the criteria established for implementing the objectives and tasks of a public entity are correct for assessing the results and whether the results are in accordance with the objectives [5]. The performance audit evaluates the results, analyzes the economy, the effectiveness, the efficiency and the relevance of the indicators (optimizing the means in accordance with the objectives, the relevance of the structures, of methods, the quality of management and its results).

The performance audit is an objective and systematic examination of the program, activity, function, management systems and procedures of a public institution in order to assess in what extent that entity, in the attempt of achieving the predefined goals, has used its resources in an economical, efficient and effective way.

Although the performance audit can be very extensive, in broad terms, it will apply:

- To those activities involving a high level of resources;
- To projects which may not achieve its objectives;
- To issues of interest or that concern the top management.

The performance audit is the independent assessment of the level of achieving the economy, efficiency, effectiveness and fulfilling the desired results.

The main objective of performance audit is to provide information to the top leader, insurance and independent views about the organization in order to achieve the desired results with economy, efficiency and effectiveness (in fact, to optimize the use of resources), as well as proper accountability of resources used in its efforts to achieve those results. Independent performance reviews indicate whether the entity's management, using resources to achieve organizational goals, has achieved its policies, principles or standards in an economic, efficient and effective way.

A secondary objective of the performance audit is to identify ways of improving the organizational performance and to optimize the use of resource and to help the management to take action in order to improve the control systems and tools.

Audit performance goals can be summarized in:

- The examination and the evaluation of assurance approaches of an optimizing process that uses resources in an entity receiving public funds;
- Signaling major losses, extravagant attitudes or other examples of poor performance. The auditor's role is to assess on what level and how well the resources are managed in that organization.
- Helping the managers in their efforts of:
 - Rising the level of incomes/collections;
 - Reducing the costs or outgoings;
 - Improving the efficiency;
 - Strengthening or improving the management, administrative or organizational processes;
 - Improving the quality of the services;
 - Achieving the organization's goals and objectives in a more effective way in terms of costs;
 - Developing an effective policy;
 - Increasing the level of being aware of the importance of accountability and of transparency in the use of resources.

5. Performance audit planning and its connection with successful management

A performance audit program should be rigorously planned if you want it to be effective. Planning is the way in which we are identified, ranked and included in the overall program objectives of the audit activity in order to assess the potential structure and to estimate the audit activities to be developed. The planning process leads to fair decision regarding the nature, the extent and the timing of the performance audit to be conducted.

Strategic planning process for internal audit units must be concretized into specific performance audit programs covering all four major types described above in a period of three years.

This program must be based on risk assessment. In evaluating risks, the following criteria are taken into account:

- the importance of the activity performance in achieving the general objectives of the organization;
- the complexity of success indicators and their measurement instruments;
- the level of interdependence with other systems/activities in order to achieve success;
- the volume / amount of resources used in activity and the potential for wasting.

The aim of the strategic planning is to establish the future program of the performance audit, the priorities and the necessary resources to be carried out. Strategic plans are way ahead, for a period of three years, in order to identify the opportunities for long term and they may include more detailed proposals for short-term audit. Plans involve identification procedures, prioritization and selection of potential areas for performance audit. They must be reviewed and updated whenever it is necessary and especially in situations where management plans are modified.

Therefore, an appropriate strategic planning performance audit can provide accurate determination of priorities through an optimal distribution of resources to areas of maximum impact in order to establish an effective, complete and well structured program of the performance audit for a better efficiency in each mission.

6. Conclusions

The performance audit is an examination or a planned, independent and objective evaluation measure in which a program or activity of a public entity operates efficiently and effectively while respecting the economical part.

As a function, performance audit pursues the following aims:

- to act towards management in an independent and objective process to complete the activities of insurance and consulting;
- to add value and to improve the organization's operations;
- to assist the organization for its achievement of some objectives by bringing a systematic and disciplined approach to improve management.

The audit is an activity with an advisor role for the organization's management not being similar to the control. It follows the respecting of internal standards and rules applied to operational processes of the organization highlighting the critical points of the activity for shaping the program of measures, recovery and normalization.

In some cases, auditors' interests may be the same with the interests of managers in reducing risks linked to the reputation and the image of the entity, to prevent illegal conduct or failure, transparency, effectiveness and reliability of internal communication, basing the approaches of risk assessment and prevention.

The basic role of performance audit in its relationship with the management should be the provider of information and risk management solutions through a good collaboration among auditors, board of directors and managers.

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The Aesthetical and Utilitar Categories in the Consumption Society

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Abstract

In this paper, I wanted to present several aspects about the consumer's behaviour nowadays, influenced by the relationship between utilitary and aesthetical categories. This behaviour is conditioned by the nature of needs and wishes, by the way of their materialization, as the results of economical activities. So, the link between production and consumption was determined, over the times, by the evolution processes, focused on passing from the manufactured to the big seria products, as a result of the big industrialization.

There are also included aspects with reference to durability, repetability and authenticity, like major characteristics of the consumption goods, in the context of the new interdependences between culture and civilization. I also mentioned the impact of the underground provocations and the actual global problems from our society.

As a conclusion, I brought references over the fact that the modern consumption society must help us to identify the veritable values of our existence.

Key words: Consumption, Prototype, Standard, Authenticity, Unicat and seria goods

J.E.L. classification: M0

The consumption approach as a way of satisfying the needs in the actual economic context, in which the success dynamics seems to be more and more linked to the money, needs considering the complexity of the people's life which finally is imprinting both the level of living and on the actual lifestyles. We may talk about an economical-social determinism submitted to a continuous evolution which is conditioning aspects linked to the people's education and their

level of training, the socio-professional mobility, the motivation and the sensitivity – all of these being constituting as the points of reference which are establishing the interdependence between the aesthetical and the utilitar categories. The goods created in the actual consumption society must gain a new existential status, influenced by the growing rythm of their social recognition and validity, but also by the moral erosion which is following.

In this context, Victor Basch (1863-1994)[1] appreciates that the individus are manifesting four types of attitudes over the surrounding reality with different weights and roles, depending on everyone's personality adapted to the existing economic-social standards.

a) **practical-utilitar**, by which is conditioned the adaptation of the resources valorifying the needs satisfaction which is conserved into the biological integrity of the individuals;

b) **moral and religious**, as the references by which the individus are being reported to the society;

c) **intellectual**, by which are established the rationality and the finality of all the displayed activities;

d) **aesthetical** which, by distinguishing the others, are supposing a desinterested reporting to the surrounding world, this being a simple adhering to shapes motivated by a sympathy without ideas.

In the modern societies, all these attitudes are valorified and manipulated by the specialists in economy and communication, by the designers and creators. The premises of these tendencies are having their origin in the prosperity assumed by the industries developing, by the mass production, by the development of marketing, publicity, credit, phenomena which began to be extended from the second half of the XXth century.

So, in its dynamics, the industrial production influenced also the other types of activity, because of its main characteristics, of which the more relevant are the following [2]:

- a) it's the result of same mechanical forces led by the man, but yet extra human;
- b) it includes the seriability notion, by producing the same good in many copies;
- c) its finality has an utilitar character, a feature which cannot be attributed to the artistic creations;
- d) it's linked to individual particularities of different categories of consumers, by which are determined the market segments.

By these presentations, we may conclude that the industrialisation process, determining the immediate efficiency, the productivity and the quantity to be the main criteria of appreciating, by putting prioritizing the utility and functionality. Nowadays, the complexity of the human being existence involves a dynamicity of needings with different priorities, which are putting the individus in front of more and more opportunities of choosing. For example, it is easy understanding that the necessity of buying a house or a car is more stringent than the wish of growing an unique object or a masterpiece, a reason by which the utility, the functionality, the constructivity are generating from an economical perspective our possibilities.

In this way, the industrial production of utilitar shapes becomes more and more comprehensive and, conforming to its specific, the shape is initially conceived and then included to the matter, in a just moment, only at the level of the unique item, under the name of "prototype".[3] Once recognized as good and accepted, the prototype will be reproduced in many identical exemplaries, and the result of multiplying the prototype by the industrial technologies, at a big scale, is constituting the product.

So, the new paradigm of the relationship between the utilitar and the aesthetic cathegories are necessitating the consideration of the differences between art, skill and industrial production. For instance, the agricultural production didn't need a distinction because the shapes resulted by working the land were imposed as industrial shapes. But the industrial production needs a distinction, talking about the shapes resulted

from the man's action over the raw materials and the technologies, nature having no contribution and the shape is not the result of every item. On the contrary, it is imposed as a discovery only at the prototype level.

On the other hand, "the standard"[4], a concept introduced by the English people during the XVII-XVIIIth centuries signifies just copying the prototype in big series. In their running after more and more profits, the economic agents are oriented towards producing the goods with an ephemere commercial success for an easy substitution and the daily life begins to be dominated by the standardization phenomena with all the consequences (the tastes aplatisation, the depersonalization an falling into an unvalued existence)[5]. We may also add the promotional system conceived in a more refined way, which is pushing the individuals into the situation of buying more and more goods much over his needs and wishes, a tendency recognized as the main reason of the actual economic crisis.

We must also admit that the industrialization extension[6] generated many social mutations in the sense that more and more workers are today living better than the high-classes with only a century ago. On the essence of that "welfare mediocrity", is also maintaining a social satisfaction, generated by a complex of factors (occupation, incomes, fortune, education, system of values) which are influencing the perception over the goods and the consumption mentalities. In these conditions, it is more and more evident the dilemma after which the functional and beautiful goods, obtained by the industrial processes are having a very big weight in consumption and are presenting a new big social importance, a tendency generated by the next factors[7]:

a) **Economical**, by the rations generated by scale savings, by means of industrial production, are being satisfied nearly all the needings. As known, in the middle ages, there were transmitted from one generation to another the furniture, the family objects or just the clothes. But, from the middle of the XIXth century, the status from the utilitar goods is changed, the preferences are manifested for the big series produced goods destined to the same needs and delivered by the industrial factories.

b) **Technological**, generated by the big science discoveries, they created phenomena with profound implications in the private and collective behaviour of the people. By the machinery inventions, the psychological impact was strong, passing from fear to getting used to, with influences also over the aesthetical categories. This phenomenon generated a new concept, called the "industrial aesthetics"[8] which, step by step, began to be considered "a beauty science" in the field of industrial production, of the working place and ambiance of the production tools and the final goods.

Under the impact of the same factors, at the confluence between the TV technology and the performative experiments (image, sound, moving), is created the video art. After its influence, the homes are invaded by the "publicity clips"[9], like strategies of forming and manipulating the consumption attitudes. At the end of the 80th years of the XXth century is imposing also the computer capable to manage the multimedia installations. In the meantime, by increasing the capacity of stoking on CD – ROM and DVD-ROM facilitated the individual creations and their spreading to more and more users. They became serial creations, transformed into goods which may be traded together with these destined to the mass consumption.

Under the impact of cultural factors, is appearing the aesthetical wearing phenomena of industrial goods which, after a using period, they become uninteresting from a visual point of views. This phenomenon is determined by the fact that the origin of their production is not based of authenticity[10], as a veritable value creation, capable to generate progress by the continuity of becoming. Being aware of this aspect, in the developed industrial countries, there are always added aesthetical improvements, but with consistent increases of prices.

So, it becomes a necessity to create an interdependancy between technological and cultural factors because, as we can easily observe, promoting the consumption goods by mass-media, determines the people to define their life-style not by what they are, but what they want to become. Using the "image message"[11] eliminates the psychological possibility of cristalizing, by interior collection, the artistic emotion and

being rapidly annihilated by the avalanche of images and information. As a contrast to the utilitar shapes, the artistical ones, characterized by originality, must not be changed for the reason that they are old, they are unuseful or they are not corresponding, on the contrary, they are resisting in time, they are discovering a permanent "actual value". Considered to be the best synthesis between spirit and matter, they are detaching by the world of the utilitar goods by the fact that, on the one hand, they are not reproducible, and on the other hand, they are expriming the talent, the emotions and the innovations of their creators. Asking us in a rethorical manner if the repetability means the veritable destiny of beauty, we must be aware of the fact that, nowadays, any object wins or loses their own "beauty"[12] not function by what is it, the social coordinates which are determining the way of looking and perception. So, the aesthetical values circulation for their trading is conditioned not by the preferences and by the consumption society perceptions which begin to manifest alarming tendencies (the cities and houses depersonalization or the preferences for the big serial goods). These are the reasons why the cultural goods creators are proposing to cultivate promoting the aesthetical values, to educate the culture consumes, for raising them as the veritable scale of human values. The economists and, obviously, the specialists in management and marketing are interested in aesthetic by means of visual advertising for a certain product, its content or shape being treated only as a "support".

Considering that imitation means civilization, we may easily explain why nowadays society facilitated passing the art from culture to civilization, a phenomena which generates the aesthetics of the quotidian life, in which the need for beauty may be satisfied not only by art. As a reverse, these tendencies attired also the underground trends, the hippie movies, the drug consumption, the sexual and feminist liberties, preceded and accompanied by the big protestatary waves from USA and Europe from the last 60 th century. We must not neglect the big planetary problems (aids, pollution, the green house effect, the industrial rests, the city of natural resource) reflected in the creations of contemporary artists who, always by their manifestations,

proved to be in the avangarde of the big economical and social problems. The economical globalisation tends to attire, in the cultural fields inclusively, the occidental hegemony tendence, manifested by the localization and delocalization of markets, exhibitions, the big centers of sales. The of XXIth century is more and more confronted with the disappearance of a "globalised"[13] world, but characterized by the historical and cultural specificity which is nourishing the identitary searchings. The capital accumulation, as a purpose, has generated the growth of discrepancies between the material potential of different social cathogories and their cultural level, phenomenon which generated the perpetuation of bad taste, culminating with the sharpening of economical and moral crisis.

We may appreciate that, the modern society, dominated by major contradictions, must also administrate the material and human resources in the direction of a better valorization the interdependences between the aesthetical and utilitar aspects, between the production and the consumption of big serial and unique objects, between global and national.

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Brief Analysis of Financial Architecture of European Union and Romania from Single Market Perspective

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Abstract

The European integration is an event that impacts in every economy and in every financial field of European Union. The purpose of this study is to underline the main steps made in the integration process and to analyze the impact of an economic, monetary, financial union both on microeconomic and macroeconomic field. What are the main steps that Romania should follow in adopting the single currency? What are the consequences of a single currency? What can Romania learn from other countries experience? Those are some questions that we tried to answer. In this study, section 1 presents the evolution and implications of European system of Central banks. The second section underlines the main contributions of TARGET and SEPA and the last two chapters analyze the main indicators before and after the integration process in European Union and Romania.

Key words: European integration, central banks, financial market, Romanian banking.

J.E.L. classification: E58; G21; D53

1. Introduction

The last decade and not only had a main topic in European Union, the European integration process and all the implications that had come from this: financial liberalization, single currency, European System of Central Banks centered on European Central Bank, new regulators, the elimination of barriers in many sectors and not only that.

This study contributes to the literature by extending the analysis of the implications and consequences of European integration process to Romania. We analyze the evolution of European integration process from the beginning until today with the direct implications in financial sector.

In the same time, we analyze the direct impact of single currency and the connection between its implementation and some financial indicators and tried to underline the advantages and benefits to be applied in Romania case.

2. European System of Central Banks – evolution and implications

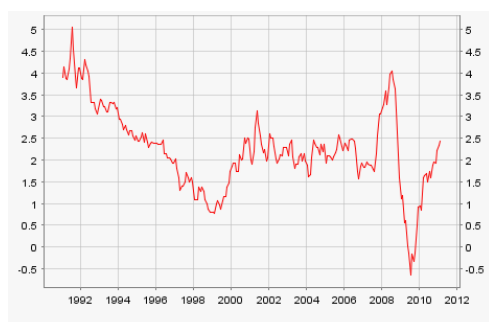
In the last 10-15 years, the banking consolidation in Europe led to increase the size of European banks within national boundaries rather than borders, despite European rules that encourage expansion of banks within the EU by deregulation of banking and other financial services and by elimination of the controls of interest rate, capital or barriers between banking system, insurance and stock exchanges.

European banking system is highly segmented, while capital markets are characterized by a high degree of integration mainly due to the single European currency and to the fact the process was also stimulated by the American investment banks which operate on UK markets with extension to the continental side of Europe.

One of the reasons that the banking system has expanded beyond the national level was reflected in the strict regulation of the sector by governments in order to protect individual consumers. (*Economic Tribune*, no. 9, February 2007, pp. 93)

For many countries in the euro area, the introduction of the single currency led to new conditions consisting in a low rate of inflation and macroeconomic stability. According to experts, this is effectively guaranteed, because the euro area is supervised and coordinated by the most independent central bank in the world, namely the European Central Bank. Research in the field of European Union countries show that a more independency of the central bank is also reflected in lower inflation. Experience has shown that countries where central banks were not immune to political influences (Italy, Spain) were faced with higher inflation.

Figure 1. Evolution of inflation rates in the EU - 1991-2011



Source: www.ecb.int

For this reason, the Euro would represent an important advantage for long-term regional economic stability, whereas the ECB is the first central bank in history with whom there is no government to influence its policy. Although the high level of independence of the ECB will bring little benefit to countries known for their low inflation (Germany, Austria, Netherlands), it still allows for a more stable economic future for other countries, who consider price stability as one of the main advantages of the Euro.

3. The evolution and advantages of Single Payment System

The major importance of the clearing's efficiency deeply interested in the international banking community and imposed extensive studies of groups of experts appointed by the prestigious international associations, whose conclusions

were stated in the banking world as a stronger reference source authority

Single European Payments Area (SEPA)

On the single European market there are still considerable differences between national payment systems. European Union tries to remove these barriers and to reduce border costs for consumers by creating a single payment in the Euro Area (SEPA). European Payments Council (EPC - European Payments Council) was formed to create standards in this area and a common infrastructure.

SEPA involves the creation of an area for the Euro or any currency whose member state wishes to notify participation in which all electronic payments are considered domestic and where a difference between national and intra-European cross border payments does not exist.

This system improves the efficiency of cross border payments and turn the fragmented national markets for euro payments into a single domestic one: SEPA enables customers to make cashless euro payments to anyone located anywhere in the area using only a single bank account and a single set of payment instruments.

SEPA has advantages for all categories of participants.

For traders: Cards are one of the main instruments of payment for consumers. To accept these payment cards merchants must sign a contract with the bank to "get" this right.

SEPA will allow card use overseas. Merchants can choose any bank to sign the contract to accept payment cards, which will increase competition and reduce costs. SEPA will push the standards of POS terminals in the euro area. Traders will be able to accept a wider range of cards from one terminal, and competition will also lead to lower costs.

For companies: SEPA will help companies to simplify the management of pan-European business; all financial transactions will be made from one bank account using SEPA payment instruments. Payments will be simplified considering that all have the same format. Also, the companies that have activities in the euro area will even save money and time by consolidating management of payments.

For banks: Promoting new payment instruments and common infrastructure, SEPA will lead to an effective single market. This consolidation of facilities will boost competition and the banks will be able to negotiate better prices for settlement.

SEPA payment instruments will allow banks to expand business and compete on a pan-European level, also any bank can offer its services to anyone in the euro area, without the submission of an effort or additional costs

TARGET (Trans-European Automated Real-time Gross settlement Express Transfer)

TARGET is the RTGS (Real Time Gross Settlement) for the Euro, offered by the EUROSYSTEM. This system is used for settling transactions of the central banks, large-value transfers and other types of payments. It is based on real-time transactions with immediate finality.

TARGET was created by linking the national RTGS systems with the European Central Bank payments system. It began on January 1, 1999. The launch of a single currency needed a real-time payments system Euro area: to ensure payment procedures necessary to implement the single monetary policy of the European Central Bank and to promote an efficient system for euro payments.

TARGET2 became operational on 19 November 2007 (replacing the TARGET) and provides with increased efficiency in terms of recovery costs harmonized basic services and single technical infrastructure. Also, the system was designed to be easily adapted to any subsequent amendments, both technical and Euro-system extension process based.

TARGET2 represents: backbone of the financial system in euro, because through it there are finally settled all the euro payments in the euro area, both national and cross-border, including payments related systems (either payment, clearing or settlement) and also basic instrument for the Euro-system's single monetary policy, given that TARGET is the only system which settles Euro-system monetary policy operations.

Regarding Romania, taking into account that payments for Euro-system monetary policy operations will be settled only through TARGET2, the connection to this cross-

border payments system is optional before joining the euro area, but will be mandatory with the adoption this currency. (National Bank of Romania, Annual Report 2008).

4. The evolution of European banking system

European financial integration is an important issue both in terms of regional and global implications. One of the main objectives of the European Union is to build a single market for financial services. Since the financial system is important in allocating economic resources, a single market for financial services has the potential to significantly improve the investment's efficiency and to ensure the economic growth by removing barriers and frictions.

Despite the measures taken over time for increasing the financial integration in the European Union, it continues to be characterized by fragmentation due to technical, regulatory or administrative barriers that still exist in different national financial systems.

The introduction of the Euro and the measures adopted through the FSAP (Financial Service Action Plan) has contributed to increased financial integration, but the specificity of the national economies, the diversity of national laws have delayed the full integration of financial markets.

The EU Action Plan for financial services, which was launched during the period of 1999-2005, aimed to create a single market of the financial services designated for the industrial consumers basing on a single legal framework for securities and derivatives markets, mergers and acquisitions and to integrate and give access to all consumers to a European financial market for individual consumers, which would imply a reduction of differences in charges between EU countries, the harmonization of prudential rules, especially in case of insurance and reinsurance domains. The regulatory areas had included the statute of European investment companies, taxing savings, banking activities privacy, pension funds, acquisitions, communication in distance financial services.

According to the White Paper of financial services policy (2005-2010), the inefficient payments system and the absence of a EU model of financial integration represent the main obstacles to integration of European financial markets. Studies made by the European Commission show that financial services policy should be in strictly concordance with the other policies such as competition, consumer protection or taxation. The main obstacles to cross-border merger can be found in insecurity of the rules related to taxation and in the discriminatory character of it.

Intensity of financial integration in the European market depends on the specific segment of these markets. A fully integrated market is the inter-banking market because of the launching of the Euro and of the European Central Bank's coordination of the monetary activity.

Another integrated market is the bonds one (especially bonds issued by governments), which is sufficiently large to compete with the markets listed in U.S. currency. Transparency and liquidity in this market segment have improved and the market integration was also sustained by the transformation of secondary market infrastructure and by the developing of electronic trading platforms.

Less integrated markets are the markets of securities and certificates of deposit, the stock exchanges and the markets of financial derivatives.

As regards banking markets, the degree of integration also varies depending on the specific financial services segments: bank lending and securities trading have registered a relative increase while the segment of banking services for individual consumers have not progressed.

Further, the focused areas are banking services for individual consumers and segments of consumer credit, mortgage loans and payment services. What could be done in the future would be a greater harmonization between the various financial products, increasing of solvency, encouraging of mergers and acquisitions, eliminating of barriers to conducting cross-border payments. Financial services to individual consumers are highly fragmented.

A key role in European financial market integration was played by the achieving a

single monetary market, which helped some steps forward in finance domain, with a different intensity depending on specific financial segments. It should be noted that the advance was not very ambitious having in view the persistence of obstacles to cross-border actions. Generally, there have been removed the technical obstacles reflecting in a better offer and cheaper access to capital for entrepreneurs.

However, there are still different degrees of integration in different markets, although there is progress on integration process in all areas. Retail market and the dividends one are still considered to be fragmented, while large amounts of money and bonds markets tend to be well integrated.

The integration's degree of EU banking system started to grow in a particularly way since 1999 (when Euro was introduced). Uninterrupted strengthen the EU banking sector may change the conditions of competitiveness and even more may improve the efficiency and diversity of EU banks. When the EU retail banking sector is compared with other financial sectors, it appears that it has evolved relatively slowly and this is reflected both by the price and quantitative indicators.

Number of credit institutions has decreased since 1997, and in 2004 also fell by 2.8%. In 2004 the total number of EU credit institutions was 8684.

The number of mergers and acquisitions has dropped since 1999 and this trend continued in 2004 and during the first half of 2005. This suggests that the consolidation process going on even if a decreasing rate. This downward trend can be explained by a slowdown in merger and acquisition activity internally. In contrast to this, cross-border mergers and acquisitions have increased by comparing with period 1993-1998, by 30% respectively 24% in number and value of transactions. It also increased financial market integration, national competition and concentration limits, as the euro currency introduction and they are seen as a possible explanation of this development.

In 2005, just as in the year 2004, data shows common trends in the EU banking sector development. However, national conditions still differ considerably from one country to another. This is reflected for instance in various structures of the retail

market where the main members differ from one EU member to another.

But in 2005, after four years of decline, the number of branches started to increase again reaching the same level as reaching almost 201,259 in 2002. The number of branches of credit institutions increased in 16 countries, mainly in Spain.

Analyzing the total share held by top 5 largest institutions in total banking sector assets, it can be seen that many countries, especially the small ones, are still characterized by a high concentration of the banking sector. Anyway, the concentration remained relatively low in Germany, Italy, Luxembourg and Britain. In Germany and Italy, this can be also attributed to the double bank structure (with both types of banks, commercial and cooperative), while in Luxembourg and United Kingdom the concentration of banking for residents increases due to the presence of many foreign banks. In 2005, the concentration in the banking sector further increased. In 2001, the five largest credit institutions reached 37.8% while in 2005 it reached 42.3% (from 39.1% to 43% in the euro area).

There are still significant differences in the EU banking sector from country to country. Population employed in the banking sector varies from 20 (in Luxembourg) to 447 (Lithuania); banking unit population: between 797 (in Cyprus) and 7511 (in Poland). However, in 2001, the dispersion which characterizes these indicators decreased, possibly as a result of the strong competition in the integrated markets.

5. Evaluation of Romanian' ascension to the Euro zone

European integration is not a goal in itself, but rather a means to promote the highest values of European culture: respect for fundamental human rights, pluralist democracy, prosperity for major part of society and economic competition. One of the main objectives was a political union, the peoples of Europe more than ever in need of a united Europe, including in this regard. Reiterating the bases of Political Union involves a greater effort for members by connecting to the common objectives.

EU enlargement strategy aims to integrate new members in parallel with the harmonization of domestic and foreign policy objectives in all countries (members), by compliance and consistent application of common basic principles.

Joining the European Union was undoubtedly an important step forward, but the process of reduction of disparities still continue. Joining the euro will be the second major step in this process. In this respect, the moment of the introduction of euro currency must be weighed carefully to see what are the advantages and limitations that this approach entailed.

To adopt the euro currency must be taken measures in the following directions: first, inflation should be reduced in a time when massive capital inflows will continue and there will be a convergence to income and prices. Thus, a monetary policy to reduce inflation will have to accept a continuous appreciation of the national currency and a possible erosion of competitiveness. But at the same time, in terms of tax should be increased the expenses with infrastructure, mentioning that the fiscal deficit should be kept under control due to the explosion of the external deficit. Under these conditions, the solution can only be widening the tax base or increase the main taxes.

Regarding the Romanian banking system, it should be noticed the fact that it represents a subset of the national economy that has worked consistently and clearly evolved over the last decade towards modern structures in accordance with relevant European and international levels. The importance of the banking system for the national economy is now so pronounced due to the technical and informational progress and to the new monetary and financial instruments that banks use in achieving the three main functions (financial intermediation, transfer and implementation of monetary policy central bank)

6. Conclusions

The introduction of euro currency in our country will be based on a number of common elements with those countries which have gone through this process. Furthermore, Romania has the great advantage that it can

learn from the experience of those countries that have switched to the single currency.

Thus, the main lessons from the experience of the previously processes of entering within euro area are the follows: careful and active preparation gives the best results. Countries that invested early in training were rewarded for their efforts by the speed of change, easy public acceptance of the new currency and smooth transition. Investing in information and communication has also been rewarded. The need for accurate and timely information remains as important as in the past; lack of information could lead to reactions of fear or hostility.

A long transitional period is not recommended for further countries to join the euro area because public authorities will had to resume efforts in order to persuade again the companies and citizens to prepare in time to change money. Furthermore, using the euro "scriptural" remained rather limited during the transitional period. However, since countries try to make shorter transitional periods, the complexity of using two currencies (euro and national currency) will be reduced simultaneously and the transition will be easier to explain and understand. The introduction of euro banknotes and coins must be swift: a gradually introduction of the euro currency creates complications for citizens and businesses. Instead, a quick introduction gives benefits to all parties involved because it is carefully prepared; also the dual circulation period is preferably to be short. As it was demonstrated by the countries currently in the euro area, a rapid introduction of the euro needs to be based on an extensive network of flights to all ATMs and the ability for customers and non-customers of the banks to change the current currency legally and without any cost. In this case, the importance of card-based payments and online payment must be emphasized. Such payment methods contribute significantly to a smooth transition: removing of the national currency requires careful preparation: the expertise shows the main efforts were focused too much on the introduction of euro banknotes and coins while the consequences of the national currency restitution have been underestimated. Measures must be taken to avoid any impact on prices. Prevent is clearly

better than cure. The risk of abuse during the change of prices is a very important reason for citizens to have fear about this process. Changing the "mental" perception take considerably more time than the physical change. Results of surveys show that 30% of customers think most often in national currency when doing their daily shopping, 46% think in euro currency for higher values (house or car), however, most citizens in the euro area calculated mentally most often in national currency (54%) while a small fraction calculated in euros.

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Relationship Marketing: Conceptualization and Main Economic Fields of Implementation

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Abstract

The subject of the present paper is consistent with the current developments in marketing theory and practice, referring to a managerial change of priorities from isolated and short term transactional exchanges towards more stable business relationships, with positive consequences on the company long term profitability and competitiveness. Relationship marketing has been promoted in the literature as a natural reaction to technological, economic and social changes occurred in the global business environment. Increased customer migration rates have been a strong argument for many companies for adapting their marketing strategies to new business realities and to understand the value of loyal customers. However, the relationship marketing approach is not equally applicable to all fields of activity, being best implemented in organizational markets and services economic sectors.

Key words: customer relationships, stakeholders, business to business market, services sector.

J.E.L. classification: M31-Marketing.

1. Introduction

In the academic world, relationship marketing has been a well debated topic for more than twenty-five years. Many definitions and perspective have been stated and a vast scientific literature was developed.

The controversies concerning the status of the concept did not lack. Thus, relationship marketing has been considered by some authors an economic paradigm, while others, in contrast have not found its clear evidence of novelty.

The present paper aims to highlight the main conceptual approaches that can be found in the literature, to clarify relationship marketing meaning and fundamental principles and to prove its applicability in different economic areas of activity.

2. Evolution of relationship marketing concept

Relationship marketing literature began to develop in 1983, with Berry's scientific contribution. The author proved the need for more closer and long term business relationships between services companies and their customers. He stated that relationship marketing aims "to attract, maintain and (in multi-service organization) to develop relationships with customers" [3]. Although it is recognized that the acquisition of new customers has been and will remain one of the marketing responsibilities, the definition highlights the need for a relational approach which emphasize the importance of customer retention and relationships development.

Two years later, Jackson is trying to prove the complexity of inter-organizational relationships and the benefits of buyer-seller collaboration [14]. In organizational markets, customers are considered to have a

continuing value over the period they stay in business with a specific company. Thus, the focus should be on developing customer relationships and not on single and isolated transactions.

The duration of the exchange is a core element in making the distinction between relationships and transactions.

A transactional exchange involves a single, short time exchange with a distinct beginning and ending. In contrast a relational exchange involves multiple linked exchanges extending over time and usually involves both economic and social bonds [8]. In other words, a relationship can be conceptualized as one or more exchange activities between a buyer and a seller, which are perceived by the customer as being related to past and future exchanges.

A much broader characterization of the term has been given by Dwyer, Schurr and Oh who state that relationship marketing is "longer in duration than transactional marketing, reflecting an ongoing process" [7]. The authors emphasize, therefore, the continuing character of exchanges that occur between business partners, collaboration not being limited to simple transactions.

Morgan and Hunt also define relationship marketing from a general perspective, without highlighting a sectoral view or explicitly mention the need for a customer relationship to exist. They state that "relationship marketing refers to all marketing activities directed toward establishing, developing and maintaining successful relational exchanges" [16].

Gummesson defines relationship marketing as "marketing seen as interactions, relationships and networks" [11]. The author identified a number of thirty-two relationships that can be developed by an organization in its internal and external business environment.

These are further classified into three main categories: market relationships, mega relationships and nano relationships [12].

The first take place between the company and the key stakeholders from its micro environment, including customers, suppliers, competitors and distributors.

The second are relations that occur between the organization and a heterogeneous external public that have a potential influence on the company long term

performance and market position: public authorities, mass media and the civil society.

And the third refers to the company internal relationships, involving groups such as: employees, investors and shareholders.

The widely accepted definition of the concept in question belongs most probably to Christian Grönroos, according to which relationship marketing aims "to establish, nurture and enhance relationships with customers and other partners, at a profit, so that the objectives of the partners involved are met" [10]. The author goes on to explain that this objective is achieved by a mutual exchange and fulfilment of promises.

An analytical view on the above definition emphasizes the following key elements: the vehicle role of the relationship in creating value for customers, the importance of properly managing relationships with other members of the supply chain, and also the profitability goals underlying the elaboration and implementation of relational strategies.

Moreover, it is suggested that the success of the marketing activities can not be assessed only through monitoring a company market share. Thus, satisfaction and retention indices have to be defined and properly measured in order to determine customer loyalty.

Another prestigious author who stated the need for a change of focus in the marketing philosophy is Philip Kotler. He promotes the advantages of a relational business approach by repositioning the marketing mix as a set of tools for understanding and responding to the requirements expressed by all significant stakeholders from both internal and external environment.

In this context, Kotler propose an additional alternative of the marketing mix, which represents in his opinion the customer perspective on the value received in the business relationship.

Known under the name of the "4Cs", these are translated as follows: customer needs and desires, costs for customer, commodity for customer and communication with the customer [15]. According to this conceptual model, companies have to meet customer needs economically, in a convenient manner and by using efficient communications.

Organizations that have adopted a relationship marketing orientation wish to establish long term relationships based on

commitment, trust and cooperation, and characterized by openness, genuine concern to deliver high quality products and services, prompt response to customer questions or suggestions, and fair businesses [5].

They shift from attempting to maximize profits on each individual transaction towards the establishment of solid, dependable and, above all, permanent relationships with the people they serve. In Bennett's opinion, relationship marketing "is the organizational development and maintenance of mutually rewarding relationships with customers achieved via the total integration of information and quality management systems, service support, business strategy and organizational mission in order to delight the customer and secure profitable lasting business [2].

The natural development of the marketing strategic objectives and activities towards a relational approach is also highlighted by The American Marketing Association (AMA) in its marketing definitions developed after 2000.

Thus, the definition of AMA specialists from 2004 states that "marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders" [6]. The same definition is reformulated in 2007, as follows: "marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customer, clients, partners, and society at large" [6].

As we can see, the focus of both definitions is on customer portfolio management and also on developing relationships with other influential stakeholders, the latter aspect being frequently omitted in the initial conceptualization of the term in discussion. Moreover, marketing is not viewed strictly as a matter of a single functional department, but customer orientation is necessary to be adopted throughout the entire organization and become a corporate culture, highlighting the beliefs of each employee.

As a synthesis of the above mentioned definitions, relationship marketing literature has evolved and developed on two main levels or directions.

The first is a macro level that defines an organizational strategic objective to develop profitable relationships with all relevant stakeholders, including: employees or internal customers, shareholders, investors, suppliers, distribution intermediaries, partners from strategic alliances and so on.

The second is a micro level, which purpose is to attract and retain valuable customers. This is also known as the primary aim of customer relationship management, a concept developed in close connection with the relationship marketing theory and practice.

3. Relationship marketing adoption by economic sectors

Although relationship marketing principles have gained widespread popularity, in the literature certain economic areas or industries were considered to be favorite fields of implementation.

In this context, many researchers proved that the business to business market and the services sector present specific features that facilitate customer relationships development and stakeholders' partnership creation.

Business to business markets are considered to be very complex in nature, due to specific needs which underpin the organizational buying behavior.

Market structure is significantly different from what it is known in the business to consumer field of activity and this is related to reasons such as: the small number of customers and the derived demand, the concentration of purchasing power and the interdependence between buyer and seller, the greater complexity of products purchased, etc. [13].

In inter-organizational markets, the number of customers and prospects is much lower than the situation encountered in consumer markets. Organizational buyers are usually recorded in official statistics, having a clear demographic profile, which helps seller companies to more properly estimate their specific needs.

Due to the great volume and value of individual transactions, business to business customers are considered to have a high buying potential, some of them being of strategic importance for the supplier business stability.

Within many business to business domains there is a high concentration of demand. Most time, the aggregate market share of the first three or four buyers tend to reach values of 70 or 80 per cent of their total market, which translates into a high concentration ratio and dominance by a few firms.

Those companies that control large shares of the customer market are also the largest customers for suppliers to the industry [4].

This situation is a very good justification for sellers to adopt relational strategies in order to keep these customers and to capitalize on their high profitability potential. The aim will be to develop mutual beneficial partnerships, based on trust and commitment, which will enhance customer investments in the business relationships and thus will be created natural switching barriers.

For business to business marketers, adopting relationship marketing strategies will certainly involve a very good understanding of the customers' demographic and behavioral profile, which will underpin all future decisions and actions. This will frequently involve the development of tailored solutions to individual strategic customers rather than implementing standardized marketing mix strategies.

The services marketing literature, was similar to the business to business sector, one of the first area for the development of relationship marketing research [9].

The growth of the services sector in many international markets has favourable influenced the development of specific marketing mix tools in fields such as: banks, assurance, tourism, health, etc.

In marketing literature there is a great acceptance of the need to differentiate business strategies depending on the nature of supply.

The main differences that can be identified between goods and services are: the intangible elements that dominate value creation, the fact that service product cannot be inventoried, the variability in the operational inputs or outputs and the inseparability of services consumption from the contact personnel, which means that customers may be involved in the production process [8].

Due to these specific features, Bendapudi and Berry stressed that the practice of relationship marketing is most applicable to a

service company [1]. They argue this theory through three main reasons.

First, many services require a continuous nature of the delivery process, which involves supplying the service over several contacts with the customer.

Second, services intangibility and increased difficulties of assessing the quality of services before consumption leads customers to seek ways to reduce perceived risks by engaging in business relationships.

Third, customers will most probably want to form relationships with other people (employees, first-line staff) rather than with products or objects.

Relationships development is favoured in this case by the inseparability characteristic of services, both the service provider and the buyer having a specific influence on the outcome of delivery process.

Moreover, some kind of services such as health, banking or educational services are very complex in nature. Thus, the customer has difficulties to evaluate them, even after their experimentation.

In these circumstances, the confidence in the service provider will be a key factor in reducing buyer anxiety and perceived insecurity, leading to increased customer commitment to the supplier.

Regarding the consumer goods market, most researchers believe there are some obstacles in the adoption of relationship marketing principles, given the existence of a high number of customers with a low or fragmented purchasing power, whose profile is not always easy to identify at an individual level.

4. Conclusions

As described in the present paper, relationship marketing is a popular subject that has remained the focus of marketing specialists for more than two decades. It highlights an ongoing process by which a company creates value, based on the individual needs of targeted customers and business partners.

Relationship marketing involves a win-win business strategy which integrates information technology and quality management systems into specific internal processes, with the aim of better understand and adapt to customer behaviour and to the

requirements of other relevant stakeholders.

From a company perspective, this new marketing orientation is expected to lead to increased customer loyalty, higher economic performance and a better competitive position.

However, relationship marketing strategies are not applicable in all situations, sectors or market contexts. Its main economic fields of implementation are considered to be the service sector and the business to business market.

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The Local Autonomy in the European Integration Process

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Abstract

Each discipline of the law implies the scientific knowledge through the identification of some basic notions, as, through those notions to it's reveal te essence of the investigated phenomenon. Each notion represent the investigation of an specific characters of it's content, which it's ordonate in a concret and logic way, delimit in this way, in the abstract thinking plane, not only the borders of the phenomenu and of the process which recall, but this essence it self.

The scientific knowlwdge is not enything else in a metaphorical wording, but an permanent process of language improvement, to recall much more profound essences.

In the administrative traditional law the meaning of the public administration notion was different and extensive analyse, both in the interwar juridical literature, and in that after the second world war. Sometime, the the sphere of the state administration, and other time the administration accomplished by the state organisms was concern just like an dimension of public administration, making the difference between the state public administration and the local communities public administration.

Key words: administrative law, public administration, centralization, decentralization, local autonomy

J.E.L. classification: K23

1. Introduction

In any state, regardless it's structure (unitary or federal), regardless the shape of government (republic or monarchy) or by the political regime (democratic or dictatorial) it's put in the debate the problems and the aspects which regard the centralization,

decentralization and the local autonomy in the public administration, the aspects which present a special, theoretical and practical importance for the good organisation and performance of the state.

All over in the world in any state will prevail, at a time in some stage, either the centralization side, either the decentralization one because the state will not govern only in a exclusive centralized regime or exclusive decentralized. This problem necessitate a right understanding for the insure of an optimum balance between these sides of the structure and the statal activity, necessary to all the states darkling in the process of transition through an decentralized system ground on the principles of the law state.

So, the local autonomy represent an fundamental of organization and founction principle of the local public administration.

2. The local autonomy – the fundamental principle of organisation and performance of the public administration

Under the article 120, al. 1 from Romania's Constitution from 1991, recence in 2003, „The public administration from the administrative-territorial units it's base on the principles of the centralization, decentralization, local autonomy and deconcentration of the public services”[1]. Other consecrations of the local autonomy principle we fiind in the Law no. 215/2001 article 1 – The Local Public Administration Law – and in The European Charta of The Local Autonomy adopted at Strassbourg october, 15 1985 and ratify by Romania in 1997 [2].

The article 1 from 215/2001 Law specify that: „(1) The present law it's settle the general regime of the local autonomy, and

the organisation and the working of the local public administration", and the article 2 from the same law stipulate that: „(1) The public administration in the administrative-territorial units it's organise and operate on the ground of decentralisation, local autonomy, deconcentration of the public services, eligibility of the authorities of the local public administration, legality principles and citizens consulting in the solving of the local problems of special interest"[3].

The European Charta of The Local Autonomy adopte dat Strassbourg at october,15 1985 define the local autonomy like an „principle establish through the Constitution or through the part-states laws, which confer to the local collectivities the right and the capacity to resolve and gestion, in the frame of the law, under it's own responsibility and in these population interest, an important part from the public affairs". This document recognize the necessity of exertion of an administrative control from the state on the local collectivities, the control which regard only the legality of the deeds emissived by their representative authorities.

The content of this principle arrise from the assembly of the settlements comprised in the law's regulations and represent the essence of the hole activity of public administration from the administrative-territorial units. It's right understanding present an special importance on the plan of the practical actions and emphasise the achievement of an apart independent character of the local public administration authorities and the concept of the selfgovernance which should mean an contraset of the local public administration to the central administration through which it's accomplish the executive power of state.

The local autonomy does'n mean the right of an collectivity to govern it's self in any problems, without allowance of the bearings with similar collectivities or situate dat the superior levels, or at the centre.

The principle of the local autonomy is not only a theoretic concept and it's does'nt have an abstract content. It had un material holder, which it's express through the practical, concrete actions. The local autonomy had like economic foundation the it's self patrimonial base on which the local

collectivities it's administrate like an genuine owner, in the law's conditions.

The local collectivities held in propriety or administration, the material goods – form by the lands, buildings, differents equipements and others – like financial means, making the public or private domain of those, which it's administrate regarding of the inhabitant's interests, but in conforming with existant regulates. Otherwise, the local autonomy without the existance of this material foundation and without freedom to administrate it suitable of the personal needs could mean just the affirmation of an principle pure theoretical, without an content and without relcatlessness on the practical action plane.

The patrimony that dispose each collectivity from the administrative-territorial units constitute, in fact, the spring of it's development and prosperity, of the solution, at the superior level, of the requirements and of the affair of the inhabitants.

In the intention of ensure of the local autonomy, The 215/2001's Law anticipate that the public administration authorities from the villages, cities and districts, elaborate and approve the budgets of income and expenses and had the right to institute and perceive duties and local taxes, in the law's conditions[4].

3. The characteristics of the local autonomy principle

The Law 215/2001 contain other disposals too which are directly legal and give juridical expresion of an elements which regard the pntinciple of the local autonomy.

The law specify the juridical nature of the local autonomy and it's statuare that this is administrative and financial and it's exercise only on base and the limits predict by the law. An similar stiplulations is by nature to interrupt any tendency or action to distort the meaning and the exactly content of these principle, to advance or to put in opera „the local autonomies" on the „ethnic", „linguistic", „territorial"(regionals) criterions etc.

The Law 215/2001 also specify that the local autonomy „represent the right and the effective capacity of the local public authorities to resolve and administrate in the name and in the personal interest and under

their responsibility an important part of the public affairs of the local collectivities which it's represent, in the law's conditions". In the similar way this text it's fiind again also in Tha European Charta of The Local Autonomy, and the romanian legislator undertake it because this is in the complete concordance with the stipulations and the spirit of the Romania's Constitution.

From all these exposures by legislative order we detach some essential characteristics of the concept of the local autonomy, such as:

- ✓ The local autonomy represent not only an right but an obligation (responsability) too for the representative authorities of the locale collectivities, to resolve and administrate the problems of those collectivities;
- ✓ This right and this obligation it's exercise in the name of the local collectivities and only on the base of the mandate given by the collectivities (like an sucesion of the assignation deed through the scrutiny);
- ✓ The exercition of the rights and obligations confere it's made only in the interest of the collectivities which it's represent;
- ✓ The authorities of the local public administration representiveness rejoin political (in a front of those which it's represent) and juridical (in a front of the state) by the way in which they exercise the right and obligation regarding the reslove and administrate the problems of the local collectivities.

The Local Public Administration Law define also what it's mean through „local collectivity”, specifying that means „the total amount of the inhabitants from the administrative-territorial unit”.

The Local Public Administration Law also anticipate that „the application of those principles enunciated can not bring touch to the character of the national, unitary and indivisible state of Romania”. These stipulations represent a juridical guaranty of understanding and mostly of the assertion in the practice of those principles, but mostly of the local autonomy principle[5].

As much as develop could be the local autonomy and the decentralization, these mustn't affect neither the state suzerainty and

neither the national and unitary character, the state being even the factor that assure and guaranty the local autonomy, being directly interest both in the resolving of the local interest and both of those national, keeping them in a optimum equilibrium and creating the adequate conditions of cooperation between the local public authorities and those central authorities, in the intention of an good performance on the whole society.

Which in Romanian is call *administrative decentralization* or *local autonomy* is designate in Franch *decentralization administratif* and *auto-administration*, in English *self-government* or *local government*, and in German *selbstverwaltung*.

The state is not longer the only one territorial collectivity recognise, but, beside this, also the local territorial collectivities are moral persons of public law political-territorial, having the capacity of the personal public law and personal public interests different by the public interests of the state. They dispose by the personal administrative authorities for the satisfaction of these public interests, and also by the material, finacial and human resources means[6].

The local autonomy it's manifeste on multiple plans. On the juridical capacity plan, the local territorial collectivities are distinct subjects of the law, having personal public interests. On the institutional plan, they dispose by personal administrative authorities, exterior of the administrative statal labor. On the decisional autonomy, these personal authorities had personal abilities and take the decision in the interest of the collectivities which administrate them. At last, the autonomy could not be real, efective, without the presence of the autonomy in the plan of human, material and financial means, the local collectivities disposing by the personal civil servant, by the personal domain (public and private), by financial autonomy, especially under the aspect of establishment and collection of the personal duties and taxes and of the existent of an personal budget.

The local administrative authorities are autonomous, but not sovereign. Therefor, on the hand, the autonomy is exclusiv at the administrative level[7], but not legislative, by governance or judicial, it not being an political autonomy (like political

decentralization), like in the case of federalism[8]. On the other hand, the local autonomous administrative authorities, though unservient to the state administration authorities, are highly placed to an peculiar administrative control, the administrative tutelage control, from the central or territorial state administration. It visa the protection of the state public interests, and the observance of the laws being, therefore, by general regulation, an legality control, and not one of opportunity control.

The administrative tutelage control is an special control, which can exercise only if the law express institute it and only in the forms, with the procedures and with it's effects express assign by the law.

The administrative tutelage it's exercise on two dimensions: the tutelage on the existence of the tutelary organs and the tutelage on their activity.

The tutelage on the existence of the tutelary organs knows a tough forms, in which the tutelary organs has the right to dispose or to dissolve protected organs, and a liberal forms, in which the tutelary organs not dispose than by a disciplinary action, so by the right to inform an jurisdiction, for the demission or dissolve of the protected organs, the decision revert to the independent, impartial and irremovable judge. The literal forms could be harden through the setting-up of the right suspension of the organ against which it's exercise the disciplinary action, through the tutelage organ right to dispose the suspension of the protected organ against it's exercise the disciplinary action or only through it's right to ask the adjournment to the instance.

The tutelage on the protected organs activity regard, as a rule, the deed in regime by the public power of the autonomous authorities, such as the administrative deeds and the administrative contracts. It's exclude the deeds in the private right regime, which the local territorial collectivities made exclusively in the ground of the private right capacity, without the usage of the public power prerogatives, for what this special administrative tutelage control wouldn't justify and it could be appear like excessive.

The administrative tutelage it could exercise by an organ of the central state administration (Government, Internal Ministry) or territorial (Prefect).

In the case of the local autonomy administrative regime, the state remains an unitary state, but an complex unitary state, recognizing the existence of others subjects of public right invest by a command power on the population from a certain territory and disposing by the personal administrative authorities.

It is to remark the fact that the doctrine emphasize, both in France and both in Romania, that the base, common organization, with her autonomy, it is anterior of the state[9], it being placed at the crossing between the state and the civil society.

The local autonomy exist both between the local territorial collectivities and both between the local territorial collectivities themselves, whatever of the level they are situated. Beside, the administrative tutelage doesn't exist than in the reports between the state and the local territorial collectivities, and not between the local territorial collectivities themselves. One local territorial collectivity situated at an superior level couldn't exercise neither kind of tutelage on the inferior local territorial collectivities, darkling on the it's territory. In France, the tutelage between the local territorial collectivities are express forbidden by the law, but, even if, juridical formal, does not exist neither kind of the tutelage, in the reality does exist sometime the relationship of dependency, which could arrive until a authentic tutelage, mostly from the financial and technical point of view.

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The Concept of Citizenship in the Public International Law

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Abstract

Each individual must have a membership. And it is not about political membership (so popular in the last few years) , but a intrinsic right acquired by the human being since birth. It's about citizenship, a right sanctioned by the constitution of any country, as important as the right to life. Practically, the both rights coexist and combine in a harmonious suite which does nothing but gives a special value to the man, the citizen.

The citizenship is an indissoluble legal report regarding the human being. The citizenship report is lasting in time, begins with the birth and, virtually, disappears, once with the physical disappearance and absolute in space, it exists everywhere there is a person , in the provenience state, in another country, on the sea, in the air or in cosmos.

The citizenship is basically submitted to a legal system of internal regulation, the states having an exclusive part in establishing in its own legislation both the manners of acquisition and losing the citizenship, and also all the rights and obligations which flow from the political and legal reference of a state's membership. As a rule only the citizens of a state can have political rights and can get access to public, civil or military jobs.

The international law doesn't restrict the state's freedom to establish through its internal legislation the legal system to its own citizens, but can decide upon the conditions under which the established legal system is opposable to other states.

Key words: expulsion, extradition, the right for asylum, statelessness, double Statelessness, citizenship.

J.E.L. classification: K 33

Along the establishment of the European Union appeared extensive discussion in the doctrine of international law vis-à-vis the issue of citizenship. It is a completely natural problem if we do not lose sight of which were the reasons for the establishment of a European Union. Turning back in time, we could remind the desire of the Union's "parents" Union respectively Winston Churchill, Jean Monnet, Robert Schuman and Marshall to protect the citizens of Europe divided by the scourge and the chaos caused by the two world wars. Obviously the ideas of European unity are more deeply rooted in history, but space does not allow us here a comprehensive analysis of this phenomenon.

Beyond the internal aspects of the term of citizenship, after the unification of Europe emerged the concept of European citizenship. EU citizenship is the same for all citizens of EU Member States, regardless of when they joined, the economic development of the states or their size. Being a relatively new concept it should be noted that European citizenship does not come to replace the national state citizenship, but a complement, thus giving the citizens of the Member States some advantages, such as: free movement of persons in Europe, the right to settle in other countries, the benefit of diplomatic and consular protection from some other Member States, access to work opportunities in other EU member states, namely a working law without discrimination and restrictions.

As a conclusion, the European citizenship is nothing else but equality of rights of the European citizens and thus representation in all European institutions.

Concept of citizenship - Citizenship is not a concept invented overnight. We can not talk about citizenship without taking into account aspects of the emergence and

development of states and hence their component elements. It's about people and the territory of a state, elements conferring sovereignty. Population is nothing but all the natural and legal persons that coexist within a well defined territory, people who are subject to state jurisdiction. These individuals and legal entities that make up the population of the state are divided into several categories, with different legal status established by national laws of each state. Otherwise meet:

- citizens of that state;
- foreigners (i.e. people who have foreign citizenship);
- stateless persons (persons without citizenship);
- double citizens (persons who have acquired dual citizenship).

We must not forget that besides these groups there are some categories of foreigners who live within a state, but not under its jurisdiction. It's about the members of diplomatic missions of other states, state's representatives of intergovernmental organizations, their officials and members of foreign armies.

Not only the national laws of each state determine the legal status of such categories of persons, including their own nationals. The rights and obligations of each category of persons are stipulated by international treaties and a number of customary rules, however, all these are the result of international cooperation between states, due to respect and implementation of basic principles governing international law.

The term "nationality" can be defined as that political and legal bond that always exists between an individual and a state that produces a variety of rights and mutual obligations between that person and the community or the state he belongs to [2] .

Among the documents which provided a clear definition of the concept of citizenship may be recalled the International Court of Justice which defines citizenship as "a legal relationship based on a social fact of attachment, a genuine connection of the existence of interests and sentiments, together with the existence of legal rights and duties " and for The European Convention on nationality sealed on November 6, 1997 in the Council of Europe, citizenship means "the legal bond between a person and a state

and does not indicate the person's ethnic origin."

International law stipulates that this relationship between the citizen and the state always occurs and continues wherever that person might be, either in his/her state or in another state or in locations where there is no sovereignty of any state.

In other words, nationality is expressing the person's adherence to the state in question. Under these rules of international law and the principles enshrined in it, a state may not challenge another state law in determining the legal status of its citizenship by means of its own internal laws, and can not be bound to recognize or accept the consequences arising from such rules.

Citizenship issues shall be governed by the national law of each state, but, because its international implications, the concept of citizenship is at the point of interference between the national and international law.

For example, the national law provides all citizens have rights and obligations under that state's active laws and for people who are not citizens, they enjoy political rights and diplomatic protection from the state to which they belong to, and the state whose citizen one is can not refuse the return , whether it's a wish or by reason of expulsion from another country.

There are several factors that can lead to deprivation of the nationality of a person in addition to other penalties provided by the law. These situations aim at, inter alia, citizen's breaching of loyalty duty, enrolling in a foreign army or committing grave acts against their country.

In international law a set of rules have been imposed that undertake states to apply certain rules in solving problems related to citizenship. The state is the one which establishes the conditions of acquiring the citizenship and because of that, other states can not challenge its decisions and are not obliged to accept the consequences of the decisions taken on the nationality of a person [3]

Means of acquiring citizenship

There are some general rules on how a person can become a citizen of a state. These rules are established by national laws of some states and international conventions. Thus, acquisition of citizenship is made:

1. by birth, after two legal systems:

➤ *jus sanguinis* (Latin countries from Europe and Scandinavian countries) - the right of blood, through which the newly born receives his/her parents citizenship regardless the country of birth;

➤ *jus soli* (specific to the United States, England and some Latin American countries) - the right of soil, according to which the child will receive the citizenship of the state where he/she is born, regardless the parents' nationality.

2. by naturalization (conditioned or determined by the person's will and the fulfilment of the conditions provided in the domestic law of the state):

▪ *by affiliation or adoption* – case in which the adopted child shall acquire the citizenship of the person who adopted him, obviously respecting the national legislation in the state where the adoption occurs. Regarding the rules of private international law, specifically in cases of conflict of laws between the adopter's state law and the adopted state law, it's applied the law of the territory where the child is, thus acquires the citizenship of the state where he/she is situated;

▪ *by marriage* - the state law applies where the marriage was terminated, but the international law states the common domicile of both spouses law, in accordance with the active national laws ;

▪ *by recovery or rehabilitation* - situation referring to the relapse to the previous citizenship for people who have emigrated or have lost their citizenship by marriage to a foreigner from whom they divorced;

▪ *transfer or relocation of the population* - problem which appears with populations moved to other areas and under agreements sealed between states which granted the citizenship of the territory where the movement was held;

▪ *the option* - a problem that arises when the transfer of territory from one state to another is made, for people living in that territory. These people have the right to choose either the previous citizenship or the citizenship of the new state that received the transfer of territory. The population has this right in virtue of the right of peoples to self-determination, which is nothing else but a

fundamental principle of public international law and the principle of nationalization;

▪ *by granting (or naturalization)* - is a way which implies that the acquisition of citizenship is made at the request of the person interested in this aspect. Citizenship is granted by a competent state organ to which the application for citizenship is addressed[4].

All laws of all the states of the world also contain a set of conditions which compete for the acquisition of citizenship, and I recall here some of them, namely: a required period of establishment (residence) in that territory (the extension of the period is different from one country to another, more or less), good character, proof of livelihoods, namely employment, housing space, etc.. There is also the term "honorary citizenship" that is conferred to a member of another state only for humanitarian honors or for brave, heroic acts towards the state which confers this title.

Loss of citizenship

But there is also a reverse, in the citizenship, acquiring it also supposes losing this status.

There are two ways of losing the nationality under the domestic laws of the states and the international conventions. These two cases are:

✓ through waiver - which occurs following a specific request made in authentic form, generally by the interested persons in acquiring foreign citizenship;

✓ through withdrawal - when applying a domestic law of a state on the basis of a decision taken as a sanction against a citizen who had inappropriate conduct for which the law requires such a penalty.

Reasons for withdrawal were stipulated in the Universal Declaration of Human Rights in 1948 (which provides that no person may be arbitrarily deprived of his/her nationality) and the Convention on reduction of cases of statelessness in 1961 (which provides some reasons why not arbitrary).

These reasons may be considered: the repudiation or the proof of willingness to renounce at the allegiance towards another state, providing an oath of allegiance to another state, making services to other state - seen especially in espionage, conducts causing serious harm to the important interests of a state [5].

European regulations on citizenship

The desire to unify the European countries and therefore their legal systems has led to the adoption of the first multilateral agreement in 1963. It's about the Convention on the reduction of the multi-citizenship and military obligations in this case, convention based on the idea that acquiring a new citizenship will inevitably lead to the loss of the first, and military service should be performed only within a state, not in both in case of dual citizenships.

Another European document that addressed the issue of citizenship is the EU Treaty of Maastricht from 1992, entered into force in 1993 which established for the first time the union citizenship, stating that all citizens of the member states are citizens of EU and every citizen has the right:

- to move and to establish their domicile freely across the member states;
- to vote and stand in municipal and European elections which take place in the state of one's domicile;
- to be protected by diplomatic or consular authorities of any state;
- to address the Parliament and the public official charged with checking public opinions (mediator).

The Council of Europe European Convention on Citizenship was adopted on 6 November 1997, the Convention establishes general rules according to which the national laws of each state should be planned. If the internal laws of a state shall be adopted in accordance with the general principles of the international law, of the customary international law and applicable international conventions, then they must be respected and accepted by all the other states, taking into account the nature of public international law, in general, which is a coordinator and not a subordinate law, and its rules based on sovereign equality of states establish a voluntary international jurisdiction, different from the general law that is general and compulsory.

The European Constitution stipulates in Article 10 that: "1. Any person holding the nationality of a member state is a citizen of the Union. The Union citizenship adds to and does not replace the national citizenship. 2. The EU citizens enjoy rights and have obligations under the present Constitution. They have: - freedom of movement and

residence within the member states; - the right to vote and be elected in the European Parliament and in the local elections in the member state where they reside, in the same conditions as the nationals of that state ; -the right to benefit, in a third country where their member state is not represented, of protection from the part of the diplomatic and consular authorities of any member state, in the same conditions as the nationals of that state ; - the right to present petitions to the European Parliament ,to address the European Ombudsman or to address to the institutions and advisory bodies of the Union in one of its languages and to receive an answer in the same language. 3. These rights are exerted in the conditions and limits defined in this Constitution and in the provisions for its application [6].

Conflicts of citizenships

Conflicts of citizenships appear as a result of differences in national laws regarding the means of acquiring , respectively, loss of citizenship. Thus, regarding the legal status of the foreigners, international practice has identified several forms / types of legal regime applied to foreigners. It is about :

1. national scheme - which grants the same rights as to their own citizens, except the political ones;
2. special rules - are granted only certain rights;
3. regime most favorite nation clause - which means that foreigners receive a treatment as good as that applied to the foreigners from other countries through international treaties [7].

The international status of foreigners is currently a mixture of customary and conventional rules that has known a great development as a result of the continuous processes regarding the fundamental human and citizen rights and the extension of the concern regarding their protection.

It requires some clarification on certain categories of foreigners who enjoy special legal regime. These categories are:

- a) **Stateless persons** - persons who have no nationality. This occurs either due to the loss or waiver of the citizenship of a state and the failure in acquiring the citizenship of another state, either a person who marries a foreigner losses his home state citizenship

and has not yet acquired the citizenship of the spouse. Stateless persons have reduced rights compared to the rest of the citizens of that state and even to foreign nationals of other countries. The United Nations International Law Commission developed in 1954 a series of projects on which the Convention regarding the status of stateless persons was adapted and in 1961 The Convention on the reduction of cases of statelessness.

b) **Double citizens** – persons who possess the nationality of two or more states. The double citizenship usually occurs in two ways:

- whether the citizenship has been acquired by birth within a state that applies *jus messengers*, i.e. the right of soil from parents belonging to another state on the ground on which *jus sanguinis* prevails, ie the right of blood;

- whether the situation of naturalization, if a person keeps the old nationality.

The causes of double citizenship can create complications in the relations between states and therefore the issue about solving the conflict between laws regarding citizenship has come up. In this regard, there were established a series of bilateral agreements through which a series of rules for avoiding dual citizenship.

c) **Refugees** - are people who because of war or other causes have been forced to abandon their home country on good grounds of race, religion, nationality, affiliation to a particular social group or political one and seek for the protection of another state. In 1947 The International Organization for Refugee was set up besides The United Nations which has as consequence the creation of the UN High Commissioner for Refugees in 1951. By offering a person the status of refugee the state grants a right to entry and establishment on its territory of a foreign tracked in his country for political activity, i.e. grants political asylum.

d) **Political asylum** - is a sovereign state's right to grant the establishment on its territory of displaced foreign people , pursued in their home country for political, religious or scientific activities, which are in accordance with the law of that state. According asylum is actually refusing extradition. Asylum is an exclusive right of the state and not of the person requesting it.

Asylum is not considered a hostile action in the relations between states as it is done for purely humanitarian reasons, and the right to seek asylum is considered a fundamental human right provided by the Universal Declaration of Human Rights in 1947.

e) **Expulsion** - is an act whereby a state compels a foreigner who has become undesirable after committing acts that violate the laws of the state of residence , who is on its territory, to leave in a short a time as possible. According to the International Covenant from 1996 on civil and political rights ,a foreigner which is legally on the territory of another state can only be expelled by court order.

f) **Extradition** - is the act whereby a state at the request of another state, hands over a person from its territory, who allegedly committed crimes, for trial or serving a sentence to which he/she had been previously convicted. The institution of extradition has emerged as a form of support in criminal law to ensure the transfer from the territory of a state of people who have broken the law. Nationals can not be extradited.. According to art. 19 from the 2003 revised Constitution of Romania, Romanian citizens can be extradited on the base of international conventions to which Romania is part of, respecting the law and the conditions of mutuality . The treatise of extradition establish a set of mutual rights and obligations of the states which are parts, and also the conditions and manners of performing it. The European Convention from 1957 provides that the acts for which extradition is sought to be punishable under the domestic laws of the requesting state with a custodial sentence or detention order of imprisonment for at least one year.

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Some Aspects Concerning the Statement of the Cash-Flow Within the Public Entities

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Abstract

On the level of the enterprises, neither the balance sheet nor the results account have proved to be enough to serve as basic elements to professionals, especially to financial analysts, this being one of the main causes for the appearance of the treasury flows variability. As we all know, the Romanian rate setters have decided to translate this traditions on the level of the public sector, too, where the concept of result has been submitted to acerbic criticism

However, the absence of a lucrative purpose does not spare public entities from focussing on their liquidities, but on the contrary we daresay that they should be constantly concerned with providing liquidity. Which is more, supplementing the balance sheet and the results account with a report of the changes that have occurred in the financial situation will help to further the interpretation of the values encompassed in the two annual/quarterly reports.

Key words: cash-flow, public entities

J.E.L. classification: M41

1. Introduction

In the private sector neither the balance sheet nor results account presented in the classic format have shown to be sufficient to serve as the basic professional elements to the business world, especially to financial analysts.

"The limits of the balance sheet and of the result accounts underline the interest in a document to show all the uses and flows of resources embedded in the operations, all operations that affect the outcome, and especially to allow the analysis of the incidence on the financial balance and on its treasury. This document usually referred to

as financial-picture or picture of funding and uses of resources, achieves in a particular way the «crossing» between two successive balance sheets" [1].

As a result of this fact, the origin and use of funds has emerged, logically, as a fundamental complement, especially because it allows the understanding of certain financial transactions that could be "hidden" [2] by applying accounting principles.

2. The concept of fund. Statement of cash flows

Since 40s of last century were the first attempts aimed at gradual financial accounting information based flows, financial analysts were those who urged such initiative now become tradition. As a result of those initiatives, some standardize accounting entities, such as Accounting Principles Board, have begun to issue rules in this regard, that, at the beginning, declared it optional (the APB 3), and then set it mandatory (APB 19).

It was the beginning of polemics centred on the substitution of the idol accounting, the benefit, by other financial means, based on it, considered to have a richer information content. In this context, the financial surplus based on the exchange ratio could emphasize within the financial report some fundamental issues regarding the liquidity and solvency of a company, issues considered as important as profitability, based on the benefit.

In this context, Anthony [3] believes that *"the balance sheet must be accompanied by a report that reflects the origin and use of funds and must take into account these concepts during the accounting principles ... The principles taken into account in order to establish the content and format of these reports will be exactly the same that were given to commercial enterprises now in APB 19"*. On the same line were other authors

that: Holder (1980), Henke (1986), Greenall (1988), etc.

Generally, any report which aims to highlight the modifications produced on the financial situation of an entity seeks to explain the entries of funds produced during the year, their use and their destination, as well.

However, we cannot speak of the existence of a single type of changes in financial position; in fact, every report will depend on the financial variable chosen to be presented, and, accordingly, we will face an almost endless polemics concerning what type of variations of the funds would be more useful to explain.

The term "fund" has been largely used in the accounting area, and especially in the public accounts, with different signification.

If, however, focusing only on the main concepts used in emphasizing a change of statement in the financial position, one can notice different concepts that have been defined and accepted within the financial accounting.

First, one can conclude that all the external financing sources are funds, in which case the picture of origin and use of funds will reflect changes made in each post of the balance-sheet, meaning that certain items of assets or liabilities will increase or reduce, *the positive and negative variations between two successive balance-sheets* being considered as a "*differential stock*".

Another basic concept is the current assets; in this case the fund approach signifies net current financial resources available to the entity. The picture of origin and use of funds would explain the variations produced in the current assets as a result of transactions between the entity and outside, this concept being mostly met by the end of the '80 in the private sector.

A restriction only to monetary assets and liabilities is the third basic concept, identified with the financial assets.

Finally, in some situations the term "fund" is identified only with cash and its equivalents, in this case the picture of origin and use of funds being converted into a report which reflects the variation of treasury and its cash equivalents.

Moreover, in the public entities one can use and explain in the picture of funds-flow as a variable the remnant treasury, due to its importance in public sector accounting.

3. The Statement of cash flows

Facing such a diversity of situations regarding the origin and use of funds or variations in the state of financial accounts, this question naturally raises: What picture should be adopted by public entities?

Most important authors and public accounting standards organizations declined their preference for the solution adopted by the national rules applicable to the private sector. CIPFA, GASB and CICA used to recommend the elaboration within the public entities of the same paintings of variations regarding the financial accounts that were in force for commercial entities.

However, Holder [4] agrees that the concepts described above are neither relevant nor significant for governmental entities and added one last concept called "financial supplies", that includes those components of the working capital of the public entities that can be converted into treasury and are available to be spent. Also in his opinion, the concept should be applied especially for local public entities which are best adapted to the budgetary regime and to the economic reality through information on the financial resources available for future consumption.

Subsequently, and Henke [5] subscribes to this idea, stating that public entities should draw up a picture of the flows expressed in terms of available resources.

These authors' suggestions could equally be assimilated to our accounting and budgeting standards, in a report which in order to reflect cash remaining variation, because it properly indicates the amount of resources available to be used next year.

If by the end of the '80 vehement debates had as object the identification and the agreement on the type of financial variable that had to explain the origin and use of the resources' painting, today one observe that the cash flows painting replaced the picture of the financing or the report of working capital variation.

Specifically, GASB notes that statement of cash flow, along with related disclosures and information in other financial statements, can be useful in assessing the following [6]:

- Ability of an entity to generate future cash-flow;
- Ability of an entity to pay its debt as the debt matures;

- Need to seek outside financing;
- Reasons for differences between cash flows from operations and operating income;
- Effect on an entity's financial position of cash and non-cash transactions from investing, capital, and financial activities.

These assessments can be made when statement of cash-flows is prepared in a manner that summarizes:

- Cash flow from operations;
- Noncapital financing activities;
- Capital and related financing activities;
- Investing activities.

In addition, noncash transactions that have an effect on the entity's financial position should be presented. Finally, there should be reconciliation between operating income and net cash flow from operating activities.

The format of statement of cash flows adopted by GASB provides for four main categories (table 1), un-like FAS-95 which requires three main categories [7].

Table 1. Statement of cash flows

I. Cash flows from operating activities
Receipts from customers
Payments to suppliers
Payments to employees
Internal activity – payments to other funds
Claims paid
Other receipts (payments)
Net cash provided by operating activities
II. Cash flows from noncapital financing activities
Operating subsidies and transfers to other funds
III. Cash flows from capital and related financing activities
Proceeds from capital debt
Capital contributions
Purchases of capital assets
Principal paid on capital debt
Interest paid on capital debt
Other receipts (payments)
Net cash by capital and related financing activities
IV. Cash flows from investing activities
Proceeds from sales and maturities of investments
Interest and dividends
Net cash provided by investing activities
A. Net (decrease) in cash and cash equivalents
Balances – beginning of the year
Balances – end of the year
B. Reconciliation of operating income (loss) to net cash provided (used) by operating activities
Operating income (loss)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:
Depreciation expense
Change in assets and liabilities:
Receivables net
Inventories

Accounts and other payables
Accrued expenses

Source: GASB no. 9, pp. 230-231.

In this sense, the teacher Feleagă Niculae made a nice plea seeking arguments pro paintings Flux "in financial accounting: "As is known, the balance-sheet provides a static view on the financial structure, and the profit-and-loss account, a dynamic one. In other words, the balance-sheet describes at a certain date (usually at the end of the exercise) the various financial resources of the enterprise (liabilities) and their manner of use (assets). It is a representation as "stocks" (existing), of the physical or financial elements that characterize an enterprise, emphasizing the effects that the past decisions continue to exert on the present situation. As for the profit and loss account, it includes the balance flows generated by business operations, which have a bearing on the outcome of a given period (the accounting exercise). It enables establishing the capacity of self-financing ...

But neither the balance-sheet nor the profit and loss account does not allow, a priori, obtaining a dynamic view of the financial structure, that is, upon the evolution of this structure. Such a vision is subject to interest, both the financial analyst, foreign to the enterprise and its managers. A business leader is often led to question and to find answers on the location of the benefit in economic structures (treasury stocks, fixed assets etc.). Perplexity occurs when he finds a discrepancy between the increased production and turnover on the one hand, and the treasury, on the other. Finally, he attaches a special interest in investment opportunities and means that he can put into work. In all of these requirements, and many others, theory, doctrine and worldwide practice have responded by creating a very interesting instrument: painting funding. The specialty literature proposes several terms to designate the financial situation's summary: panel funding, panel uses and resources, the flow pattern, the picture of Treasury)" [8].

4. Conclusions

If the above elements were the main causes of the occurrence of variable cash flows, in our view we are happy we get to know that the Romanian standards issuers decided to adapt this tradition to the public sector, where, as is known, the concept of result was subjected to intense criticism.

However, the absence of lucrative aim does not exempt public entities from the attention of their liquidity, but dare to say that they should be permanently preoccupied with assuring liquidity.

Given that the financial surplus was conceived precisely for such purposes, especially in the early years, it should be an element of great utility for the Romanian public entities. In fact, this utility is highlighted by the accounting rules related to the aims of the public financial-accounting information, which recognizes the user's interests upon the changes of the financial accounts, upon the origin of financial resources and their use, including the way of financing its activities.

As such, although the entities operating in the public sector mind a tradition less developed regarding the elaboration of the picture of the flow, due mainly to delays in accounting standards issuing for this sector, since the moment of elaboration of the financial statements, one recognize the importance of completing the balance-sheet and of the profit and loss account with a report of the changes of the financial status, considering that such a situation will help to explain more detailed the values comprised in the two annual/quarterly reports.

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Measurement and Appraisal in the Accounting System of the Economic Entities of Romania

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Abstract

Since current accounting of the business and financial operations, as well as the centralization and the generalization of the patrimonial holdings data, is achieved in pecuniary terms, we can positively state that accounting, as it is seen today, cannot be achieved without assessment. Under the circumstances of the market economy, pricing, on grounds of the rapport between supply and demand leads to the appearance of a flexible price system that turns the appraisal of the accounting entities patrimony into a complex task which sometimes proves to be pretty difficult. There are three criteria usually taken into account from the standpoint of the accounting theory and practice, which have been accepted for the appraisal of the assets and liabilities flows and inventories, of the incomings and outgoings, namely: the utility value or the real value, the market value and the time.

Key words: measurement, assets, liabilities
J.E.L. classification: M41

1. Introduction

In order to record accounting information on the existence and movement of assets and cash expressed physically, one should treat and evaluate them using a uniform standard, in this case the monetary standard.

Since the current accounting of economic and financial operations and centralization and generalization of patrimonial data units is money valued, one can certainly assert that, on its modern meaning, accounting cannot be made without assessment.

By accounting assessment one understands a procedure of the accounting technique that consists in quantifying in monetary expression of the existence, movement and

transformation of the economic patrimony in order to be reflected through book-keeping.

On the doctrine and practice of accounting, three criteria were considered and accepted for assessment of stocks and flows of assets and liabilities, income and expenditure, namely: the utility value or the real value, the market price and time.

Thus, the utility value assumes that the value reflects the "cost" or "sacrifice" made by a person or entity to bring an asset or assets in the patrimony which is what the asset would bring if it was used or were sold on the market, while liabilities, regarded as debts, reflect the amounts allowed to be paid in exchange for the obligation created or the amounts expected to be paid to satisfy tax obligations [1].

In turn, the market price represents the price resulted/paid from direct transactions achieved on an active market characterized by: the relative homogeneity of the assets on the market, availability of sufficient quantities of assets traded allowing anytime finding potential buyers and sellers; prices are available to the public knowledge.

Finally, the criterion based on the time factor takes into account the moment of placing the assessment in the past, present or future, that "by virtue of the continuity of the business entity slips over past, passes through the present and takes care of breeding the economic values in the future" [2]. In these circumstances, the assessment of transactions and events is done at present, based on historical cost at the moment of purchasing and the selling price at the exit, while for the deductions or stops materialized in assets and liabilities the assessment is done in the present time and glides from past and future time when the assets and liabilities will exit from the patrimony. As such, the evaluation process is carried out at present time and regards the patrimonial elements of the

economic entity that is the means, resources and economic processes.

2. The assessment basis in book-keeping

The basis of measurement is monetary attributes of the items that comprise the financial statements [3].

Depending on the assessment criteria outlined above, around the world one have outlined four conventions or assessment basis: historical cost, current cost, the achieving value and the present value, a schematic is shown in Table 1.

Table 1. The assessment basis used in book-keeping

Basis of measurement	Definition of assessment	Accounting evaluated according to the envisaged:	
		Patrimonial Assets	Patrimonial liabilities
Historical cost	- Is the real cost in the moment of the entry of assets and debt creation, meaning the sacrifice which was agreed to bring the item into the patrimony;	- As to the historical cost, they are valued and accounted at the equivalent of cash or treasury paid, or at fair value at the time of their acquisition corresponding to their buying date;	- The value of benefits received in exchange for the obligation, or in certain circumstances, the amount of cash or cash equivalents for paying off an obligation;
Current cost or the reposition cost	- Is the cost which the entity agrees to pay in order to acquire another asset at the current value, similar to the asset that makes the object of the assessment	- Are assessed and accounted at the level of liquidities or cash equivalents which the entity should pay the same if the asset or a similar one would be purchased or produced at present.	- Are assessed and accounted at the nominal value of the amounts which would be needed today to pay the obligation.
Realisable settlement value	- Consists of the value that the entity would receive if it sells the asset or it pays the debts.	- Reflect the level of cash or cash equivalents that could be obtained today through a normal sale of these goods.	- Represent the out dated value, in cash or cash equivalent that should be paid for paying off the liabilities at their settlement value.
Present value	- Is estimation at present, of the value depending on the flows of future benefits that	- At the present value of net cash flows which are expected to be generated by these assets during its	- Are updated to the value of output or the net cash flows which are expected to be required to pay off obligations

	arise in the normal course of business entity.	normal business;	in the normal course of business.
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Source: adaptation after Feleagă, N., Malciu, L., Bunea, Ș., *Bazele contabilității – o abordare europeană și internațională*, Editura Economică, București, 2002, p. 122.

3. The rules of assessment as a reference system in formulating the accounting policies

Assessing the patrimonial elements of an accounting entity should consider the moment of the assessment, the nature of events and the sense of the movements affecting the patrimony, these factors determining the rules and forms of assessment [4].

In this respect, the Romanian accounting law inspired by The IV European Directive and more recently the International Accounting Standards, aims to four main moments involving the assessment operations: the entry into heritage; during inventory, closing the year, and the out coming of assets, determining in this respect the following rules:

a) *At the date of entry into heritage property* the assets are assessed and recorded in the accounts at the purchasing value, called the carrying value (or historical cost) established on the documents, customized according to the possibilities of entry:

- cost of purchase for goods purchased for valuable consideration, it shall consist of the purchase price, unrecoverable fees, transport and supplying expenditures and other expenses necessary for the state utility and entry into the asset management respectively;

- cost of production for goods produced in the unit, it includes the cost of raw materials and supplies, other direct costs of production and share of indirect costs rationally allocated to production, related to the cost of goods produced;

- fair value for goods obtained free of charge, which is the amount for which an asset could be exchanged freely between the two parties in a transaction, in which price was objectively settled;

Other patrimonial elements shall be assessed as follows [5]:

- claims and liabilities at nominal value, representing the amount recorded in a document, which will be paid or cashed in their exchange;

- claims and liabilities denominated in foreign currency cash, comprising a double reflection in foreign currencies and in national currency, by converting the foreign currency using the exchange rate;

- securities, valued at the purchase price to which they were acquired or the one established in the contracts.

Using the historical cost as the basis for economic evaluation of the elements in the moment of the entry in the unit, is justified by the principle of prudence, representing the most undisputed in-coming value, in terms of objectivity.

b) During the inventory, the elements such as the patrimonial assets and liabilities are always assessed at the present value of each item, called inventory value and established according to the good's utility, its state and its market price. As to claim and obligations, their inventory value is settled according to their potential value which can be cashed or paid. The assessment of the patrimonial elements at the inventory value results from the fact that the information that contains the in-coming value (historic cost) can be altered by any significant change after the assets had entered the patrimony.

c) Assessment at the close of the financial year (the balance) the property is assessed and reflected in the annual accounts at the in-coming value or the carrying value resulted by the inventory, respectively. In this case, one may proceed to a comparison of the two values and, according to the principle of prudence, one will retain as assessment the lowest one, if the element represents an asset and the highest, if the assessed element is a liability, and there for:

- as concern the elements of assets, the positive differences found between the inventory and the carrying value are not recorded into accounts, considering they are still at the in-coming value;

- the negative differences found between the less inventory and the in-coming value are registered as write-off expenditures in the case of the depreciable assets (depreciation in this case is irreversible), and by adjustments

for depreciation, if outstanding assets (if the impairment is considered as reversible);

- the negative differences between the inventory value and the carrying value for the liabilities are not recorded in the accounts, being maintained at the in-coming value;

- the positive differences are recorded as adjustments/provisions expenditures, this solution being only theoretical for the moment [6].

The monetary items denominated in foreign currencies (other items available and assimilated, such as bank deposits, debts and claims in foreign currency) should be assessed and reported using the exchange rate notified by the National Bank of Romania valid for the last day of the reporting period. Differences in exchange rates, favourable or unfavourable, between the exchange rate at the date of registration of claims and liabilities in foreign currency and the exchange rate at the end of the financial exercise are recorded as income or expenditures, as appropriate;

A step towards achieving the requirements of fidelity imposed to book-keeping and to the financial statement's drawing up is made under these regulations by taking into account the significant events that occur after closing the financial exercise and may provide additional information to those known on December 31, if the financial statements have not been approved at the moment of identification. As such, the financial statements are not based only on information obtained in the preceding stages of their issuing and they also can be modified in order to reflect additional information after the financial exercise's closing, to allow users to acknowledge the special events with a decisive impact upon decisions, such as: changes regarding the main customers and suppliers (for example, declaring bankruptcy), any disputes arising between the date of closure of the year and date of publication of financial statements; events that led to changes in the assets held by the unit (natural disasters, the possibility of significant losses to financial fixed assets or investment securities), etc.

d) At the moment of coming-off the patrimony or allotting for consumption the elements shall be assessed and subtracted from the financial administration at their carrying value or their in-coming value.

The rule is not applicable to all categories of goods. Thus, in the case of fungible or interchangeable, like inventories, securities, etc. one admit exceptions to the general rule, the evaluation being possible by specific methods, such as the average weighted cost method, the "first in-first out" method or the "last in, first-out" method, the choice of the method being left to the managers' means, who should aim the relevance and credibility of the assessment and not obtaining tax advantages.

If we relate to the signification of the concept of assessing in book-keeping, then a fifth moment of the evaluation could be represented by the reassessment. Moreover, the assessment and reassessment present no differences of substance, but aimed different moments of the existence of items subject to these operations [7].

In book-keeping, the *re-evaluation* is a "process of amending the carrying value of a real item and bringing it to the present value" [8]. As a rule, are subject to the reviewing operation especially the elements considered fixed and financial assets, but also some liabilities may be subject of the re-evaluation. Technically, reassessment may be free (the present value of each element is established at the economic entity in the utility function of it) or regulated (when the actual value is determined by applying coefficients of indexation set by law, which is weighted by the amount of input items subject reassessment).

In the operation of the revaluation, the entity's level one may result in increased value, which will lead to increase in equity (net assets), or a reduction value, which will be treated as an exceptional expense, thus affecting the result.

4. Conclusions

In the market economy's conditions, the setting up of the prices based on the supply and demand ratio leads to a flexible pricing, which makes assessment of the accounting entity to become a complex task and sometimes very difficult.

Although the historical cost is the basis of measurement the most often used for the preparation of financial statements, one can say that none of the bases of evaluation has any general application and is not satisfactory

to the absolute, so, from country to country, or from case to case, one require an option for an assessment base or a combination thereof.

However, in the developed countries, where inflation does not have strong effects on monetary assets, one accepts the accounting model based on the historical recoverable cost and on the concept of maintaining the level of financial or physical capital.

Entities operating in areas with high inflation, use as an assessing basis the current cost, and the fair value, and combinations of these bases of evaluation as well, in order to answer the needs of users related to management.

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The Role and Importance of the National Civil of Social Insurance in Romania

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Abstract

The essence of insurance is to spread on a particular community organized for this purpose. The process of identifying, quantifying, responding to risk research, reducing the likelihood of the risk occurs, the implementation of measures and decisions to limit the damage to limit the damage production is now defined as a transfer of risk.

Key words: social insurance, insured, consumers

J.E.L. classification: A1

Socio-historical and cultural evolution of man and brought a diversification of individual and group needs in this respect there is a specific logic and dynamics of the system needs, their functional connectivity. Society has become a binding framework of fulfillment of needs and promoting human resources to meet them. For any individual and any society where life, health, property, safety of people and material goods are core values and priorities.

The social security – is that part of the social –economic relations with that money in the gross national product form distribution, dispense, manage and use the funds necessary for the compulsory care of employees and retirees of the national companies, autonomous administrations, companies of consumer cooperatives and credit network, members of handicraft cooperatives and agricultural establishments, lawyers, agriculturorilor, craftsmen in their workshops, private entrepreneurs, the ministers of religion, the domestic staff employed individuals, persons blocks serve

residents, temporarily or permanently incapable of work, in case of old age and in other cases provided by law. Also social security and family members caring for people above.[1]

In a democracy, social protection is a fundamental element of state policy, because by its implementation id done to prevent, reduce or eliminate the consequences of events considered as “social risks” on the living standards of population.

The specific conditions and needs to be covered are as modalities of implementation of social protection to be different. Such programs are based on differing assumptions for social-insurance coverage for personal needs due to temporary or permanent loss of working capacity or the protection of workers at work (environment, work conditions), needs to be transferred the costs of production and whose satisfaction is included in the price of the product.

Social security guarantes is one of the means for achieving the constitutional rights of the people , they represent only part of the complex of measures taken to achieve a decent and civilized life of the Romanian people.Government social insurance system in Romania is of particular importance for the protection of people and their family members illness prevention, rehabilitation and strengthening of employment, temporary loss of working capacity in case of maternity, for the growth and the care of child until the age of two years (a handicapped child up to age 3). Also, be granted protection in the event of disability, to reach a certain age limit, when man can no longer work with the plenitude of its forces.

The role of government social security resulting from the new nature of its underlying principales and the woy it is and

use the funds in question. As the national economy, have expanded and perfected and social security. Along with this improvement, have increased their role and importance.

Social security involved in the distribution part of the gross national product, providing a means to control the formation, distribution and its use when supplies are distributed and use social insurance funds. It also stimulates the production of social insurance social progress of national economy and contribute to the development of socio-cultural. [2]

Social security includes a set of rules for carrying out an even better occupational safety and hygiene, disease prevention, health restoration and strengthening of citizenz and their families, which results in maintaining the capacity of employees and using it wisely.

The social insurance system is comprised of care and protection to help active citizens, retired, referrals to rest, spa treatment and other gratuities, in the period in which they are temporarily or permanently unable to work or in other cases when help is needed.

The special role of social insurance is to safeguard citizens in all cases of loss of working capacity, also by granting allowances and restrictions apply, they act against simulants and busybodies joins.

Social Security is a State that uses leverage and strengthen labor discipline. By the way they are covered by income received and set restrictions, social security and contribute to the streng

By the way they are covered by income received and set restrictions, social security and contribute to the strengthening of labor discipline, with positive effects on labor productivity, the achievement of economic and social indicators. The benefits granted and the restrictions imposed, fosters social security staff qualification improvement, quality improvement work, the stability of employees in the same unit, making a bigger seniority at work, fighting justified absences from work, reducing the number of unused days of work.

Social security plays an important role in public education in civic development, promoting social equity, thei grow attitudes responsible to work, to family, traits contributing to etical and spiritual traits submitted inoculation of each citizen, to respect the rules of convention and the

development attitude of public and private property protection [3]

Social security is called to play an important role in maintaining and raising the people's welfare.

The supervision on the occasion of the performance of revenue collection and expediture on the payment of pensions, allowances, aids, etc., contribute to the efficient organization of production and labor , the rational use of labor and money to strengthen economic and financial discipline, to respect and the strengthening of legality.

Practical implementation of social policy has contributed to the crystallization of the Romanian state and national level to improve the national social security system.

It includes all forms of organized social security shirts keep individuality, depend on each other, thus resulting in the appearance of totality and completeness that workers are protected from state units, mixed private meșteșugoești members of cooperatives, farmers, lawyers, ministers cults, domestic staff and care residents blocks, retirees and their family members.[4]

In the current period in Romania, government social security system has as component: the state social insurance, social security system handicraft cooperatives and artisans with their own workshops, social insurance of agricultural enterprises, social insurance for farmers own household, social security lawyers, social security ministers of religion

The current structure of government in Romania social security system is the result of deep and revolutionary changes of a long process of economic and social development.

The establishment of national public insurance has created a unified framework for the implementation of legislation, human and material resources are saved, it creates flexibility in the redistribution of available resources, depending on the requirements for certain benefits, strengthens controls on formation and use resources and quality services.

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The Insurance Risk Transfer as a Tool

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Abstract

The essence of insurance is to spread on a particular community organized for this purpose. The process of indentifying quantifying, responding to risk research, reducing the probability of the risk occurs, the implementation of measures and decisions to limit the damage production is naw defined as a transfer of risk

Key words: risk, insurance, social instruments

J.E.L. classification: A1

Both individuals and legal entities, they provide multiple opportunities to transfer risk, one of the most important being the transfer of risk to insurance companies

The risk transfer can be done through and social instruments. (1)

Financial instruments are used on four markets:

- Cash market
- On the futures market
- Optional markets
- Futures markets.

The social transfer instruments are represented in the general insurance, however, that with all such tools are limited companies, investment clubs, and even state investment contracts.

The **joins stock** companies as well as with other types of businesses feel the risks its own funds. The risks are passed on to shareholders who ultimately bear them, and they may even lose the amount invested in shares.

Investment clubs are groups of investments that common investment decisions. When it adopted the decision to invest each member of the club shares with members of the financial consequences of the

expected investment risks. Talk to you soon and to share risks, decâtda a transfer, but at the macroeconomic level clubs can be seen as instruments of risk transfer.

The state in its investment plan in the broader social and economic life, a whole array coordinates (a class of measure) sharing tools, or transfer of risk such as health insurance, unemployment insurance or indemnity payments from the budget for natural disasters.

Contracts are instruments of risk transfer because when parties to include a contract may have the motivation and desire to transfer the risk to someone else entirely or in part. For example, a firm provides media distribution contract with providers in return unsold newspapers, since one company would not cover this risk and has no alternative risk transfer instruments, such as for example an insurance policy.

Insurance contracts are instruments for risk transfer characteristic.

For companies that have a choice between risk retention, self – financing, risk transfer instruments and insurance and benefits and providing financial risk transfer instruments have several **advantages:** (2)

1. is preferred by business managers under their aversion towards risk. They want to transfer risk asigurări company, which may affect the risk of financial indicators whose evolution accountable to shareholders.
2. avoids the risk of insufficient capitalization and liquidity crisis, self-insurance retention or risk of catastrofing risks in particular, can cause serios damage when there are strong and anduring effects on the level of own funds. Lack of coverage of such risks reduces the present value of cash flows available as weighted average cost of

capital increases the possible insolvency of the firm's prospects.

On the financial theory of the firm, self-insurance increases the likelihood of major risks that the company can't finance the aftermath of a serious damage, thereby decreasing the value of the company in terms of shareholders.

3. provides services in insurance risk assessment, prevention and liquidation of claims. Because the specific activity of insurance companies are able to offer such services at a competitive cost. Risk identification and assessment are made more powerful by the insurance company than the firms themselves in this important factor is experience.

And in whose production involves risk of civil liability of the company responsible for the damages, insurance companies offer competitive services in the liquidation of damages in civil lawsuits

For example, a firm has a contract rope washing windows in a building for offices, damage by climbers (inadvertently breaking windows, or exterior panels) are compensated by insurance companies if the company is climbing liability insurance.

4. can lead to a mediating effect on self-insurance tax risk if the company is calling it using firm dedicated reserves, which are not deductible as expenses on income tax, while insurance premiums are treated as deductible expenses, so decreasing taxable income

Buying an insurance company receiving a tax benefit, which creates a tax mediating effect. These benefits possibility effects the demand for insurance.

Buy an insurance company that enjoys a tax advantage, which creates a tax mediating effect. These benefits positive effects the demand for insurance companies, but there are negative factors influencing the process of transferring risk to insurer, thus affecting the insurance market offer. Thus, competition in the insurance market falls by more risks to be insured is either very high or very specialized. In these cases, the insurer's own funds required size increases, thereby decreasing the number of insurance companies to get involved in providing such risks and thereby reducing competition. (3)

Lack of competition may increase insurance rates, which can cause a light cost

of providing and retaining some of the economic agents. At the same time, the size of transferable risk, especially for large companies, the insurance market reaches capacity. For example, the risk of developing (liability of company for adverse effects arising from the use of its products) for very large sums assured, is absolutely impossible to obtain a greater coverage of \$ 1 billion from the insurer.(4)

Insurance plays a well-established among the elements of risk transfer. His position is not inflexible in their assembly, it is subject to various influences. Evolution of insurance will be determined by present and future mutuality regarding:

- Guarantees required by policy limits (are growing)
- Insurance condition
- The emergence and development of new techniques to ensure

No matter how much care taken to avoid problems or protection of personal and family risk exists in our lives, bringing financial and material losses. The risk, the basic element from which insurance is used to start a negative sense of the events we do not want.(5)

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The Corporate System in Some European Countries – a Comparative Approach

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Abstract

In corporate governance, through its specific mechanisms, some measures can be taken to strengthen institutional development (against corruption, administrative shortcomings, favouritism) and to promote market values. These values include accountability, transparency, primacy of law, equity, property and protection of minority shareholders. It should be considered in this context the fact that, as good would be the regulatory framework, if shareholders (owners) are not active and get involved, things can not move towards an optimal way.

Based on these aspects, in the present paper we intend to emphasize which is the effectiveness of the corporate system in some European countries, compared with the specific Romanian one.

Key words: corporate governance, principles, efficiency, ownership structure

J.E.L. classification: G30, G34, M14

1. General aspects of corporate governance

Many specialists have tried to define the corporation and we mention the most edifying approach, the one of O. Williamson, who argues: “modern corporation is a product of a series of organizational innovations that have had the purpose and effect the realization of savings in the transaction costs” [4]. Experts speak of different models of corporate governance. For example, the German model investors are institutions (banks) which control the activity of company and its management. In other countries, is significant “the minority shareholder protection”. But, whatever the approach, the essence remains the same: the

governance structure is determined by property rights. Thus, laws that imposed, lets say, diffuse ownership have created so-called “corporate Berle-Means”, in which the fragmented ownership change the power in the company in favour of managers [2]. In modern terminology, the argument presented by A. Berle and G. Means is as follows: for shareholders the organizational, monitoring and control costs of management tend to be high compared to benefits, especially when ownership is dispersed and the cost of collective action is high. According to the Berle-Means thesis, corporate managers were considered masters of their own and not those who take materials advantage of their own actions, they would be prepared to allocate resources for uses that do not seek to maximize the capital value of firm. For this reason, the economic results of production in corporations may reflect excessive consumption for the held activity, limited incentives for introducing and adapting new technologies etc.

The central issue of corporate governance system of modern corporations has been made in the famous article of M. Jensen and W. Meckling, *Theory of the firm: managerial behaviour, agency costs and ownership structure* [3], one of the most cited articles in economics literature on how to structure ownership in various organizational arrangements. The authors sought to demonstrate that an owner-manager, who shares ownership of a company with shareholders that are not managers, not lead company with the intention of maximizing profits. Moreover, they showed that this would happen in a hypothetical world where the costs of monitoring foreign owners regarding business management, are zero. But, hypothetical worlds are not relevant alternatives. Recognition of this fact contributes to increased interest in identifying those situations (institutional and

organizational arrangements) that can mitigate the agency opportunism so that human behaviour in business management to became more predictable, especially at an entrepreneurship level. This approach represent the problem of the way of how entrepreneurs, business owners, shareholders are anticipating the behaviour of the decision-makers in the company, i.e. the problem of predictability of the managerial decisions, which nature should be in concordance with the requirements of owners.

2. Corporate system in Romania. Comparison with other European countries

The majority of the companies in Central and Eastern Europe are conducted by the owner but the management is realized only by professionals. In what is concerning the corporate governance, the main compromise is the one between the assuring of the incentives for the majority owners and the protection of small investors [1]. First, measures to protect small businesses are extremely important in combating fraud and reducing financial costs and secondly, to protect small investors by maintaining in function or in taking the leadership of an organization could discourage strategic investors and inhibit restructuring where appropriate. As majority owner distances himself from day to day management ceasing the responsibility to professional managers, corporate governance is changing the nature of the problem. Managers need to be monitored and only the majority owners have enough incentives to carry out this task. Therefore, in the implementation of existing laws in EU countries, efforts are made to preserve incentives for active shareholders. Few states provide a better legal system for minority shareholders. They face substantial problems and the actions they take can easily be blocked by majority shareholders.

Because in Romania, as in other countries, the interests of shareholders and managers can often divergent, corporate governance may become a factor that brings interests through active intervention, according to a detailed code of doing business, of the boards, which provide the interests of

shareholders, regardless of the percentage share they hold, exercise permanent control over the executive leadership of the company and are responsible for the transparency of the transactions concluded, to the General Assembly of Shareholders (GAS). Property rights theory starts from the assumption that corporate efficiency depends fundamentally on the quality management but also exercising a rigorous control by shareholders on managers.

In Romania, there are many companies that have minority shareholders. To highlight their activities are used a series of indicators:

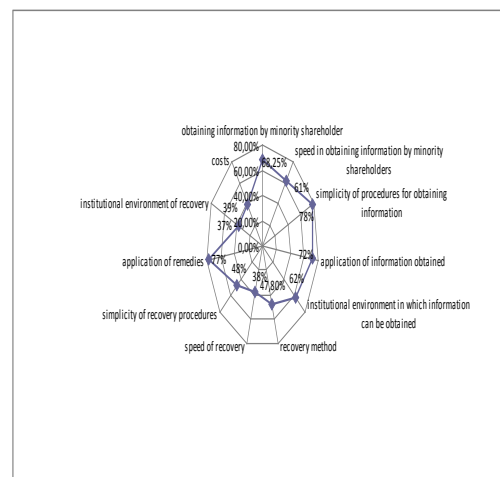
- *ability to obtain information about their company* (speed in obtaining information, simple procedures for obtaining information, applying information obtained, the institutional environment in which information can be obtain - refers to a country's legal framework to implement and enforce corporate governance legislation);

- *recovery method* - refers to the remedies which are available to a minority shareholder whose rights have been broken (speed of recovery, simplicity of recovery procedures, application of remedies, institutional environment of recovery);

- *costs* - estimated costs to be paid by a minority shareholder to have legal action.

In our country, these indicators record the following values:

Figure 1. Efficiency of minority shareholders in Romania

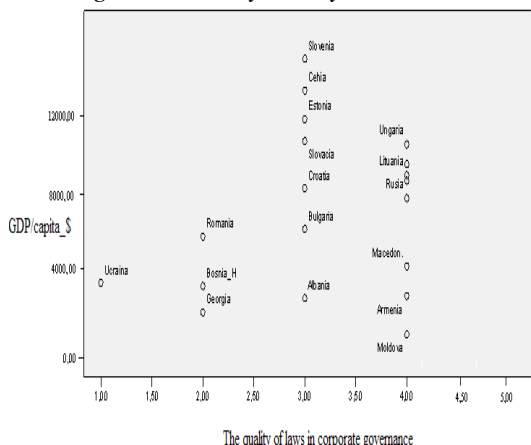


Source: after EBRD, Legal Indicator Survey, 2009

Making the average of the 11 indicators is obtained an average efficiency of the activity of minority shareholders of 57%.

Concerning the quality of laws in corporative governance system, our country is not so well positioned.

Figure 2. The quality of laws in corporate governance system, year 2009



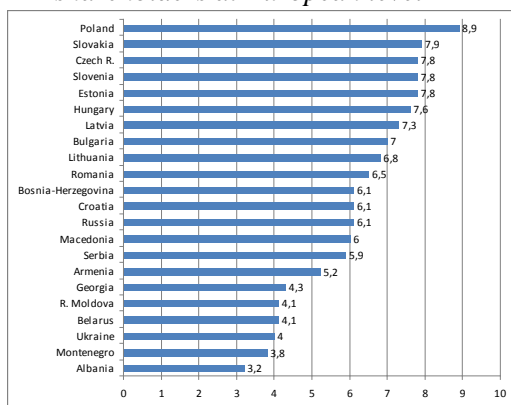
Source: own representation after Corporate Governance Report, 2009

Note: 1: very low; 2: low; 3: medium; 4: high; 5: very high

We see that level five (very high quality of laws in corporate governance system) is not reached by any of the analyzed countries. Romania fall at the second level, which means that in the field of corporate governance, the quality of laws is low. In the same position are countries like Bosnia-Herzegovina and Georgia.

Referring to the efficiency of minority shareholders to obtain information about their company (first indicator), in the year 2009, the situation is represented below:

Figure 3. Efficiency of minority shareholders at European level

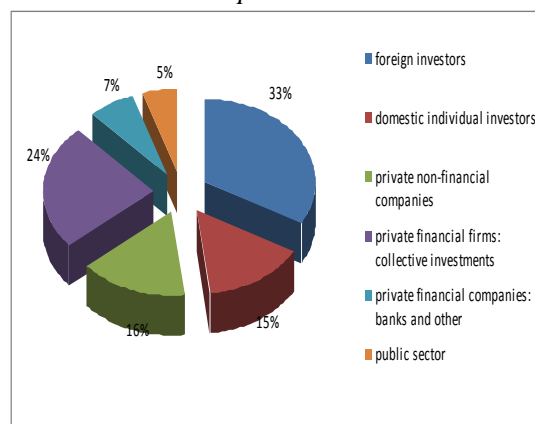


Source: EBRD, Legal Indicator Survey, 2009

Note: The score for each country is calculated on a scale of 1-10, where 10 represents maximum effectiveness.

Leaders in this chapter are Poland, Slovakia, Czech Republic, Slovenia, Estonia. Romania received 6.5 points (having thus a medium efficiency) and Albania, Montenegro and Ukraine occupies the bottom of the ranking. But who are the shareholders in the European corporations? The answer to this question is found by analyzing the figure 4:

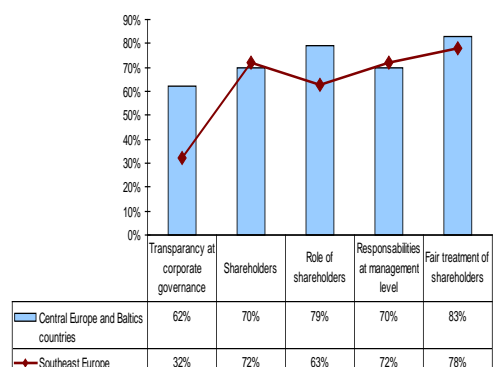
Figure 4. Shareholders in European corporations



Source: FESE, Nestor Advisors, 2009

The foreign investors are major shareholders of the corporations (33%), followed by private financial firms (24%), private non-financial companies (16%), domestic individual investors (15%), etc. Referring to the level of compliance with OECD principles of corporate governance, the situation is as follows:

Figure 5. Compliance with the OECD principles on corporate governance, 2009

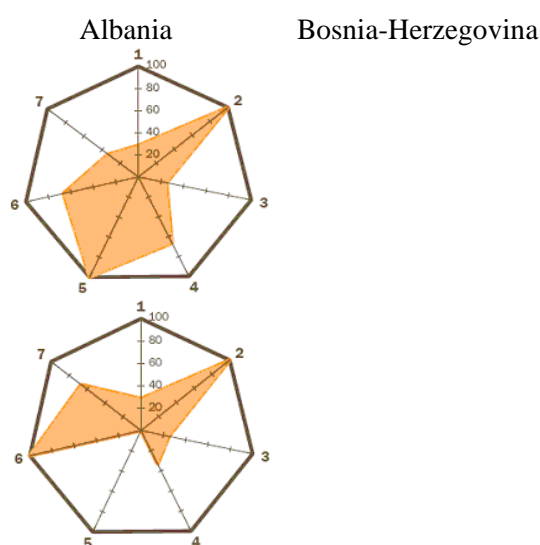
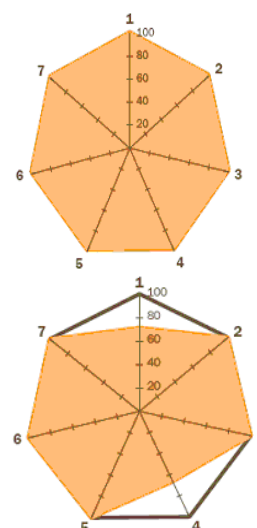
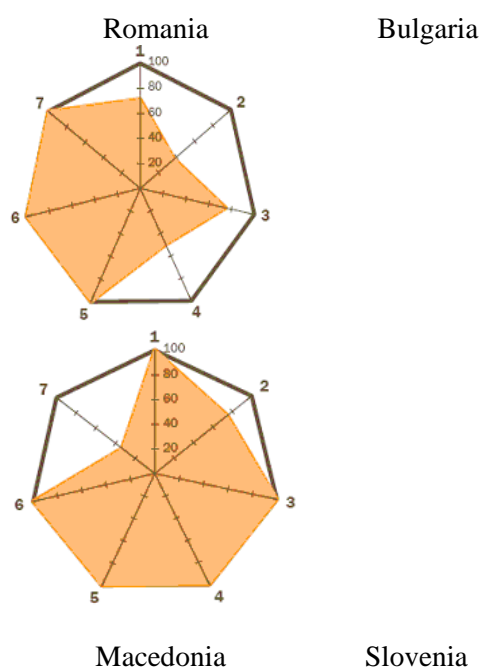


Source: after <http://www.waset.org/ijhss/v1/v1-1-2.pdf>

In figure 5, we observe that the principle which was adopted the most, according to OECD criteria, is the one concerning the fair treatment of shareholders. In Central Europe and Baltic countries it is found in a proportion of 83% and in South-Eastern Europe of 78%. The principle which is less respected refers to the transparency of corporate governance (62% in Central Europe and Baltic countries and 32% in Southeast Europe). Here is the big problem, especially in Southeast European states. Therefore, appropriate measures should be taken on this line.

To have a clearer view on levels that characterize corporate governance the South-Eastern Europe, we present the following situation:

Figure 6. Levels that characterize corporate governance in some South-Eastern European countries in accordance with international standards



Source: after EBRD, Report on Insolvency Office Holders in South-Eastern Europe, 2007

Note: **1.** qualifications to become a majority shareholder; **2.** availability to establish meetings depending on various cases (bankruptcy, special situations, etc.); **3.** removal / the retirement of a majority shareholder; **4.** replacement of the majority shareholder; **5.** compliance of discipline code; **6.** remuneration of the majority shareholder, **7.** obligations / the responsibilities of the majority shareholder.

International standards refer to The World Bank Principles for Effective Insolvency, Creditor Rights Systems and The 2005 UNCITRAL Legislative Guide on Insolvency Law.

Analyzing the figure 6, we see that Macedonia (with the best score), Bulgaria and Slovenia fall into the category of countries that have high levels of corporate governance in accordance with international

standards. Romania has medium levels. Greater efforts should be made to the chapter concerning the availability to establish meetings depending on various cases (bankruptcy, special situations, etc.) and also to the chapter about the replacement of the majority shareholder. Albania and Bosnia-Herzegovina have low levels (especially in terms of the compliance of discipline code in Bosnia-Herzegovina and the qualifications to become a majority shareholder in Albania). These differences can be largely explained by the fact that there is no permanent harmonization of national laws comply with EU legislation on corporate governance. Do not forget that after the improvements in this area since 2004, Romania passed from a low to a medium level, maintaining this position until now. During 2007 year, some regulations have been adopted in the field, in line with European legislation, so that in 2011 it is expected to have a high level of corporate governance implementation.

We point, in the following table, the legal basis of the corporate governance in some countries in Southeast Europe:

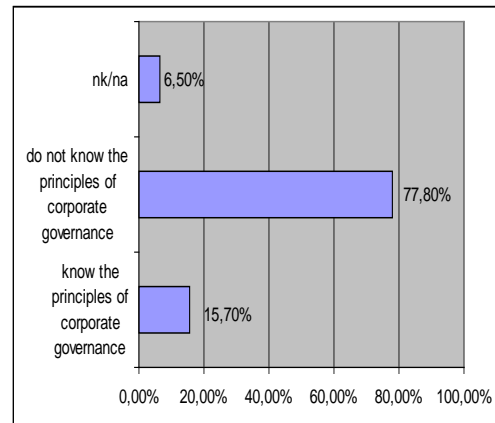
Table 1

Countries	Sets of rules that serve as national code for corporate governance
Albania	Company Law (1992)
Bosnia-Herzegovina	Laws on banks and Laws on business companies
Bulgaria	Law for the emission of bonds
Croatia	Company Law
Macedonia	Code of company and the rules of trading company shares
Serbia & Montenegro	Law on enterprises and Law on security and other financial instruments of the market
Romania	There is no specific national code of corporate governance. It is regulated by Company Law, Security Law

Source: after <http://www.waset.org/ijhss/v1/v1-1-2.pdf>

Concerning our country, the Group of Applied Economics conducted in June 2007, a survey on the principles of corporate governance at the level of 153 manufacturing firms. In their choice have been taken into account the turnover, number of employees and regional distribution. Thus, it was found that:

Figure 6. Information degree of Romanian managers about the principles of corporate governance



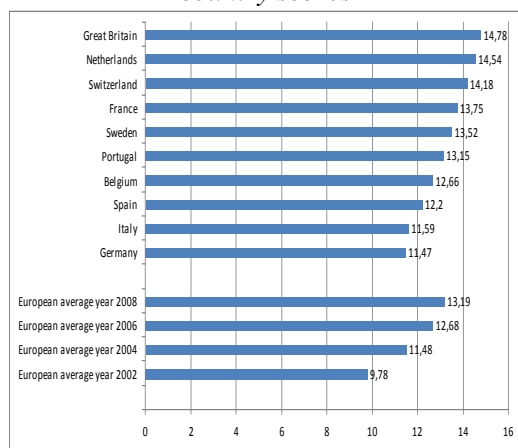
Source: after <http://www.euractiv.ro>

We observe that from the firms surveyed, 77,8% do not know the principles of corporate governance, 15,7% know these principles and 6,5% do not know / do not answer. In addition, it was found that 79,7% do not apply these principles. However, it is possible that more firms to apply these principles without know them. Also, the survey reveals that 34,7% of companies do not have a written code of conduct setting, which to establish formally rights and responsibilities of the General Assembly Shareholders (GAS) members and the type of management, the way of communication between managers and shareholders. In the case of 31,3% of the companies, shareholders do not receive in advance the documents to be discussed at GAS and for 26,2% of the company minority shareholders have no access to accounting records.

To see which the implementation level of corporate governance is, Heidrick & Struggles International has conducted a comprehensive analysis on the 294 large companies in 10 European countries: Belgium (19), Switzerland (20), France (40), Germany (30), Italy (40), United Kingdom (50), Netherlands (23), Portugal (10), Spain

(35) and Sweden (27). Were selected only top companies, according to market capitalization, based on national indexes (eg the Financial Times Stock Exchange 100 Index (FTSE 100), 40 Cotation Assistée en Continue (CAC 40), Iberia Index 35 (IBEX 35), Deutscher 30 Aktien Index (DAX 30).The test results highlighted:

Figure 7. Corporate governance (in accordance with governance criteria) – country scores



Source: after Corporate Governance Report, Heidrick&Struggles International, 2009

Note: Each company was evaluated individually (on a scale of up to 16 points) and finally a score for each country was calculated on which it was generated a European average.

We see that there is a relatively small disparity between the countries in which is prevailing the corporate activity: the difference between best and lowest score, achieved in 2008, is 3.3 points versus 9.5 points in 2002. Improvements were made in each country, indicating the fact that a general and continuous process is manifesting in increasing corporate governance standards. It appears that above the European average for 2008 are situated Great Britain, Holland, Switzerland, France and Sweden. We state that Portugal has made most progress in this field in recent years: from 4.9 points in 2002 rose to 13.2 points in 2008.

3. Conclusions

Corporate governance is useful as a concept that can be the basis for restructuring the Romanian economy, but it will have a real impact only in the condition in which the private companies will decide to become open entities, to address capital market to procure the necessary funds for development. Until then these companies will be leaded only by the decision-making of business owner; state-owned companies with lack of working capital, will be able to apply only in a small measure, and more declarative, the principles of corporate governance, different interests as their market position being determined in a larger proportion by extra-economic decisions. State-owned companies may have poorer conditions of action because of lack of development funds which can not be obtained without the main shareholder support, which is the state.

Finally, we conclude that is necessary that the public and private sector to cooperate to develop a set of rules, compulsory for all. Business associations, chambers of commerce and industry should try to encourage their members to develop governing norms for the protection of shareholders and of social responsibility for all the parts involved.

4. Acknowledgements:

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Cultural Influences on Management Ethics

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Abstract

Managerial ethics, as a branch of applied Ethics, is a relatively recent approach to the management of the organizations, as an interference of the Philosophy with Economics, due to increasing awareness of the need of connecting managers' behavior and actions to the rules and moral values of society. These values differ in the human communities within society, the differences being caused by various factors of influence. The most important factor determining managers' behavior is the cultural factor, religion being the main provider of moral values and norms.

The paper presents an analysis on the influence of major religions of the West and East on the characteristics of major economies - the U.S., Europe, Japan, also a comparison between the main features of the philosophy of management in these regions.

Also, the ethical differences determine different views on the role and rationale of businesses. Classical approach, the idea of maximizing profit, precludes an approach to social responsibility of the company, that gain more ground, due to cultural interference and challenges of the modern business environment.

Key words: ethics, management, values, culture, religion

J.E.L. classification: M14

1. The concept of managerial ethics

The last decades have strongly imposed into the public consciousness the importance of taking into account the ethical dimension of organizations' lives. Codes of ethics, ethics committees, ethics audits, ethics education for staff, techniques for creating an moral institutional culture - all these have become more and more widespread realities -

among others for being politically imposed and, in many countries, they have received a formality and a legal force. It is true that their inclusion in the habits of people has not reached a spectacular level, but the process is in progress. "Institutionalization of ethics" is a new reality which is required to be analyzed, in order to find influences and models.

The ethical problem deciphered by the modern moral philosophy is the human satisfaction / dissatisfaction in the industrial and post-industrial society and also the problems of humans surviving in disadvantaged societies, struggling with underdevelopment, material and cultural poverty. Ethics and moral philosophy do not hesitate to reveal adverse effects on humans caused by fighting and fierce competition, by the spiritual and physical isolation and insecurity of peoples, and by international terrorism that threatens people from different corners of the world.

The term „ethics” has a dual sense: a) a scientific discipline of study covering rules of conduct governing relations between people, i.e. the science of morality, of right and wrong, b) the ensemble of rules governing human behavior in society - rules to be applied in life to practice good as opposed to evil - rules whose observance is imposed by force of habits established in society [12].

In management literature the term „ethics” is used in both above-mentioned directions, the distinction being made according to the context. Thus, ethics is understood either as "study of morals and rules of conduct" [10] or as "rules and principles that define good or bad behavior" [20].

Management ethics is a form of applied ethics, which refers to the conduct and actions of people with leadership positions in private and public organizations [11].

In the case of management ethics, too, cultural norms are values enshrined by

tradition and education, their compliance being imposed by the normal requirements of social life, as they are perceived by public opinion.

Managerial problems in which ethical issues may arise are: pricing, promotion of products on the market, conditions of work offered, product quality, reducing labor, relations established with suppliers, relationships that exist with the local community, environmental pollution, advertising ; promotion of staff (motivation), relations between employers and trade unions [9].

2. Religion, a cultural factor of managerial ethics

Most analysts and experts converge to highlight the crucial importance of environmental influences on the development of an organization. There is no doubt that between the ethical aspects of the social environment and various business concepts, management styles, education systems for leaders and followers and organizational culture in companies there is a close interdependence [8].

The most important factor in determining the ethical behavior of managers, the values on which it is based, is undoubtedly the cultural factor, influenced largely by the religious spirit. This criterion has an essential contribution to coherently explain the differences in the important economies of the modern world, the Western (which joins Europe and America) and the Oriental, especially Japanese, but more and more the economies of China and India.

Great ancient and medieval philosophers have stimulated the philosophical and moral meditation in Europe and Western space, which has never been totally separate from the Asian, Oriental space, marked by several current and ethics as important as those of famous Greek: Brahmanism and Buddhism initiated by the ancient Indians and, then, expanded in various countries of Asia, Lao Tzu Taoism and Confucius in ancient China. Good and evil are fundamental ethical values also for these philosophical and religious currents, conceived in the perspective of enlightenment (Nirvana), achieved by switching off any desire and by experiencing pain the whole way, when the soul acquires

its full peace.

The ethical evolution mentioned above can be traced in the Bible, too, respectively, in the three religions intertwined: Judaism, Christianity and Islam.

Islamic moral philosophy is a rational synthesis between pagan philosophy (Plato and Aristotle in particular) and Muslim religion, linked to two other, Jewish and Christian religions.

The East remains a source of moral values stemming from contemplation and speculation, thus completing the moral values of Western characterized by activism and domineering spirit

For the issues addressed in this paper, the interest is accorded to the Christian religion and the religious philosophies of the Pacific Arc, especially in Japan. As regards Christianity, we will put an emphasis on Catholicism and its reformist currents that dominate the capitalist world. The Orthodox religion, perhaps the most tolerant and impregnated with mysticism, has never exercised a decisive influence on the economic development, since poverty on earth was considered the supreme virtue and condition of happiness in the eternal world. This attitude is reflected, in general, in all Christianity, but in time, both in Catholicism and (especially) in the reform currents have occurred new ideas and experiments of adaptation to the socio-economic developments.

In the West, the notions of "ethics" and "business" have been associated over time in different ways. If money remained suspect for medieval Catholicism from an ethical point of view, a moral businessman seeming a contradiction in terms, Protestantism has made it possible to reconcile ethics with business. Moreover, the Protestant work ethic has helped, according to Max Weber, the affirmation of capitalism [21]. He showed that Protestant asceticism is characteristic for the rationalistic spirit of Western capitalism. This asceticism consists of the cult of labor and of condemnation of laziness, begging and parasitism of any kind, and the moderate cult of wealth and money.

Catholicism is oriented towards the „other world”, the eternal paradise, considering life on earth as an intermediate stage for the eternal existence. According to the Catholic teaching, Jesus Christ has established that the

pope is the head of the Christian church, as the successor of Saint Peter. After the ideology of Jesus, the poor and the disadvantaged were privileged in the next life, while the rich were not admitted into paradise. To a faithful Catholic it is generally undesirable, and not in God's grace to accumulate excessive wealth.

Beginning with the nineteenth century, a stream came known as social Catholicism, aimed at promoting economic and social reforms in the spirit of the Gospel. Currently, all European Catholic countries are in favor of social market economy, a social capitalism with a strong concern for the disadvantaged.

Lutheran Protestantism, following Martin Luther's reform (1488-1546), gives more importance to life on this world. Luther gave a high value to concepts like hard work, vocational pursuits, sense of duty and seriousness that are pleasing to God and make access to paradise, into the next world. Moreover, these concepts underlie the Protestant ethic. Many modern scholars see Luther's ideology in a fulcrum of modern capitalism.

The seriousness and hard work of the Germans and "The Dual Professional Educational System" are rooted in their Protestantism. The same qualities are specific to the Nordic countries (50% of the population of Germany and almost 100% of the Scandinavian embrace the Lutheran religion). Consideration to the underprivileged and the social component of capitalism are values of Catholicism.

Calvinist Protestantism, initiated by the French reformer Jean Calvin (1509-1564) is a solemn affirmation of the sovereignty of God, the only savior of men through predestination. According to the Calvinist ideology, human beings are - fundamentally - weak, helpless and they can not do anything against this evil and its consequences: non-admission to paradise. God alone, arbitrarily selects and predestines certain individuals to paradise. During the earthly life, those chosen by God achieve economic success and the others not; the predestinated are rich and the others poor.

Undoubtedly, the "ideology of predestination", resulting from the reformist ideas of Calvin, is the basis of hard capitalism in some western countries, especially the U.S. This ideology seems to be

the philosophy of greed and selfishness, but some individuals' inclination towards unlimited accumulation of wealth should not be attributed only to the Calvinist reform.

Religions in Japan are four in number: Confucianism (in fact, not a religion), Buddhism, Shinto and Christianity, whose influence is split, without totally dominate the Japanese business environment.

Confucianism, with approx. 200-250 million followers worldwide, is more a philosophical and moral concept, due to the Chinese writer and philosopher Kong-fou-Tse (551-479 BC), which emphasizes the importance of morality and loyalty to others and believes that the answer to world problems is in the order, personal change for the better and development of a sense of human solidarity.

Buddhism, with approx. 450-500 million followers worldwide, is the name that designates the founder of this doctrine, Gautama, after he received the enlightenment in 525 BC (Buddha = the enlightened). Buddhist doctrine is a response to pain, which is identified with existence itself. To exit from the cycle of births and deaths (reincarnation theory) and to reach "nirvana", one should start by releasing the causes of suffering, that are the desires that press us every day.

Some fundamental concepts of Confucianism and Buddhism, like "harmony" and "self-improvement" have, even today, a strong influence on the population, including the industrial and business companies. They manifest through the spirit of cooperation, social responsibility, self-discipline, respect for others, especially to the elderly, mutual trust, meditation etc.

Shinto is Japan's own religion, dating before Buddhism (introduced in the late sixth century), which honors the deities - personifications of the forces of nature, the ancestors and the Emperor. Since the fourteenth century, Shinto turned into a nationalist movement. Separated by the state, in 1946, Shinto remained very influential in Japan.

A key characteristic of Japanese social climate and their specific culture is paternalism. Essentially, it consists of the Japanese tendency to focus on the group they belong, in the sense of protection, affection, discovery of its proper functioning needs,

and engagement for life.

Psychologically, most Japanese have two families: one at home, the classical one, the other being the collectivity within the company. Both have a vital importance to form a balanced universe in which their lives are conducted.

In Table 1 are compared (West vs. Japan) the behavioral criteria and the managerial attitudes towards them.

Table 1. Comparison between Western and Japanese management philosophies

Criterion	West	Japan
Objectives	Profit (quarterly)	Customer satisfaction (long term)
Company Results	Maximizing financial profit (short term)	Profit is a consequence, not an end in itself
Organization	Hierarchical, military style	Teamwork, self-organizing network
Employing staff	With experts, tough-type, winner	Multidisciplinary, team-oriented
Staff Dismissal	Easy, fast, without problems	Almost inconceivable
Management Development	Vertical	Extended in all directions, rotation of professions
Professional education, continuing education	As needed, short-term	Extended; provided long-term
Job description	Precise, detailed, limited	Vague, general, partial
Suggestions, proposals from staff	Trivial	Singular importance, the top priorities, incentives, motivation and reward
Wages, compensation, pay staff	Based on the work, by functions	Based on qualification, performance and skills of each individual
Motivation	Money, company status	Joint Vision (team, company, nation)
Planning	Either nothing or very sophisticated plans	Long-term strategic planning, but not detailed

Projects, strengths	Additional tasks in relation to the current	High prestige, quality, sufficient long-term resources
Collaborators assessment	Individually, depending on momentary interests	Especially in the group, in a spirit of assistance, in relation to team
Quality Control	Q.C. Department's responsibility	Priority no. 1. Each member of the company feels responsible for quality
Handling errors	The responsible (guilty) individuals are searched to be punished	Inquire about the causes of errors. Efforts to eliminate these causes. Opportunities for future lessons.

3. Differences in business philosophy

Undoubtedly, cultural differences, including religious, present in Eastern and Western economies, and mutual influences manifested especially in recent decades due to globalization, lead to two opposing views about the rationale of the firm: to one extreme the ultimate goal of the company is considered as to maximize profit (the classical approach), to the other, it is alleged that the company exists to promote the welfare of society (socio-economic approach).

Classical approach supports the thesis that companies exist to bring benefit to the owners (shareholders) or to reduce transaction costs. Among representatives of this approach is included, for example, Nobel laureate Milton Friedman. He assumes that currently most managers are employed as professionals, i.e. they do not own the business (separation between property and management), as such, their main responsibility is to manage the business so as to maximize the benefit of owners, the shareholders. And shareholders have, as Friedman, one concern: financial results.

After the same author, when managers decide to spend discretionary resources for "social goods", they undermine the market mechanism. Distribution of assets resulting from social activities will be ultimately paid, either by the shareholders (if profits are reduced, following additional costs with

"social goods") or by the employees (if wages are reduced) or by consumers (if the company's products prices increase, in the latter case, sales may decrease and, in extreme cases company will not survive).

Socio-economic approach considers that "profit maximization is the second priority of a company, the first is to ensure business survival." This involves the pursuit of broader goals than just maximizing profits. In this sense, several arguments are brought:

First, corporations are legal persons registered in a country and must comply with the legal and business climate in the country of operation. They are therefore not independent entities, responsible only to shareholders.

Second, the existence of the firm is not the short-term, as would result from the classical approach. Supporters of the socio-economic concept consider that managers must ensure the maximization of financial results on long-term, in which case they must accept certain social obligations (as non-polluting, non-discrimination, fairness to customers, etc.) and their associated costs.

Thirdly, the practice of modern companies stated that these are no-longer 'pure' economic institutions: they are involved in politics (lobbying), cultural and sports activities (sponsorship), supporting national and local authorities, etc., enriching the managerial ethics with the concept of "social responsibility".

One of the most famous businessmen in Japan, Konosuke Matsushita (b. 1894, author of the Panasonic brand, founder in 1980 of The Institute of Matsushita School of Government and Management) speaks not of responsibility, but of the social mission of the company and show that: "The industrialist's mission is to defeat poverty, to liberate the society in general of poverty and bring wealth. Business and production are designed to enrich not only the respective company stores or factories, but the whole society "[14].

Empirical studies [20] show a positive correlation between the degree of social involvement of a firm and its economic performance, and the explanation of this result seems to be that social involvement brings a number of benefits that cover and exceed costs induced by it.

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Moral Norms in Management Ethics

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Abstract

The culture and values of a community shape its behavior with the support of all the norms, rules and institutions created for this purpose. Business environment is focused on the responsibility to company success. This philosophy is the base of business ethics, of specific rules systems, supplemented and not replaced by legal regulations. However, responsibility for business can come into conflict with the common morality of society, the public in general, creating an "ethical paradox". The harmonization of these interests creates a moral organization, based on an identified set of principles, values and challenges. The introduction of ethics in the business routine requires a coherent program and tools, of which the easiest to use is the code of ethics. These codes are particularly useful for resolving moral or interest conflicts, guiding in a practical way the conduct of managers and employees. Called either codes of ethics or codes of conduct, they are adopted by many major companies in the world. This paper presents the functions and objectives of ethical codes, present increasingly more in the business environment, and propose a model for such a code that addresses the full range of issues and potential conflicts.

Key words: Business, ethics, management, values, ethical code

J.E.L. classification: M14

1. Ethical Culture and Behavior

Culture and ethos of a community are vectors and sources that supply the behavior. They define, in the area of maximum objectivity of the economics, the limits and freedoms, the acceptability and unacceptability, the desirability and undesirability. Therefore the quality and usability of norms and values that regulate

the community environments support the production and reproduction of a particular model of business conduct and behavior. Naturally, in a society are created structures and institutions, norms and rules, especially of legal nature, required to promote those existential values that are compatible with the human expectations.

Professor Dimitrie Gusti wrote in his work "Ethical ideal and personality" [3] that many of us do not possess the necessary virtue of a moral point of view, to wait in an honest and dignified manner what they deserve, according to their education and work. Legal and social provisions, which actually are meant to guide the way of the things, seem for them unnecessary obstacles or forms.

An understanding of ethics is critical for us as individuals, because a healthy ethics is the essence of the civilized society. Ethics is the foundation upon which all our relationships are built. It means the ensemble of our relations with the community we belong to. Ethics does not refer to the links we have with others – we all have ties to each other - but to the quality of these links.

2. Responsibility and Ethics in Business

Business Ethics defines a system of principles, values, norms and codes of perception and behavior, based on a philosophy of the company, which impose themselves as moral imperatives inducing the obligation of their expression. For good measure, the cognitive and behavioral codes integrate their moral values as such, although they are functional and credible only if they are associated with socially valid business objectives. The features of the expression of moral values in business derive from the assumption, as principle and practice, of accountability to the company's success. In a business that fails there can be no responsibility, except in extreme situations, completely independent of employers and

management. Refusal of responsibility denies any reference to the moral principles and values. In other words, in business, the imposition of moral rules requires the definition of the desirable values for the business and their expression.

Business Ethics delimits its issues at the level of the rules of ethical behavior, indicating, employees and managers, the dos and don'ts in their specific activity. Business ethics is also determined by the legal status of the company. Private organizations are characterized by an entrepreneurial culture open to the market, customers, innovation, and performance. Public organizations have a bureaucratic culture, are less adaptable and inert.

The distinction between moral norms and legal requirements is of utmost importance in the world of businesses. Many believe that the only obligation of an honest business man is to respect the laws in force, the corollary being that any management decision which seeks to maximize profit within the law is not only legitimate but even morally binding.

3. Business Ethics Dilemma

Managers have always two priorities, which sometimes can be contradictory: the public and their organization. These priorities create ethical dilemmas for, many times, what is moral for one manager may be considered immoral by the other actors. The ethical area of businesses is as more sensitive as the aim is to obtain larger benefits, without being impaired the public confidence in the overall benefits brought by the business world: the reward of labor and better social services to the community. In essence, ethical behavior in business can be both a matter of survival of the organization as a responsible living of individuals.

"Ethical paradox" means for businessmen to take the responsibility and the economic risks inherent in their actions, or to remain to moral judgments, abstract and devoid of responsible commitment. This dilemma - responsibility / morality itself - moves the discourse on businessmen conduct from "morals" to "ethics of responsibility". For, in business, a number of common moral values (compassion, altruism, love for the neighbor, philanthropy, etc.) can lead to collapse, bankruptcy, with all the moral consequences to be derived from an organizational disaster.

Business philosophy must harmonize moral with purpose.

Niccolo Machiavelli's phrase "the end justifies the means" is specific to the business, to the extent that it does not go beyond a regulatory model proposed by the company. In reality, any business is subject to norms-rules that define "the game". Respecting the "game rules" when they are rational and incentive is sufficient to define the responsibility in the coordinates of business ethics.

Overcoming the limits set by economic and legal norms alters behavior and questions the responsibility of the businessman.

4. The Moral Organization

A "moral organization" is the one which meets at least the following four principles:

1) It interacts naturally with various beneficiaries and its basic rules consider the good of the beneficiaries as part of the good of their organization.

2) Its members are extremely sensitive to the fairness issue: their basic rules stipulate that the interests of others matter as much as its own interest; deception and exploitation of clients is their nightmare.

3) Responsibility is seen as individual rather than collective; you can not hide behind the organization; its members must be individuals who assume personal responsibility for the actions of the organization; its rules state that individuals are responsible for themselves.

4) They regard their activities in terms of objectives, the objective is a mode of operation which is highly valued by the members of the organization and it links them to the external environment.

Obviously, all these things belong to an advanced stage of development of ethical management in organizations.

David Murray, in his book "The seven core values, SMEs and their beneficiaries" [6] identifies the core values that a company should consider, with its managers and employees, for a more ethical conduct of its business, namely:

- consideration of our neighbors;
- vigilance in maintaining ethical standards;
- creativity in saving resources and environmental protection;
- better customer service;

- fairness to suppliers, customers, employees, partners, community;
- transparency - the elimination of lies in communication with partners, customers, suppliers, employees, state institutions;
- interdependence with the community in which we live and operate;

also 12 moral challenges in business life: appreciation of the dignity of work, good business relationships, impeccable customer service, morality in purchasing, morality in the conduct of the competition, treating staff with dignity and respect, fair remuneration for the staff, complying with the laws, protect environment, the conclusion of businesses without bribery, maintaining honesty in business, survival in the event of major changes.

Even if a worker is honest and has a high morality, the bad example given by its managers may lead him to overlook the unethical practices of others or even to adopt them.

Top-managers have the power to dictate policy to an organization and tone the morality. They have a great responsibility to use this power judiciously, they can and should serve as models of ethical conduct for the entire organization, not only through their daily behavior, which must be the embodiment of high ethical principles, also by communicating throughout the organization the similar expectations from employees, and by encouraging positive results.

It turned out that regarding the conduct, it must not only be above any reproach, but it should also look without reproach. In other words, the appearance of integrity is almost as important as integrity itself.

5. Codes of Ethical Conduct

To raise the level of business ethics, ethics should be institutionalized, intertwined with the activity of the company. This, in fact, means the introduction of ethics, in principle and explicitly, in the everyday business.

Particularly relevant for those who are receptive to questions of responsibility are some ways that can be used to encourage ethical behavior:

- publishing an own ethical code, according to recognized standards and social values;

- designing and implementation of a management development program that included ethics;
- development of ethical conflicts resolution programs;
- institutionalization of committees monitoring ethical behavior;
- providing appropriate rewards and sanctions.

Company codes are the simplest means of institutionalizing ethics and they are found in many organizations. Most responsible organizations actually combine these methods, thus encouraging and supporting ethical behavior in their relations with the exterior.

Most times, the levels of enforcement of managerial ethics are clearly specified in the codes of ethics. Even if they have not finalized codes of conduct or ethical codes, yet now more than two decades many large corporations have established ethics programs and assigned officers to monitor ethical behavior in organizations.

Initially, codes were developed by professional groups in the form of deontological rules and then there was an explosion of such codes in organizations. Experts assert that this was possible because without any formal activity or program, ethical practices can not be encouraged. Consequently, the ethical codes try to solve conflicts of interest in the internal environment and in the external relations of the organization, namely, to establish principles and requirements that would make managers more sensitive to ethical issues. They do not contain purely theoretical precepts, but set practical significances, useful for everyone in the organization. This does not mean that a code of ethics automatically ensures a moral behavior, or can cover all situations encountered in organizational life. The limits of the ethical codes can reside in their formulation in general terms, because the top managers and their subordinates are unable to identify all ethical issues that may arise. The way an ethical code is translated into practice remains, ultimately, at the discretion of managers and subordinates. The ethical code remains valid if all the members of the organization comply with it: if the manager gives no importance to it, certainly neither the employees will not follow its provisions.

The existence of a code of ethics is not a

guarantee for a company that its employees will adopt an ethical behavior, but it may reflect a company culture of appreciation and reward for ethical behavior.

Ethical codes have certain functions, which explain why they have enjoyed so much interest from managers and, also, members of organizations:

- conduct and inspiration - codes offer a positive incentive for ethical conduct and guidance on key requirements;
- support - code provides positive support for those looking for elements of ethical behavior;
- discipline - the codes might constitute legal form for the investigation of unethical behavior;
- education and mutual understanding - ethical codes can be used in schools or other places to promote discussion and reflection on the moral issues;
- create the public image of the profession - codes may present a positive image to the public on a profession;
- protection of the status of the profession - the codes can stop certain disagreements that may arise at the level of exercising a profession;
- promoting interest in business.

Concerning the objectives of a code, there is a consensus of opinion that, by formalizing the ethics, it is attempted the promotion of virtues and professional values. In addition to this, Samuel Mercier noted other objectives:

- conclusion of a moral contract between the beneficiaries and organizations, respectively between those belonging to the same organization;
- organization protection against dishonest or opportunistic behavior;
- promotion of a positive image of the organization;
- provision of means of regulating the staff adhesion and commitment;
- creation (and organizational culture) sense of uniqueness and belonging to group members;
- shows a commitment in principle of the managers;
- correlation of purely contractual relationships with trust and responsibility;
- guides the behavior in the case of ethical dilemmas.

For example, we present one of the world's most famous ethical codes: a code created by

the British Institute of Management, called the Code of Conduct (Code of Conduct) - always quoted in the literature as a template for a fair managerial conduct and a responsible way of doing business.

1. In the pursuit of personal interests, must also be taken into account the interests of others.

2. Managers should not be vindictive and not harm reputation of others' persons or businesses.

3. Managers must immediately and fully declare the personal interests that may be in conflict with company interests.

4. Managers need to show interest in the health, safety and welfare of those they lead.

5. Managers must respect the confidentiality of information, if so requested by consumers or suppliers.

6. Managers must not give or accept gifts or favors for the purpose of bribery or corruption.

7. Managers must be convinced that all public information provided is true.

Since 1961, NORTON multinational company has developed a code called "Politics and Business Ethics", which has been continuously improved. It includes a series of rules concerning the conduct of the company in its relations with "the law" and society, having as guiding principles the following requirements:

- Honesty and integrity are characterized by sincerity and exclude deception and fraud.
- In our perception, ethical behavior must be dynamically sensitive to changes in the values and habits that will surely occur in time, as well as those concerning cultures.
- No code of conduct can hope to define the moral and ethical behavior appropriate for each situation we face.
- One of the most important principles of our policy is openness.
- We should not be afraid of inspection.
- We see no contradiction between profit focus and attention to ethics. In fact, both should go hand in hand.

Some codes are just general policy statements which set a specific ethical behavior for all employees. Others give detailed rules for appropriate behavior in business and launch explicit procedures for monitoring and rewarding such behavior. However, simplicity is one of the best

features of a code of ethics: the more complicated it is, the more probable it will generate the opposite effects to those desired.

6. A Model of Ethical Code

The model of a professional ethics code:

A. All members of an organization (company) will act with:

- responsibility and fidelity to public needs;
- fairness and loyalty to associates, customers, suppliers and owners of the company where they are employed;
- competence and devotion to high ideals of personal honor and professional integrity;

B. All members of an organization (company):

- will always maintain their independent thinking and actions;
- not express their opinion on contracts or on the company's financial statements, until they first have a relationship with their client to determine whether to expect that their opinion will be considered independent and objective by someone who knows all the data;
- when preparing financial reports expressing an opinion on the company's financial position for the company's management, will provide all material information they know, in order not to omit information that might mislead; will gather enough information to guarantee the expression of those views and will report any errors or deviations from generally accepted professional principles;

C. All members of an organization (company):

- will not disclose or use any confidential information concerning the business owner or the client, only when acting according their obligations, or when such information is needed to be disclosed for their own defense or for the defense of any associate or employee in any legal process against any alleged professional improprieties, by order of the authorities or of the management or any committee of the company in the exercise of their duties, but only to the extent of the necessity for that purpose;

- will inform the employer or client of any connections or business interests that might interest;
- in carrying out their duties in the interest of the employer or client, will not keep, receive, negotiate, or acquire any fee, remuneration or benefit without the knowledge and consent of the employer or their clients;
- will follow all steps in arranging any commitment as a consultant to establish a clear understanding of the purpose and objectives of the works before their commencement and will provide the client with an estimate profitable cost before making a commitment, in any case, as soon as possible;

D. All members of an organization (company):

- will behave towards subordinates with courtesy and good faith;
- will not commit any act likely to discredit their employing company or profession;
- will not engage or will not advise any business incompatible with the company's view of professional ethics or morality of the company;
- will not accept any commitment to checking a subordinate employee other than with the knowledge of the subordinate or when the subordinate connection with the work was completed; an exception is when there is a nominal duty to check the work of others.
- will not try to obtain an advantage over other subordinates by accepting a commission for the conclusion of a contract or achievement of a service;
- will support the general principles of his profession;
- will not act with malice or another way to stain public or professional reputation of another employee or to impede the achievements of its obligations;

E. All members of an organization (company):

- will always maintain themselves to the standards of competence expressed by the education and experience requirements for their employment;
- will share with others in the firm or profession, the knowledge they hold on which the profession stands, and will promote the progress of the employer organization or its profession;

- will only undertake work for which they are authorized by training and experience, and when it is in the interest of their client or employer, will hire or will advise the employer or client to hire another specialists;

7. Conclusion

Looking at these examples, it is noticeable that a code of ethics formulates ideals, values and it addresses issues such as conflicts of interest, competitors, privacy of information, giving gifts, etc. In essence, the ethical code tries to cover a gap that exists between a organizational community values and the laws that govern society.

8. Acknowledgement

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The Normalization Process of Recognition of the Elements in the Financial Statements. The Credibility and Relevance of Information

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Abstract

The necessity of normalization process of recognition of the elements in the financial statements appeared at different levels of the accounting referential, and here we refer particularly at the two basic referential: the international and the American one, which will constitute the basis of our analysis on this paper.

Therefore, the result of the normalization process of recognition of the items from the financial statements has result in the establishment of the criteria for recognition, which contribute to proper positioning of elements in the financial statements, thus giving credibility and relevance of the information contained therein.

Key words: the financial statements, the process of recognition of the elements, the criteria for recognition

J.E.L. classification: M40, M41

The necessity of normalization process of recognition of the elements in the financial statements appeared at different levels of the accounting referential, and here we refer particularly at the two basic referential: the international and the American one, which will constitute the basis of our analysis on this paper.

Therefore, the result of the normalization process of recognition of the items from the financial statements has result in the establishment of the criteria for recognition, which contribute to proper positioning of elements in the financial statements, thus giving credibility and relevance of the information contained therein.

The Approach of the process of recognition of the elements in the financial statement through the various accounting referential.

1. The general framework for the preparation and presentation of the financial statements

The general framework for the preparation and presentation of the financial statements - defines "recognition" as the process of incorporation in the Balance Sheet or the Profit and Loss Account of an article which first meets the definition of an element, and satisfies the following criteria:

- It is likely that any future economic benefit associated to enter or leave in/or from the enterprise;
- The article has a cost or value reliably measured.

We observed that the requirement of probability of future economic benefits highlights the definitions of elements, which are circumscribed to the existence of these benefits.

It should be noted that, while respecting the definitions of elements is not considered a criterion for recognition as the American Framework, it still remains the essential condition in recognizing an element in the Balance Sheet or the Profit and Loss Account.

IASB also states that an element which possesses the essential characteristics, but that does not meet the criteria for recognition, can bring information in the Annex to the Financial Statements. Such information becomes relevant when knowledge of these elements is considered useful for assessing the financial position, performance and the evolution of the financial position.

At the same time, the criteria for recognition involves the interplay between an element that meets the definition and the criteria for an ascertained fact (for example, an asset) to automatically assume the finding

of another element (for example income or a liability). Also, IASB states that an element which at a certain moment does not meet the criteria for recognition in the financial statements can satisfy these criteria later, as a result of a subsequent events and circumstances.

2. The American conceptual framework

On the other hand, the **American conceptual framework** places a strong emphasis on the recognition process of the elements in financial statements, in this sense leaving a distinct structure within the conceptual framework, namely SFAC 5 "Recognition and assessment in financial statements of commercial companies".

SFAC5 defines recognition as the process of incorporating an element in the financial statements, an element that meets certain criteria for recognition, the incorporating of an item in the financial statements involving both a descriptive and numeric form, as in the case of IASB Framework.

It should be noted that the criteria for recognition of an element proposed by the FASB in the financial statements are far more detailed than those required by the IASB, but these criteria must be applied in the limits imposed by the relationship cost-benefit and materiality level.

The criteria for recognizing states:

- *The definitions:* an element to be recognized in the financial statements must first meet the definitions set out in SFAC6 "Elements of financial statements";

- *The assessment (measurement):* information corresponding to that item should be useful for decision making by users;

- *The credibility (reliability):* information relating to the item must be sincere (true), verifiable and neutral.

However, SFAC5 states that recognition process includes the initial recognition, the later modifications and the un-recognition (elimination from the financial statements of that element).

The IASB Framework establishes as first criteria for recognition - *the concept of probability*. It is used in conjunction with *the uncertainty level* in which the future

economic benefits associated with the item will affect the benefits or losses.

The evaluation of uncertainty level refers at the information available at the time when the financial statements are drawn up.

To understand the concept presented, *the correlation probability - uncertainty* present the following example:

when a claim is likely to be charged is justified, in the absence of any evidence to the contrary, (and therefore virtually no uncertainty) and the claim is recognized as an asset.

In the event that the number of claims is high, it is quite probable (so it feels a slight increase in the degree of probability) that some claims can not be cashed, so the appearance of a certain amount of not receiving the money (in conjunction with a slight increase of the uncertainty level), a situation where there will be reduced the economic benefits of recognizing.

On the other hand, the American conceptual framework does not defines a distinct concept of probability among the criteria for recognition, but this is induced by the definitions of the elements set by the framework for the following elements that will be recognized in the financial statements.

The second condition that an element must satisfy to be recognized in the financial statements, a condition which can be found in both referential, more or less detailed, is that the item must have *a cost or value that can be measured reliably*.

This concept is shown in more details in the American framework, through the following three characteristics of the referential: evaluation, relevance, credibility. The two quality characteristics (relevance and credibility) come to create the context in which the assessment takes place, in terms of both its nature, by finding the most appropriate basis for the item concerned, and in terms of its size, by finding a value that is representative for the company that presents that element.

In many cases the cost or value must be estimated. The use of reasonable estimates is an essential part of preparing the financial statements and does not influence their credibility. If it can not be made a reasonable estimate, the item will not be recognized in the Balance Sheet or the Profit and Loss

Account, but may be presented in the Notes Information about that item, especially if they are relevant to assessing enterprise's financial position, performance, or modification of the financial position.

The concept of probability used in the criteria for recognition, is accompanied by a degree of uncertainty about future economic benefits associated.

Therefore, we can say that *the assessment of probability level of generating future economic benefits has a significant influence in the recognition process and the correct establishment of an element in the financial statements.*

The best examples are the provisions, liabilities and contingent liabilities where the degree of probability makes the difference between these elements.

As a basis of analysis we will use the rules of IAS 37 "Provisions, contingent liabilities and assets", but also the Finance Order no. 3055/2009 regarding the Approval of the Accounting Regulations according to the European Directives.

The standard states that *the uncertainty* related to the chargeability and the size of the final amount is the one which makes the difference between reserves and debts.

According to IAS 37, *the provisions* are defined as *doubtful debts* in terms of chargeability moment, or the corresponding amount, thus having a probable character.

What interests us is their correct positioning in the financial statements for the information to be relevant and credible. This standard offers the necessary guidance, specifying that *the provisions are recognized in the balance sheet* - if these conditions are met:

- The entity has a present obligation (legal or constructive) resulting from a past event;

- It is likely that an outflow will affect the future economic benefits in order to honor the current obligation (there are more changes too happen than not to happen), meaning that the probability of generating future economic benefits is high, to be noted that this criterion of recognition is essential in positioning the provision in the balance sheet;

- The amount of obligation can be estimated reliably (IAS 37 specifies that only in very rare cases can not be a reliable estimate of the amount of the obligation).

A *contingent liability* is an *obligation likely* to emerge as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events that may not be entirely under the control of the entity, or *an obligation incurred* in the current past events.

The question that interests us is whether the contingent liability can be recognized in the Balance Sheet, in the conditions presented above. Because it does not meet all the criteria for recognition, in the sense that:

- Even if it is a general obligation of past events;

- Is not likely that outflow of resources which would incorporate future economic benefits to happen, meaning that the probability of generating future economic benefits is low; and

- The amount of obligation can not be evaluated sufficiently credible, under these conditions in the Notes to the financial statements are given information regarding the existence of contingent liabilities, especially since the information generated by it are important in determining the financial position, financial performance and changes in the financial position.

3. The current national legislation on the approval of Accounting Regulation harmonized with the European Directives, the OMPF no.3055/2009

The current national legislation on the approval of Accounting Regulation harmonized with the European Directives, the OMPF no.3055/2009, defines in the same way these elements and their criteria for recognition in the financial statements.

Thus, the order defines the contingent liabilities in the same manner and states that they will not be recognized in the Balance Sheet, just off the Balance Sheet, being presented in the Explicative Notes.

The contingent liabilities are assessed continually to determine whether it has become probable an outflow of resources which incorporates economic benefits. When it an outflow of resources, generate by an event considered previously a contingent liability, is necessary, a debt or a provision

will be recognized in the financial statements for the period in which this change appeared.

The order clarifies the conditions under which contingent liabilities are distinguished from provisions, namely:

- *The provisions* are recognized as liabilities (and recorded in the Balance Sheet) as they are current liabilities on the Balance Sheet and it is probable that an outflow of resources will be required to settle the obligations;

- *The contingent liabilities* are not recognized as liabilities (related information appear in the Explicative Notes) because they are obligations *that must be possible* to confirm whether the entity has a present obligation that may lead to an outflow of resources, or they are *current obligations*, but do not qualify for recognition in the Balance Sheet.

3. Conclusion

Through the issues presented and analyzed, we wanted to highlight the overwhelming importance of the recognition process of the elements in the financial statements, resulted in the recognition criteria, more or less detailed, depending on the chosen normalization framework, but which helps to the accurate positioning of items in the financial statements and thus the credibility and relevance of the information contained therein.

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Leasing versus Bank Loan a Comparative Analysis in Terms of Tax Effects

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Abstract

Existing funding sources in the companys is vital for the functioning and development. Cost of funding sources may vary from one company to another, at least for their own funding sources. However, for external funding sources, the market has reached a level where the cost of financing and, thus gains tax, are influenced by fiscal policy of individual businesses and related tax regulations that operate in market. The aims of this article is to identify a funding source from which businesses can obtain tax benefits, the research being done on a total of 32 companies from Romania. The research started by analyzing financial statements, followed by the formulation of hypotheses that have been tested and whose parameters were estimated.

Key words: fiscal impact, internal funding, external funding, leasing, bank loan

J.E.L. classification: G18, G32, K34

1. Introduction

Sources of funding determines the company's financial structure, a structure that represents the relationship between its short-term funding and long-term funding. In order to adjust the financial structure of the company, is aimed financial policy of the company and its correlation with market conditions. Also take into account the company's ability to adapt to environmental changes, using controlled economic resources, but also with sources of funding. The main argument which must underpin the funding sources of training is to find a perfect combination between the source of funding, the use of money and how that investment creates future economic benefits suitable to enable repayment of amounts borrowed.

Neoclassical theory predicts that financial integration can foster growth in emerging markets because it permits capital from rich countries to be invested in economies with low savings but high growth opportunities. Thus far, empirical work has focused predominantly on the impact of equity market liberalization on growth. Henry (2000a,b, 2003), Bekaert et al. (2005), Mitton (2006), among others, show that equity market liberalization decreases the cost of capital, causes investment booms, and increases aggregate growth. Recent empirical firm-level evidence corroborates and extends these aggregate findings. Chari and Henry (2004), for example, document that companies with a larger free float and more liquid stocks tend to attract more investor interest and thus experience a larger decrease in their cost of equity than the other listed companies. [10]

Funding sources include several ways to procure the necessary funds, but we insist only on two of them: the leasing and bank credit, they are the most accessible.

2. Leasing concept

Leasing, by its relatively short history, is a product of market economy, as a result of the evolutionary process of identifying new forms of financing for the sale of products and services provided. Leasing is a special form of credit in goods and services (do not have a credit by offering money), hence the diverse nature of institutions engaged in leasing operations - from specialized institutions to banks and insurance companies. A more complete definition of the concept of leasing is: the trade form and financing by financial companies specializing in these operations, financial institutions or directly from producers or companies that carries out a specific, or do not have own or

borrowed enough money to buy them. On the other hand, leasing is a form of lease - performed by specialized financial firms - some equipment assets to beneficiaries who do not have own or borrowed funds to purchase their from producers.[6]

One of the reasons why leasing is a financial alternative so popular in the world is actually summarizing by the leasing "philosophy": Not the ownership of assets but their actual use is one that brings profit [14]. The key issue is the judicious use of capital resources: invest money in generating "business" and make profits, such as advertising, superior training staff, inventory, explore new markets, research, development, instead of blocking them by buying fixed assets.

Leasing is a step in the financing of companys wishing to acquire movable or immovable goods, but do not have money. This financing technique which involves a higher risk, comes to satisfy traders who can not obtain credit from banks, or do not want to encumber movable and immovable property mortgages or liens by setting tasks that affect specific dynamic commercial area.

Practical interest of leasing is to ensure full financing through borrowed funds, an investment without precautionary measures from beneficiary, by this leasing it differs from traditional investment lending, where the beneficiary undertaking bear part of the investment value. Therefore, leasing as a financing technique is primarily aimed at business enterprises that aim at broadening and raising performance, and more generally, ensure technical progress.

The mature markets show that leasing knew the most important development free of any regulatory constraints. For an emerging market like Romania, is deemed necessary regulation and oversight to avoid a poorly addressed at the concept. These rules are a continuous dynamic both legally and for tax and accounting. It should be noted that internal rules are sometimes more conservative than those of European Union countries, so it is recommended to be reconsidered levels of debt eligible for leasing companies to increase their, and relaxation of the provisions in the calculation procedure the degree of risk.

1.1. The preference for leasing

The ability of a lessor to repossessed an asset is an important benefit of leasing. This ability to repossessed allows the lessor to extend the loan compared to a creditor who claims securities for the same asset. Lending capacity of leasing is greater than the capacity given by a bank credit loan. So, leasing is preferred by companies with financial limitations. [14]

The main argument for leasing, offered by the leasing companies are to: conserve money, offer 100% financing or maintaining credit lines. The fact that the lease exceeds the borrowing capacity of credit borrowing capacity was considered an aberration in the academic literature [7].

Leasing offers almost "100% financing", and equity tenant needs to cover only a period of use. The issue of the contract for lessor is critical, involving amounts in advance for their best leasing contracts, which means that a capital leasing market improves security constraints, but does not remove them.

1.2. Fiscal leasing approach

Tax and accounting classification determines who treats asset as a capital and depreciate it for tax and accounting aims. There is a connection between the different classification. Operating leases are usually true leases for tax and legal purposes. Capital leases are often considered conditional sales contracts for tax purposes with two important caveats. First, a lease with a term exceeding 75% of the asset's economic life but not exceeding 80% will be a capital lease for accounting purposes but a true lease for tax purposes. Second, by making different assumptions about economic life, residual value, and so on for accounting and tax purposes, a lessee has some additional leeway to have a capital lease treated as a true lease for tax purposes. Importantly, whether a lease is considered a true lease for tax purposes or an operating lease for accounting purposes may affect how it will be characterized for legal purposes and hence may affect its treatment in bankruptcy.[8]

2. Bank loan concept approach

About bank loan we can say that is obtained under a contract whereby a bank (similar institution), called the lender undertakes to provide a natural or legal persons, called borrowed a sum of money (credit).[15] The analysis made by the bank for lending take into account the business, focusing on its economic and financial aspects, although, non-financial aspects are sometimes more important in lending decision.

Studies on capital structure attempts to explain how the company trains its funding structure. One can say that there is no universal theory on the structure, but may be mentioned that some of them are still marked and tested on various savings. Thus, the trade-off theory says that firms seek that level of borrowing to balance the tax advantages given by the ratio between debt and costs associated with financial difficulties or bankruptcy. This theory talks about the tax paying companies that have a moderate level of indebtedness.

Pecking order theory argues that firms will borrow, avoiding the issue of shares when their sources are insufficient to finance profitable investment opportunities. In these circumstances, a borrowed company forward, on the one hand, a signal failure of own funds, but also one of the existence of profitable investment projects it wishes to exploit.

Equilibrium theory developed by Modigliani and Miller (1963), indebted companies positioned in the opposite advantage not-indebted. Miller (1977) argues that these tax savings are lost as leverage of the Company indebtedness increase.

The existence of a positive correlation between leverage and size of turnover can be explained by: low bankruptcy costs, better diversification of business risks and therefore more likely that the firm could receive credits, which claims the applicability of trade-off theory in Romania.

When the presence of foreign banks is substantial, access to credit for small and start-ups can shrink, but the net impact of these must not be negative. Company size is a common measure by which the company has access to external funds. Small firms are expected to increase faster. If foreign banks

have difficulties in managing information or choose to focus on large firms, small businesses and increase their ability to increase the debt can be braked.[10]

3. The impact of indebtedness on income tax

Even if are measured very precisely, the tax rates are endogenous to debt policy, which can have important effects on tax research. When a company is indebt, the taxable income decrease, which causes a reduction in tax rate. The volume of debt grows, the more the marginal tax rate reduction. Therefore, if a debt ratio decreases on the marginal tax rate, endogeneity of corporate tax status can impose a negative bias on the tax rate. This could explain the negative tax coefficient found in some specifications [11].

There are two solutions to the problem of endogenous. Mackie-Mason (1990) proposed the first solution by looking at debt versus capital growth decision (rather than the debt) in the 1747 tests conducted between 1977 and 1987 [7]. The level of debt (such as debt ratios) are the culmination of many historic decisions that may affect the financial choice in light of the influence taxes. Detecting the effects of tax incremental approach requires the firm to make the appropriate choice of borrowing capital, given its current position and not necessarily return the optimal loan structure with each issue (as given in many studies the level of debt). To avoid making the endogenous debt marginal tax rate, Mackie-Mason used marginal tax rate to explain the financial decision for current period. He finds a positive relationship between increased borrowing and tax rates. Bianco (2006) argues that firms do not take into account the marginal tax rate when making incremental decisions, but rather take into account how far is the marginal tax rate of optimal marginal tax rate. Given the level of the tax rate constant, Bianco showed that firms with tax rates above the optimum level are those excessive indebt. The difficulty of this approach is that Bianco uses a optimal marginal tax rate taken incidentally.

If taxes exert a positive influence on each financing decision, then the sum of these decisions should appear in an analysis of current debt levels that could set a negative

effect on tax rates induced by the use of endogenous cumulative debt. A second approach to determining the endogeneity problem is to measure the rates of taxation for financing decisions. Graham and Tucker (2006) measured the tax rates before financing (based on earnings before interest deduction). They found a positive relationship between debt value (endogeneity corrected) and tax rates.

4. Research methodology

To highlight the tax effects of leasing versus bank loan financing have been examined 32 companies with head offices in Romania, from various economic sectors. Were analyzed each company's financial statements for the last two years (2009 and 2010).

Based on the actual situation of the last year, has made a simulation to see what financing options offer more favorable tax effects on society, taking into account the following assumptions:

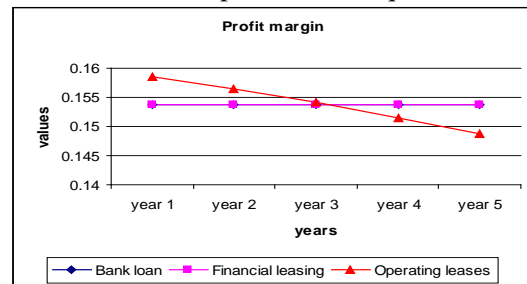
- amount of funding required is 700.000 lei
- the cost of financing is the same
- funding period is 5 years
- depreciation is linear
- the turnover, costs of materials and services from third parties and staff costs remain constant,

I tried to observe the influence that one has the interest rate on loans to. From a practical perspective it was difficult, the lack of data forcing me to just summarize the analysis of the influence of the interest rate for loans recorded on the volume of bank loans. I only used data on the volume of loans to non-bank and non-governmental customers, both in domestic and non-currency, statistical data being provided by the National Bank of Romania.

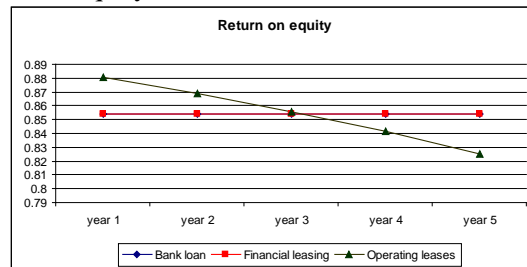
5. Research results

In terms of taxation and the impact on the financial statements, bank credit is synonymous with financial leasing. The effect that has on the financial accounting of leasing as an operating lease rather than finance lease, the lessee's financial statements can be summarized as follows:

- accounting for operating leases relate to lease payments in the income statement as rent expense,
- to finance lease rental costs are lower and the depreciation are higher,
- operating leases recorded in the first 2-3 years, a better net result, therefore a better profit margin, then it drops under the finance lease, and finally averaged over the entire period to be equal,



- same situation happens in case of return of equity



- for operating leases, higher return on assets for the entire period analyzed, as well as in the case of rotational speed of the assets

Following interest rate calculations on the influence of the credit, I have less accurate results from a macro perspective, when the interest rate rises by one percentage point increase in loan volume 1180,523 millions lei (ROL for analysis) and decreases to 2731,881 millions lei (the analysis of currency). Economically, the credit is positive independently (with a very large amount) and interest rate developments affect different amount of loans.

In reality, the credit volume is affected by a variety of other factors, which in this model took into account only the residual variable, which leads to an incorrectly sized approach on real macroeconomic mechanisms.

6. Conclusions

The analysis undertaken was based on financial data from company accounts for 32 per 2009 and 2010 in accordance with the Accounting Law No. 82/1991 republished with subsequent completions and modifications, and with the order M. F. No. 1752/2005 on the approval of accounting regulations harmonized with the Fourth Directive of the European Economic Community.

Starting from the premise that the amount of funding required is 700.000 lei, the cost of financing is the same, funding period is 5 years, depreciation is linear, turnover, costs of materials and services from third parties and staff costs remain constant, there was no tax difference in results between the funding by through bank credit and financial leasing. Basically, in the analysis, the concept of bank credit has been assimilated by leasing, because there were no differences in results.

Going to different tax treatment of financial leases compared to operating leases have found differences in the results, differences at the end of the reporting period were eliminated each other. They were:

- at the profit margin, operating leases has resulted in higher expense in the early years because the rent was less than the total reported expense under finance lease method,
- at the rotational speed of the assets, operating leases has resulted in more active because there is no lease registered under the operational method,
- at the rate of immediate liquidity, operational leasing has had greater results because, under the operational method, in balance is not added any short-term debt,
- in the case of indebtedness, operating leases has resulted in lower because, as the operational method does not lead to the creation of debt. In the case of financial leasing is higher, but decreases over time because it decreases the obligation lease,
- at return on assets, operating leases has higher resulted in the early years because of higher profits and lower current. This effect can be canceled at the end, because in case of financial

leasing, while increasing return on assets based on an upward trend in the results, coupled with a decline in assets when are amortized,

- at return on equity, operating leases has resulted in higher early because the results were higher. Same as return on assets, and this effect is canceled at the end.

We can say that, from a legal perspective, there aren't favorable differences in the economic and fiscal results for a form of financing. The decision to choose for leasing or purchase a good by resorting to bank credit must be substantiated by comparing the costs of financing for the two alternative and to choice that sources of funding at lower cost. It also requires an analysis of the debt, borrowing impact that the financial return, so the final result to be to maximize enterprise value.

The study on the impact of interest rate of loans is noted that the interest rate does not affect the volume of loans, but there are other factors, not taken into account, that leading to a large extent its evolution.

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The Usability of the Dashboard and of the Balanced Scorecard in the Context of Decision Making

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Abstract

Managers are using a large volume of accounting data and information in order to substantiate their decisions-making. The dashboard translates the strategy of an entity into a set of performance indicators that ensure the frame for strategy implementation. The Balanced Scorecard provides managers with a process to describe strategy – both what the organization wants to accomplish and how it intends to realize its strategic outcomes. Taking all the objectives and measures together into a strategy map of cause-and-effect relationship across the four perspectives provides a comprehensive picture of the organization’s value creating activities.

Key words: dashboard, balanced scorecard, decision-making, strategy.

J.E.L. classification: M41.

1. Introduction

In today’s era, economical entities are continuously faced with changes generated by globalization, technical advancement, and access to information. Running such an entity and solving the various issues presented by the production and economical and financial activities, involves permanently enacting effective and scientific decisions.

In terms of management, the economical entity encompasses a chorus of subsystems: the decision making subsystem, the operational subsystem and the informational subsystem.

In essence, by decision making subsystem we define an ensemble of decisions, adopted and applied within an

organization, structured according to the total of objectives and of the governing hierarchy. It is necessary that, within the decision making subsystem, there be a performance analysis system, whose design commands the resolve of, mainly, the following issues:

- The assignation of organizational subunits that must receive information referring to achieved performances;
- Establishing centers for decisions and ways of presentation for information regarding activities being led;
- Coordinating organizational subunits that receive information concerning performances achieved in the operational system.

By using the dashboard and the balanced scorecard you can solve these issues, identify the relation between component subsystems and highlight relevant information that allow the decision making subsystem to achieve objectives.

2. The dashboard

The dashboard is a governing tool that encompasses a set of relevant and strategic information regarding the area being governed, presented in a set synthetic form, which provides for a very well conditioned need for information. The dashboard is recommended in the case of small and medium size enterprises and answers to the needs of operating managers in making decisions.

The role of the dashboard is that of ensuring fast, operational and complete information of the managers. The effect of applying this management technique is the growth in governing efficiency. The most important functions of the dashboard are:

- the information function: supplying information to the manager;

- the alarm function: reading situations that are out of the normal grid (the dashboard highlights the entity's alert points);
- the diagnosis function: evaluating the state of the system being governed;
- the decision making function: relevant information strategically sent to managers set in various hierarchical positions, allow the substantiation and enactment of adequate decisions that will eliminate negative aspects and generalize positive ones.

Structurally speaking, the dashboard should answer to some *specific demands*, such as:

- *consistency*: the dashboard must contain relevant, synthetic and exact information, about the areas being governed;
- *rigor*: by concentrating information in the dashboard on faithfully rendering phenomena and economical processes and transmitting them in real time;
- *aggregation*: inserting information with various degrees of adaptation based on the hierarchical level of the manager benefitting the dashboard;
- *accessibility*: a configuration of information that allows easy apprehension and fast and complex use;
- *balancing*: implies forming a structure of information that aptly reflects the proportion of various phenomena and processes;
- *emphasis*: implies a more suggestive presentation of information, using charts and tables;
- *flexibility*: refers to the possibility of adjusting the structure of information according to interceding changes;
- *economy*: the efforts of establishing the dashboard must be justified by the effects of its use.

Information concerning the results obtained in the governed area may be highlighted with the help of:

1) **Tables of values** that contain information about the provisioned level of the objectives, the level of results recorded in a given period, the differences between objectives and results, the achievement percentage of the objectives and the causes that generated negative or positive deflections. Objectives and results are expressed through indicators and the degree of achievement of these objectives is determined by relating the result to the provisioned level (highlights the percentage by which the objective was

achieved). The incidents that may endanger the achievement of the motioned objectives are presented in a precise and swift manner. Entities use several types of indicators: quantitative or volume indicators; effort indicators; production costs, permanent capital, personnel number, salaries, current assets stocks; effects indicators; profit, turnover, manufactured goods production, physical production, total income; quality or efficiency indicators: work productivity, medium salary, productivity rates, liquidity and solvency, treasury rate, the rotation speed of current assets.

2) **Charts** that illustrate some indicators' trends over a certain period of time. Information contained in the dashboard must be centered on concise and effective responsibilities, expressed in numbers and observed using the chart method.

3) **Mixed forms**: charts and tables of values.

The usability of the dashboard in managerial analyses and decisions may be synthesized as such:

- it integrates the information needed by management;
- by using it, managers establish immediate objectives, follow and validate achievements in relation to provisions;
- it is an instrument used to control the management of the entity and analyze economical and financial indicators;
- it is an instrument used to follow up on activities run by various responsibility hubs;
- it's comprised of indicators, information that attracts the respondents' attention toward the key points to follow;
- offers managers the possibility to focus their actions on several areas of activity and set objectives for these areas, entrusted to certain responsibility hubs;
- it highlights the alert points of the entity.

The advantages and disadvantages of the dashboard's usability

Among the advantages of this governing instrument we point out: the facilitation of a better foundation for decisions; saving the manager's work time; approaching information from a systemic point of view; offering valid criteria for personnel evaluation.

Among the disadvantages of the dashboard we mention: favoring redundancy in the informational system, by repeatedly recording the same information categories;

the relatively high use of time and resources for the development of the dashboard and implicitly a proportionally high cost.

3. The balanced scorecard

Management accounting offers reports that help managers follow the progress made in strategy implementation. Since the early 90's, American companies have been using a new steering and performance tracking tool: **the balanced scorecard**. Currently it is being adopted by companies worldwide, to manage the implementation of their strategies, as it is based on a concept according to which "strategy is transcribed into action".

The balanced scorecard transcribes the mission and strategy of an entity into a set of performance indicators that ensure the framework for implementing the strategy.

3.1. Strategy implementation

The strategy of an enterprise determines the way in which it harmonizes abilities with market opportunities in order to reach its objectives. When it formulates a strategy, an entity must make the most of understanding the particularity of the branch in which it activates, by analyzing five determining forces:

- competitors
- potential participants to the market
- equivalent products
- the customers' force of negotiation
- the suppliers' force of negotiation in supplying the production factors

The base effect of these forces influences such an entity's potential for profit. Generally, this decreases along with the growth of competition, the emergence of newer, more powerful companies, of similar products and more demanding suppliers.

The balanced scorecard focuses not only on reaching financial goals, but also on highlighting non-financial objectives that an organization must reach in order to fulfill its financial targets.

This situation balances the use of financial and non-financial indicators with the purpose of evaluating short term and long term performances in one single report. Thus, managers direct their attention on more than short term performances, such as quarterly

proceeds, due to the fact that non-financial and operational indicators measure the changes that a company can achieve on the long run. The benefits of these long term changes may not immediately be reflected in short term profits, but the solid improvements of non-financial indicators represent an indicator for creating future economical value. By balancing the percentage of financial and non-financial indicators, the balanced scorecard increases the management's attention on short term performances as well as long term goals.

At the beginning of the year, in a balanced scorecard, the enterprise must present its objectives, indicators, initiatives and actions that it must undertake in order to reach its objectives and target performances. The target levels of performance for non-financial indicators are based on reference-indicators in relation to competition. These indicate the levels of performance necessary to deal with customers' needs, in order to obtain efficiency on a competitive level and reach financial objectives; it is not enough for the entity to aim at obtaining better-than-before-results. The last column of the scorecard shows the real level of performances at the end of the year.

The balanced scorecard measures an entity's performances in four directions:

1. *The financial perspective*

This perspective evaluates the profitability of the strategy. The most commonly used indicators are: the exploitation profit, income growth, income obtained from new products, percentage marginal share, cost reduction in key areas, added economical value, investment profitability.

2. *The clients' perspective*

This perspective indicates the target market segments and measures the entity's success on these segments. In order to monitor development objectives, entities use indicators such as market share, the number of new clients, the customers' level of satisfaction, the level of customer continence, the time necessary to cover customer demands and the number of customer complaints.

3. *The perspective of the internal economical process*

This perspective focuses on operations that carry on the client's perspective by

creating customer value and financial outlook, increasing shareholders' value. The indicators used are categorized based on three sub-actions:

- *the innovation process*: abilities concerning production, the number of new products or services, development time for new products and the number of new patents.
- *the operational process*: efficiency, the number of defects, the time necessary to deliver the product to the customer, the percentage of real time deliveries, the average time necessary to realize production according to demands, the necessary time for assembly and adjustment and the actual production time.
- *post-sale services*: necessary time for replacement or repair of defective products, customer training sessions to show the proper use of the product.

4. Learning and growth perspective (expertise development)

This perspective establishes the abilities which the organization must excel in, in order to bring betterment to internal economical processes, which in return lead to a higher customer satisfaction and higher market shares and ultimately to superior financial performance. The indicators used here are employee training and qualification levels, numbers that indicate employee satisfaction levels, employee efficiency, the availability of informational systems, the number of advanced controls processes and the percentage of implemented employee suggestions.

The indicators used for performance evaluation in either of these directions must be a tightly linked to the strategy of the entity. Thus, assuming that the strategy is well planned, the entity focuses on actions that must be launched in order to achieve success.

The main characteristics of a balanced scorecard are:

- it presents the strategy of an entity through a series of consecutive cause-effect relations, meaning the connections between the various perspectives that describe the way in which the strategy will be implemented. Each indicator is part of a cause and effect chain reaction, starting with formulating the strategy and ending with financial results.
- it helps communicate the strategy to all the members of the enterprise by translating

the strategy into a coherent and well adjusted set of exploitation objectives, which is easy to measure and comprehend. With the guide of the balanced scorecard, managers and employees act and make decisions toward the implementation of the strategy.

- the balanced scorecard limits the number of indicators, only identifying the most important ones. The purpose is that of attracting managers' attention to the indicators that best affect the implementation of the strategy.

- in profit oriented companies, the focus lies on financial objectives and indicators. A balanced scorecard highlights the financial indicators as part of a program in order to reach future financial performances. When financial and non-financial performance indicators are tightly linked, most non-financial indicators serve as indicators for future financial performance.

3.2. Evaluating the success of a strategy

In order to evaluate the success of implementing the strategy, an entity compares the target performances with actual performances on the balance scorecard.

Some entities are tempted to highlight the success of their strategies by measuring the annual changes of the exploitation profit. This approach is not adequate, as the exploitation profit may grow either as a result of general development of markets, or due to other agents independent of the strategy. This is why managers and accountants must evaluate the success of a strategy by making the connection between the sources of the increase in exploitation profits and strategy.

The management accountant makes a thorough analysis of the exploitation profit giving managers more information in order to evaluate policies and thus, adds value to the management team in evaluating the efficiency of strategy implementation.

In order to realize this analysis, the modification of the exploitation profit can be divided as such:

- *the growth component*: measures the change of incomes and costs after the sale of a larger or smaller number of units, assuming that the prices, efficiency and production capacity remain unchanged;

- *the price recovery component*: measures the modification of incomes and costs as an effect of the change in the prices of production and production factors. An entity that has successfully implemented a strategy to differentiate the product will manage to up production costs faster than the production factors' prices, thus increasing the profit margins and the exploitation profit, recording a positive value of the price recovery component.

- *the productivity component*: measures the prices' decrease, as an effect of the production capacity reduction and the use of a small number of production factors. An entity that has successfully implemented a cost leader strategy will be able to realize a certain amount of production with a smaller amount of production factors, recording a positive value of the productivity component.

It is considered that an entity has successfully implemented its strategy when the value of the components apposite to product differentiation, the cost leader position and exploitation profit growth is regular to the strategy in question.

4. Conclusions

Even if financial situations are considered the main ways of transmitting accounting information to users, it is because they use professional term that are sometimes hard to process, complex accounting terminologies and formal business language that they lost ground to other instruments more accessible to managers

One instrument that is instrumental and more accessible to managers is the dashboard, which translates the strategy of an entity into a set of performance indicators that ensure the frame for strategy implementation. The dashboard synthesizes information needed for decision making and informs decision makers of the way in which

phenomena, (particular to the activities taking place) are evolving, and turns their attention to the key points to be followed. With the help of the dashboard entities establish immediate objectives, validate achievements in relation to provisions, measure the road covered, but also that left to travel in order to reach objectives and highlight the sensitive spots of the activity.

Unlike the dashboard, the balanced scorecard contains pertinent operational indicators that only follow the implementation of the entity's strategy, focuses on the strategy not control. The balanced scorecard is a complex instrument for measuring and managing performance, by ensuring balance between: short term and long term (it identifies the sources of long term success and leads to a short term decision), the outside and inside of the entity (considers external objectives – clients and internal objectives – the personnel, which it analyzes within internal processes), value and cost (leads to cost management from the perspective of generating customer value) and between the financial aspect and non-financial aspects of performance.

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The Romanian Property Taxation System

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Abstract

As the economic climate changes towards increased competitiveness within the public sector, the local public administration needs to identify its possible sources of own revenues and to decide on the best manner of collecting these revenues.

In the present paper, the authors critically analyze the taxation system employed nowadays in Romania, focusing on the tax on property. A brief empirical research is conducted, illustrating the evolution of the tax property shares in the national GDP, on the one hand, and in the local government own revenues, on the other hand.

The last part of the paper is reserved for the comparative analysis of the methodologies used in establishing the level of the property tax, debating with respect to the best methodology to be employed, concluding in favour of the value-based assessment.

Key words: local taxation, property tax, area-based assessment, value-based assessment.

J.E.L. classification: H71

1. Introduction

Typically, the following main types of local government revenues can be identified: tax revenues, including local taxes or shared national taxes; non-tax revenues and user charges; different types of grants (e.g. general and specific) made available to local government from the central government; and borrowing, e.g. for investment expenditure [11]. As fiscal constraints from the centre begin to harden, own revenue sources are becoming more important to local government [5]. Therefore, local governments begin to show real interest in

having access to their own revenue sources, *i.e.* income for which the level as well as the source are controlled or decided upon by local governments, who also have the liberty to decide their constitution. These are often connected with local taxes and different kind of user charges [7].

The Romanian law regarding local public finances (Law no. 273/2006) holds that own revenues to local budgets consist of taxes and fees and quotas from the Personal Income Tax PIT. These own revenues make up for almost half of the total income to the local budget (see Table 1), which highlights the increase of financial autonomy of a local public authority.

Table 1. Own Revenues as a % of Total Local Government Revenue

2007	2008	2009	2010
47.5	47.3	51.1	50.3

Source: our own findings based on data from the Ministry of Finance

The local taxes and fees are established by the Fiscal Code (Law no. 571/2003), which holds a special part dedicated to them; these are as the following: a) tax on buildings; b) tax on land; c) tax on means of transport; d) fee for the issuance of certificates, permits and authorization; e) fee for using means of advertising and publicity; f) tax on shows; g) hotel fee; h) special fees, and i) other local fees.

The most important own source revenues at LGU in Romania are the revenues from property tax. (A note: Property falls into two categories: immovable (or 'real') property (land, buildings, and other constructions or 'improvements' to the land), and movable property (which is subdivided into tangible and intangible property). This study will only deal with taxes on immovable property, or land and buildings.

The relative importance of the property tax, however, varies significantly across countries. In the US property tax revenues equal about 3 percent of GDP; 4 percent in Canada. For OECD countries, property tax revenues account for 2.1 percent of GDP, while in developing countries property tax revenue account for just 0.6 percent of GDP and in transition countries just 0.68 percent [3].

Romania, as a developing country, follows the same pattern (see table 2).

Table 2. Share of Revenues from Property Tax in Romania in GDP

2006	2007	2008	2009	2010
0.75	0.75	0.65	0.66	0.74

Source: our own findings based on data from the Ministry of Finance

Despite its relatively modest yield, the property tax is significant both from the tax policy and from the political perspectives. Above all, the property tax provides a high degree of fiscal autonomy for local governments because the amount of tax can be controlled by the local government.

Table 3. Property Tax as Percent of Local Revenues (Romania)

2006	2007	2008	2009	2010
9.08	8.00	7.18	7.11	7.59

Source: our own findings based on data from the Ministry of Finance

2. Short overview of the Romanian Property Tax System

From the local taxes point of view, in Romania there are 6 ranks attributed to localities, as follows: rank 0 – the Romanian capital, rank I – municipalities of national importance; rank II – municipalities of county or inter-county importance ; rank III – towns; rank IV – locality residence villages; rank V – villages which are components of localities or belong to municipalities or towns. Therefore, ranks 0 to III refer to the urban areas, and ranks IV and V to the rural areas. The locations (zones) inside localities are established by the local council, according to the position of the land against the centre of the locality, to urban networks, as well as according to other elements specific to the administrative units, which

can influence the value of the land. The identification of the areas is done with the letters A, B, C and D.

A. Tax on land

Any person who owns land that is located in Romania pays the *tax on land*, and concessionaires, tenants, users or administrators of state-owned land pay the *fee on land*, calculated similarly with the tax on land.

The tax base is the area of the land, inside and outside municipalities' limits (for the land situated both inside and outside the built-up areas). (The Romanian term „intravilan” means within the built-up areas/incorporated area, and „extravilan” means outside the build-up areas / incorporated areas).

Tax rates are established by the central government as unit price per hectare. The tax level differs according to the rank of the locality, location (zone) inside locality, and/or use category of the land. Therefore, the ranking system may be represented in a 4×6 matrix, with location A-0 ranking highest and location D-V ranking lowest.

For land located in the intravilan and registered in the agricultural registry under the construction land use category, the tax ranges from lei 8,921 per hectare (EUR 2,124) for location A-0 to lei 153 per hectare (EUR 36) for location D-V.

For land located in the intravilan and registered in the agricultural registry for use other than land with construction, tax rates are determined first by use category and zone assignment, and then by a correction coefficient reflecting the rank of locality. Agricultural land breaks down into nine use categories (arable land, grazing field, hay field, vineyard, orchard, forest or other land with forest vegetation, land with water, roads and railways, unproductive land) and a tax rate is specified for each category associated with each zone. The correction coefficient for the rank of locality ranges from 8.00 to 1.00.

For land located in the extravilan tax rates are determined first by use category and zone assignment, and then by a correction coefficient reflecting the rank of the locality. The extravilan land breaks down into ten use categories (on top of the use categories stipulated for land located in the intravilan and registered in the agricultural registry for

use other than land with construction, construction land category is also stipulated) and a tax rate is specified for each category associated with each zone. The correction coefficient for the rank of locality ranges from 2.60 to 0.90.

B. Tax on buildings

Any person that owns buildings located in Romania pay an annual tax on buildings, and legal persons as concessionaires, tenants, users and administrators of state-owned buildings pay the fee on buildings. A building is any construction situated above ground and/or under ground, regardless of its name or use, and which has one or several rooms which can store people, animals, objects, products, materials, installations, equipment and others alike, as well as its basic structural elements, such as walls and ceiling, regardless of the materials they are made of.

Romanian property tax law faces a differentiation between natural (physical) and legal persons regarding the computation of tax on buildings.

Computation of tax on buildings for natural persons

The tax on buildings is computed by applying the rate of tax (de 0.1%) to the taxable value of the building. The taxable value of the building is determined by multiplying its built area by the taxable value per square meter; this value is then adjusted by multiplying it with a correction coefficient. The taxable value per square meter differs according to the construction materials used for the exterior walls, as well as according to the building facilities/infrastructure. For example, for a building with reinforced concrete frames or with exterior walls made of burnt bricks or any other materials resulted from a thermal and/or chemical treatment, which has electrical wiring, and water, sewage and thermal plumbing, (these are cumulative conditions), the taxable value is lei 806 per square meter (EUR 192), and for buildings with exterior walls made of wood, natural rock, un-burnt bricks, rolls or any other materials which have not been subjected to a thermal and/or chemical treatment and which does not meet at least one of the cumulative conditions presented above, the taxable value is lei 137 per square meter (EUR 33).

The taxable value of the building will be adjusted based on the location of the building. The correction coefficient ranges from 2.6 to 2.00 for urban areas and from 1.10 to 0.90 for rural areas. In the case of an apartment located in an apartment building with more than three floors and eight apartments, the correction coefficient will be reduced by 0.10. For a natural person, the taxable value of the building is reduced by 20% for buildings older than 50 years or by 10% for buildings older than 30 years, at the date of the 1st of January of the reference fiscal year. If the building used as a home has a built area larger than 150 square meters, the taxable value is increased by 5% for each 50 square meters or fraction.

The law provides for progressively higher tax burden to be placed on natural (physical) persons who own more than one building in the country. Therefore, the tax on buildings increases as follows: a) by 65% for the first building other than the address of domicile; b) by 150% for the second building other than the address of domicile; c) by 300% for the third and additional building other than the address of domicile.

Computation of tax on buildings for legal persons

In the case of legal persons, the tax on building is computed by applying a tax rate to the inventory value of the building. The inventory value of the building is the entry value of the building in the patrimony, recorded in the accounting system of the owner of the building. The tax rate is established by a decision of the local council and may vary between 0.25% and 1.50%, inclusively, but if the building has not been reevaluated in the last three years prior to the reference fiscal year, the tax rate may be between 5% and 10%. In the case of a building whose value was entirely recovered by means of depreciation, the taxable value is to be reduced by 15%.

After this brief overview of the Romanian (immovable) property taxation system, we can say that Romania has one of the most heterogeneous systems there are.

Therefore, in the case of the land tax, the approach adopted by Romania is the area-based assessment, regardless of the land owner's judicial form. In the case of the building tax, the assessed value is different according to whether the owner is a physical

or legal person. In the case of physical persons an area-based assessment is used, and in the case of legal persons a value-based assessment is used. The distinction may have more to do with policy objectives, such as preferential taxation of residential property, or with practical consideration (enterprises may have better records of their assets) [1]. Further more, in the case of the building tax, not only the assessment methodologies differ, but also the tax rate applied to these assessed values. In the case of physical persons, the tax rate is set by the central government by law, respectively 0.1%, and in the case of legal persons, it can be observed that the local council has the discretion to set the rate between the limits approved by law, respectively between 0.25% and 1.5%. This system gives local government the power to manage the distribution of the tax burden across property classes within their jurisdiction in addition to determining the size of the overall tax burden on taxpayers [6].

A common feature of the taxes on land and buildings owned by households is that they are based on area assessment. We have to observe that the area-assessment used is not in its purest form, *i.e.* it does not take into consideration any variation in the assessment base to reflect location, market condition, or quality of structures [9]. What is used is a hybrid form of area-based assessment, where the physical area is used as a key input in value mass appraisals [2].

In Romania two the government makes adjustments for varying characteristics of property in order to enhance tax fairness. Area valuation can be adjusted with rate differentials or adjustment coefficient. Rate differentials are based on categories of characteristics that have different rates for different characteristics. To calculate the tax owed for a parcel of land, the government multiplies the rate (amount per square meter) by a number of square meters the parcel of land covers. Adjustment coefficients are based on the same concept as rate differentials, *i.e.* variation according to characteristics, but are used differently in calculation. The coefficient for each characteristics act as a multiplier to a base value. The base value is the starting value per square meter of land or building, which is multiplied by coefficients representing

location, zone, infrastructure, etc. [8]. Romania uses both rate differentials and adjustment coefficient in the area-based valuation method. For example, in Romania 5 adjustment factors are used, meaning 4 rate differentials and 1 adjustment coefficient. It is interesting to note that, according to [8], total adjustment made average 5 per country and range from 0 to 30 per country.

Therefore, through the application of adjustment factors, the market value has an indirect influence on the assessment base [6]. These adjustment factors are derived from average values for groups of properties within each zone, but do not reflect the characteristics of each individual property. When the groups are defined narrowly enough, however, unit value begins to approximate market value [6].

Unit assessment requires both an initial determination of value per square meter and, as circumstances change, subsequent adjustments of this value [9]. How is this initial value to be determined and how will the adjustments be made? Is the determination to be made by a bureaucrat or is to be left to the market? If it is made by a bureaucrat, it may be arbitrary and unfair. If it is made by the market, why not simply use the market value of the property instead – as in market value assessment? Starting from these questions posed by [9] we will show the assessment methodologies used for property taxation, whilst trying to find the answer to another question: Which tax base is best for Romania?

3. Property taxation computation methodologies

In general, two distinct assessment methodologies are used for property taxation: area-based assessment and value-based assessment [2].

Area-based assessment (or non-value). Under an area-based assessment system, a charge is levied per square meter of land area, per square meter of building, or some combination of the two. The assessment rates may be the same for land and buildings, or they may be different. Simply, under area-based property tax systems, taxes are determined by multiplying a measurement of area by a rate.

Value-based assessment. When a measure of value is the basis for a property tax, there are several options: capital and rental value approach [10].

Market-value (or capital value) assessment estimates the value that the market places on individual properties. According to [6], market value is defined „as the price that would be struck between a willing buyer and a willing seller in an arm’s length transaction”. For estimating market value, the following methods can be used [6]:

- The comparable sales approach looks at valid sales of properties that are similar to the property being assessed. It is used when the market is active and similar properties are being sold.
- The depreciated cost approach values the property by estimating the land value as if it were vacant and adding the cost replacing the buildings and other improvements to that value. The cost approach is used when the property is relatively new, there are no comparable sales, and the improvements are relatively unique. The cost approach is also normally used to assess industrial properties.
- Under the income approach, the assessor estimates the potential gross rental income the property could produce and deducts operating expenditures. The resulting annual net operating income is converted to a capital value using a capitalization rate. This approach is used mainly for properties with actual rental income.

Under the rental value (or annual value) approach, property is assessed according to estimated (not actual) rental value or net rent. An argument in favor of rental value use is that taxes are paid from income (a flow) rather than from wealth (a stock) and thus it is appropriate to tax the net rental value of real property. In theory, however, there should be no difference between a tax on market value and a tax on rental value.

These two fundamental approaches to property taxation can be synthesized as follows: under an area-based approach, each parcel is taxed at a specific rate, per area unit of land and per area unit of structures; by contract, under a capital value approach, each parcel is valued at a specific rate, per area unit of land and per area unit of structures.

The area-based approach to property taxation in developing countries has caught on, and is now used in at least 38 countries [12].

4. Which tax base is best ?

According to [4], an are-based property tax

- Scores well in terms of revenue stability and predictability;
- May not generate adequate revenues to fund locally provided goods and services compared to the ad valorem property tax;
- May be somewhat more neutral than a market value based property tax with regard to the portion of the tax falling on structures;
- May be simpler to administer than a market value based property tax system, even if there is some level of self-assessment involved; and
- May be somewhat equitable from the perspective of the benefit received principle of taxation, while an ad valorem property tax is generally considered to score better on equity grounds from the perspective of the ability-to-pay principle of taxation.

A summary of the strengths and weaknesses of an area-based property tax, vis-a-vis an ad valorem property tax, are presented in table 4.

Table 4. Evaluation of Two Property Tax Form Under Traditional Criteria

Criteria	Area-based Tax	Value-based Tax
Revenue productivity	+, -	+, -
Neutrality	+, -	+, -
Simplicity	+	-
Equity	-	+, -

Source: [4], p. 369

The market value is generally regarded as a better tax base. First, the benefits from local public services are more closely reflected in property values than in the size of the property [9]. Second, market value has the advantage of capturing the amenities of the neighborhood, amenities that have often crated by government expenditures and

policies.

The dominant approach to property taxation in developed countries is based on the market value of property [12], but the area-based assessment is commonly used in Central and Eastern Europe [6].

Which is the Best Practice? There is no easy answer and certainly no general agreement among either analysts or policy maker. If the test for "best" is the most common practice in developing countries, then the preference would seem to be for a capital value system where both land and improvements are taxed [2]. However, a prerequisite of an ad valorem property tax is an open, active, and healthy property market for the full range of property types to be taxed and therefore valued. It is clear that Romania has not yet achieved such a property market, at least not across the entire country (such a market seems to operate in the capital and in some large cities). Another problem Romania faces has to do with retrocessions, if we take into account the fact that here, as opposed to other ex-communist countries, the property restitution process is still far from finished. The introduction of this "new" base of the property tax is not free from cost. There are major administrative hurdles to be overcome, in terms of responsibilities and professional training for assessment, valuation and collecting. The evidence on values and valuation experience are limited. The absence of reliable data on the sales value of properties is the issue that underlies the valuation problem.

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Transport Time in Tourism... a Value or a Cost ?

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Abstract

As a fundamental component of tourism, transport links between the tourist generating areas and destinations. Therefore, accessibility, who is determined by the quality of existing transport services, is essential in development of any tourist destination. Moreover, the tourism industry can have substantial benefits with increasing demand for a certain way to travel. In this context, travel time is one of the largest categories of transport costs, and time savings are often claimed to be the greatest benefit of transport projects. This paper examines the value of travel time and travel time savings. Various studies have developed estimates of traveltime values for different user types and travel conditions.

Key words: transport, cost, value, travel time

J.E.L. classification: L 83

1. Introduction

Transport services include both transport services for those which use an organized form of tourism, and services rendered to individuals traveling with their own means of transport (maintenance, repairs, gasoline bills granting lower prices, etc..). Therefore, about the level of development of transport and, especially, their organization depends the quality of tourism services and, therefore, the tourist traffic intensity.

Globally, according to studies conducted by the World Tourism Organisation, the period 2006-2008 is distinguished by a sustained development of international tourism receipts, and by increased revenue from tourist transport. However, the revenue

from this activity fell within the range analyzed by 16.8% to 14.7% of total revenue. This can be explained primarily by stronger growth in consumption of specific services, but also by the upward trend of the share of air transport (52% in 2008) of all types of tourist transport, as a result of increased competition and of transformation of low-cost airlines, in many cases, in direct competitors to traditional companies, which led to lower tariffs and thus, the share of transportation revenue.

2. Main categories of users of tourist transport

Tourist transport demand can come from three categories of users, and space for transport can be defined as the area of public and private transport access (including parking spaces, the spaces for cycling and pedestrian):

A. tourists, who can use specialized transport or not;

B. host community: area residents that are directly involved in the tourism industry, and have access to the same transport system as well as tourists and tourism employees;

C. employees in the tourism industry, which may come from the host community or from other regions or areas of the country or even from other countries; they may have special transportation needs because of the unconventional working hours.

For developing the tourist traffic people can rely on a variety of means of transportation: often the movement of tourists requires the combined use of several means of transport, depending on distance to destination, the itinerary features, the condition of communication and their technical infrastructure, the intensity and

seasonality of tourist traffic, the competitiveness of the prices charged for different forms of transport, speed and convenience of travel, etc.

Between the development of tourism and transport industry it is a good relationship: the growth of tourist traffic, and the emergence of various forms of tourism depends on the degree of development of transport and, consequently, the opportunities offered to tourists for the efficient, time and space the various means of transport.

3. Essential requirements for tourist transport

Looking at transport as a constituent and as a prerequisite of conducting business travel, it comes several essential requirements for shipments of interest:

- to ensure the safe, regular and comfortable travel for tourists, the number and the time limit, until the desired destination;
- it is important for travelers, and thanks to the tourism industry as the price of transport to remain as stable as possible;
- rational use of transport capacity, both for the needs of international tourism and domestic tourism and tourist activity during low (low season) the transmission capacity can be more wisely directed and other necessities to cover the national economy.

4. Place of transport services in the tourist arrangements

An important element relates to the relatively high share of transport services in the travel arrangements. In this regard, it is necessary to ensure the correspondence between content services and price levels, as well as their stability or in some cases, facilities / discounts during the low tourist activity. Cost reduction should not be made by reducing service quality, but through a rational use of transport capacity and advanced correspondence between the different modes of transport. Being a sensitive scientific and technical upgrades, improvements are expressed by increasing speed, the comfort, size, capacity, etc. means.

Domestic and international tourism can not thrive today without transport. As a crative element of tourism, transport, and it determines the volume of tourist traffic to its characteristic features prints.

Transport development pace is faster than other factors that influence domestic and international tourism, as, for example, hospitality, etc.. This explains the efforts to encourage companies to transport providers in the development of the material of interest. However, tourist transport is primarily quantified through time (ie the number of hours / days as a share of total travel time) and cost (or revenue).

5. Factors influencing the selection of means of transport

Among the most important factors influencing the selection of means of transport include: time, cost, distance, travel comfort. The total time of a tourist holiday can be decomposed into two components: transmission time (travel) and time of stay. This tourist is interested in rapid journeys, so with a minimum expenditure of time.

Increases in tourist traffic, the problem of achieving rapid transport occupies a special, first, the idea of superior quality to meet the travel needs for a growing number of tourists and, secondly, the effective exploitation of resources transport. Reduce travel time appears as a necessity and due to other tendencies in the development of tourist traffic that is increasing interest in traveling long distances and very long. Optimization of time-distance relationship is an essential element in sizing activity in the transport sphere, the main criterion for assessing the effectiveness and role in tourism development.

The trips must be taken into account the need to associate attributes quickly and conveniently. **Comfort** is an important aspect of tourist interest in stimulating movements, increasingly, tourists want to have, during the voyage, all the conveniences of modern civilization. Aims to offer comfort conditions inside the vehicles (the possibility of rest, relaxation, dining), but other elements of travel arrangements, such as providing transportation from the station to your accommodation destination and vice versa, transfer between different modes of transport,

carrying out additional operations (baggage transport, guide services), developing smoothly, even when the combined use of several types of vehicles. Poor quality of transport services and lack of amenities for tourism development act as brakes. However, during the visit is an important element in the decision to vacation in the option for a specific purpose, especially in international tourism.

Table 1.1. *Tendences in Transport Time Valuation*

Name	Description	Implications
Travel Time	Any time devoted to travel.	This is the least specific definition.
Clock Time	Travel time measured objectively.	This is how time is usually quantified.
Perceived Time	Travel time as experienced by users, which can vary greatly from clock time.	This reflects traveler comfort.
Paid (also called On-the-Clock or commercial)	When workers are paid for their travel time(for deliveries, traveling to worksites etc.).	This type of travel tends to have a relatively high value per hour.
Personal Travel Time	Time devoted to personal travel (commuting, errands, etc.).	This is the largest category of time value in most economic studies.
Generalized Costs	Combined travel time and financial costs.	This is how travel time is incorporated into traffic models.
Effective Speed	Total time devoted to travel and paying for transport equipment and services.	Higher costs for more expensive modes.

Source: www.climatechange.gov.au

Another problem of the relationship is underlined by the tourism and transport costs influence. Transport, as a tourism service, is not only the possibility of access to tourist

consumption, but also an important component of it.

Constituent part of the overall price of the holiday, with weights ranging between ¼ and ½ of the total, according to the type of tourism, transport type, the means used, season, distance from the place of origin and destination of tourists, the fuel market situation, etc., directly influences the cost of transport services and, in a great proportion, the general level of prices and indirect demand for vacation travel.

Thus, scientists have defined the value of travel time (VTT The Value of Travel Time) as the cost of time spent on transport, plus the waiting time of travel. Also, the reduction of travel time (The Value of Travel Time Savings VTTS) is the element that refers to the benefits obtained by reducing this time¹.

Time spent in travel is one of the most representative categories of transport costs, reduce it constituted an important benefit of transportation projects in the area (such as highways, transit facilities upgrading etc.). Factors such as passenger comfort or safety of travel can be quantified by adjusting the cost of travel time.

One can appreciate that time is an objective assessment of physical, cognitive unlike during which defines the way in which passengers travel experience (table nr.1.1.). Paid time costs are calculated according to the physical time, personal time and travel costs are calculated on the basis of cognitive time. Generalized costs and financial costs of incorporating the amount of time and the actual speed (also called social speed) refers to the total speed of travel, which includes both time spent in travel, but not for maintenance of vehicles and the value of travel expenses.

Costs of travel time can vary from one segment to another in the journey. Thus, walking to the bus station, waiting for the bus, traveling with a crowded bus or with the number of passengers is less than the seating means of travel segments which are treated separately in terms of cost.

Total travel time costs are dependent not least and passenger needs and preferences.

¹ Les Lumsdon, Stephen J. Page, *Tourism and Transport. Issues and Agenda for the New Millennium*, Elsevier Ltd, UK, 2004, p. 57.

Therefore, a plane trip usually involves a trip costs differ from the same route by train or other means of transport. It should be noted also that the uncertainty related to the journey of unexpected delays, cancellations, etc. scheduled flights. is always a factor in the additional cost and risk occurrence.

Numerous studies in recent years have quantified the costs of travel time per unit and the reduction of travel time, cost analysis based on the activity itself, a survey among passengers and measuring the behavioral responses of travelers, are reported in conventional units as: time and money.

6. Elements of travel time value

Consequently, the value of travel time elements can be grouped into categories in cost, time (duration), convenience, consumer preferences, encompassing both objective and subjective perception generated by passengers on various aspects of the trip:

A. The costs of travel

- **Business Costs**, including salaries and benefits driver / pilot / conductor etc.. time and amount of use of the transposed transport costs, reflecting the efficient use of the properties and ability to meet a predetermined schedule;

- **Travel Time Costs**, which are experiencing a trend proportional to individual income, so they are low in children and people without jobs and higher income for those who have a certain, well, they increase with variability and uncertainty of arrival at destination, and are especially high when unexpected delays in the activities with strict schedules, moreover, they are lower for the first segment of the movement, with an increasing trend as the journey time exceeds a certain limit;

- **Means of Travel Costs** (conditions pleasant walking, cycling or expectation may be positive or very low cost, while in bad conditions, costs can be 2-3 times higher).

B. Travel Time

- personal travel time is estimated as having a weighting of 25% -50% of total travel, but may vary depending on the type, the passenger or to the conduct of transport;

- between the physical time measured during cognitive and non-synchronization is often essential, which has the effect of congestion, discomfort and insecurity;

- in some cases, the journey may be associated with lower costs or a positive value, where passengers enjoy the experience itself and are not bound by a strict schedule (any cruise or special train journeys);

C. Travel Preferences can vary:

- journey time;

- the means used;

- Age and experience of tourists (some tourists associated higher costs of time spent in transit, while others believe that the time spent Sofandi is the most expensive).

7. Conclusions

With a complex and dependent on many factors (global market for fuels, infrastructure development, etc..) costs of transport have registered a decline over time, which was reflected in an increase in tourist traffic. Given the nature of the relationship between the two phenomena, and reduction of transport cost on the basis of the overall tourism products - are constant concerns. In this respect, enforce several requirements: conducting a rigorous correlation between price and quality of services (thereby reducing costs must be the result of technical progress, improving organization, rational use of resources rather than quantitative or qualitative reduction of services), ensuring A wide range of prices to levels appropriate for all potential customers and facilities of a system depending on the time, distance, group of tourists.

Therefore the premises creates a wider accessibility, and on this basis is stimulated tourist traffic.

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The Financial Statements, Synthesis of the Compromise between the Accuracy of Enterprise Activities and the Handling of Accounting Information's

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Abstract

All information presented in financial statements must reflect accounting reality in order to satisfy the needs of many different users, among whom there may be conflicts of interest.

Conflicts of interest, together with loopholes in accountancy law, room for maneuver in the creation of accountancy policies, and an accountant's freedom to choose his methods, can lead to managers massaging figures by exploiting so-called creative accounting techniques. The practice of creative accounting for the manipulation of final profit figures is known as outcome management.

These creative accountancy procedures may be restricted through international standardization as well as through the International's Accounting Standards Board (IASB) initiative, which seeks to reduce the number of alternative interpretations and introduce more rigid standards and increased uniformity to accountancy procedures.

Key words: financial statements, information users, accounting reality, creative accounting, outcome management.

J.E.L. classification: M

1. The need for global standardization in financial reporting

Financial accountancy began in Europe from the second half of the 17th century; the earliest known accounting system was launched in France in 1673, where the government introduced an annual audit,

based on true market values, to protect the economy from collapse.

From the 19th century, as a consequence of the industrial revolution, a large concentrated capital investment was required for a number of industrial projects (initially canals and railways), the risk for which was to be shared amongst many investors. In this context, the financial report represented a method of monitoring the activities of component businesses, and keeping shareholders informed regarding the ongoing administration of their investment.

The second half of the 20th century has been characterized by major changes in accountancy regulations. In the context of the powerful tendency towards an international capital market and the appearance of diverse regional accountancy regulatory bodies, representatives of the Institute of Chartered Accountants in England and Wales (ICAEW), and the American Institute of Certified Public Accountants (AICPA), launched the idea of creating an international organization to standardize accountancy, at the 1972 World Congress of Accountants. On the initiative of these two professional bodies, the International Accounting Standards Committee (IASC) came into being on 29 June 1973, in London.

According to its own documentation, the IASC's objectives were:

- To create and publish, in the public interest, accountancy standards to serve as a basis for the presentation of financial statements, and to encourage economic players, at an international level, to accept and respect these standards.
- To conduct business activities with a view to improving and harmonising legislation, accountancy standards, and

procedures relating to the presentation of financial statements.

In order to achieve these objectives, the IASC had by 2000 laid down 39 International Accountancy Standards and the framework for the preparation and presentation of financial statements, while the Standing Interpretations Committee (SIC) had released 17 interpretations of the International Accountancy Standards.

The organisational structure of the IASC as an international watchdog was until 2000 based on professional bodies.

The 1987 agreement between the IASC and the International Organization of Securities Commissions (IOSCO) aimed to create a set of core standards to serve as the minimum requirement imposed by all stock exchanges, this led to the reorganisation of the IASC's structure, in view of the fact that it was to become the recognised regulatory body of the world securities market

After the IASC Council's approval of these recommendations for reorganisation, IOSCO's adoption of IASC standards in May 2000, and the European Commission's announcement in June 2000 that it was to adopt IAS as a requirement for primary evaluation of all EU stock exchanges, IASC members voted in July of the same year to abandon the old structure based on professional bodies, and to adopt a new structure in which standards would be created by a professional council.

In April 2001 the International Accounting Standards Board (IASB) opened for business, its objectives being:

- To develop a single set of high quality universal accountancy standards in the public interest, which are understandable, applicable, and which impose high standards of quality upon information. This should in turn be transparent and comparable in all financial statements and reports, in order to support the economic decisions of participants in the world's capital markets, and other information users
- To promote the use and rigorous application of those standards
- To work proactively with national standards developers, in order to achieve the convergence of national accountancy standards with International Standards of Financial

Reporting, building high quality solutions.

The IASB meets its targets primarily through the creation and publication of the International Financial Reporting Standards (IFRS) and through the promotion of the role of these standards in general financial statements as well as in other more extensive financial reports, with an end to reaching efficient and informed judgements.

International Financial Reporting Standards cover accountancy standards and the interpretation thereof, as approved by the IASB, and formalise the requirements of recognition, evaluation, presentation and description in connection with the important transactions and events characteristic of general financial statements. International Financial Reporting Standards are based on the *Framework* conceived by the former IASC, which tackled the fundamental concepts of information handled in general financial contexts, and consolidated a basis for professional judgements in the resolution of accountancy issues.

International Financial Reporting Standards are intended for general financial statements, as well as the financial reports of profit-making institutions in commerce, industry, financing etc., regardless of the organisational structure of the operation.

2. The interests of users of accounting information and objectivity of financial statements

The principal line of communication between businesses and end users of accountancy data is that of information published in annual financial reports.

Annual financial reports are generated from information provided by accountancy, by way of which the activities of a given business are presented in a manner which enables users to take decisions of economic importance.

Ever since the tendency towards globalisation began to strengthen, and corporate interests began to dominate national economies, accounting systems have been obliged to serve diverse group interests. A hierarchy of priorities has developed in the interests of meeting the information requirements of end users, as fast as accountancy itself has developed. Hence, in

Anglo-saxon countries, investors represent the priority category of user, while in continental Europe accountancy serves a wide range of users in which creditors, and primarily the state, represent the leading categories.

This hierarchy of accountancy information users has brought about the need for harmonisation of practice and procedures through international norms adopted by the majority of countries.

The IASC's *Framework for the Preparation and Presentation of Financial Statements*, envisaged by the IASB, presents the following categories of user: current and potential investors, employees, creditors, suppliers and other commercial creditors, clients, government and governmental institutions, and the general public. According to the position of these users relative to the business in question, they may be classed as *internal or external users*. *Internal users* are principally management personnel within the company. They have responsibility for information release systems, and therefore have access to supplementary information. External users fall into the other categories mentioned in the Framework; according to their authority, they may be able to dictate the nature of the information to which they are privy, as is very much the case with governmental institutions (particularly the fiscal authorities) and banks, while others may be unable to have any say regarding the type of information to which they may obtain access, since they lack the necessary authority.

The divergent interests of these users - clearly identifiable from the privileged status of certain categories among them (e.g. managers, fiscal authorities and banks) - derive from their position and power, and give rise to doubt regarding the objectivity of accountancy information provided by annual financial reports.

Conversely, specialist literature in the field refers to *agency theory*, which relates to the conflicts of interest between users of accountancy information.

An agency relationship comes into being when one party, known as the *principal*, entrusts management of their private assets to another party, known as the *agent*, who has competence and knowledge inaccessible to the principal. The most common form of

agency is that in which a manager operates on behalf of a shareholder.

The conflict of interest between managers and shareholders, regarding data, is clear; since shareholders are principals who have empowered managers to operate on their behalf in the capacity of agents, the manager alone enjoys access to certain supplementary information.

Conflicts of interest surface where managers' remuneration is dependant upon profit and they may tend to push rashly for increased profits, or where they seek to maximise their own benefits at the shareholder's expense, through activity of which the business owner is unaware; perhaps in the form of loans to third parties in which the manager has a vested interest.

In other respects, the manner in which a business generates and releases accountancy data may be reduced to the goodwill and scruples of those concerned; internal users may take decisions on the basis of the differing interests of the various users of their accountancy data – managers may intervene in the application of accountancy methods and policies in pursuit of their own interests, thus compromising the quality of accountancy information.

3. Handling accounting information

Accountancy is a tool serving to represent the operational activity of a company, and has at its core professional principles, norms and rationality. Ultimately, a company's financial reporting should consist in the assimilation and presentation of financial data in a way which should afford the end user a *faithful likeness* of the operation's activity, on the basis of *accounting reality*.

Accounting reality derives from a set of principles, evaluation points, rules, conventions and specific practices, and marks the central compromise between the interests of data producer, financial auditor, and end user of the data.

Regardless of the accuracy of this transposition of operational activity into accountancy information, it is nonetheless unavoidably susceptible to the manipulation of information which derives from the instinctive and human perversity of the business person and the conflicts of interest between the end users. Thus, financial reports

tend to shift from the ideal to the desirable, from the point of view of those preparing them, such that the existing principles, rules and conventions of accountancy are exploited for personal benefit.

Specialist literature in the field has presented a series of case studies in which the manipulation of accountancy data has led to large scale financial scandals, such as the case of American energy provider Enron, which went bankrupt in 2001 following the exposure of irregularities.

The manipulation of accountancy data in the interests of providing a desirable operational image, as managers would like, does not necessarily imply a disregard for norms and regulations of accountancy procedure. On the contrary, this objective is often achieved without breaching the accepted standards, through the use of so-called *creative accounting*.

The expression 'creative accounting' is of Anglo-saxon origin and presupposes the use of legal accountancy practices which permit the company to present the desired public image.

Thus defined, creative accounting may be distinguished from accountancy fraud, in which data manipulation breaches accountancy rules. Creative accounting is in its turn however, also unacceptable, despite the fact that it respects the norms and rules of accountancy, since its ultimate purpose is that of distorting the perceived financial position and performance figures of a company, in order to mislead investors and other categories of end user of the accountancy information.

The creativity of accounting depends in principle, on the gaps in accountancy legislation, and the subjective judgements of professional accountants, which are made in the context of accountancy norms.

This last aspect is covered by IASB's Framework for the Preparation and Presentation of Financial Statements, according to which: *thus when the application of a norm detracts from the final outcome, this norm may be disregarded in order to achieve the closest possible reflection of real circumstances. The basis for such a decision being taken shall always be that of rational professionalism.*

The evolution of creative accounting makes assessment of a business' real position

impossible, and seriously affects accounting reality through the manipulation of figures. Such practice is facilitated not only by the existence of loopholes in the rules, but also by the flexibility of the rules themselves, which permit a certain degree of methodological choice which may yet be exploited to transform financial statements in a manner favourable to management.

The most frequent creative accounting practices target profit figures in order to give an inflated impression of company performance. Such practices are referred to as *outcome management*.

According to specialist literature in the field, "outcome management" is the manipulation of accounts in order to create an inflated impression of company performance. The desire to reach or exceed the company's estimated average share price represents an incentive for outcome management.

Conditions which favour outcome management are diverse, but generally relate to a lack of internal controls or management experience, or complexity in transactions.

The most common outcome management techniques simply exploit the flexibility inherent in the framework of accountancy norms and regulations.

The primary outcome management techniques, which may be employed in order to fulfil the objectives in question are as follow:

- changes to repayment regimes
- changes to the useful life expectancy of frozen material assets with an end to depreciation
- changes to residual securities, with an end to depreciation
- establishing the likelihood of debt collection failure for irrecoverable monies or frozen debts
- identification of depreciated assets;
- estimates of probability regarding fulfilment of contracts
- estimates of commissions
- establishing the demand on stock, and the depreciation thereof

Of all of these, the first three, which relate to changes relating to depreciation, may be considered discretionary in nature. These interventions in matters of depreciation may result from the modification of conditions affecting productivity, durability, or the state

of the asset market in question, and represent an ongoing issue in the field of outcome management.

Extreme cases of outcome management involve false declarations, or the omission of significant data from financial declarations. Such actions, intended to manipulate the end users of accountancy data, fall into the category of accounting irregularities or fraudulent financial reporting. In order to identify such procedures as fraud, one must prove that false declarations have been made for personal gain. Such actions indicate an abuse of profit figures which goes beyond the limits of the flexibility inherent in the norms and regulations of accountancy, and shows up above all in sales figures, outgoings, capitalisation of costs and the reduction of value in accountable assets.

The failure to acknowledge sales income, or the creation of fictional incomes, are among the most commonly encountered examples of misuse of outcome management. Examples of the aggressive application of outcome management strategies include the holding open of balance sheets in order to continue registering sales-related incomes which rightfully belong in later financial periods, or the entry of incomes connected to nonexistent sales.

Other examples of outcome management misuse include the underevaluation of company expenditure, capitalisation of costs, and the reduction in value of accountable assets whereby data is principally manipulated through:

- capitalisation which fails to reflect true costs with interest
- underevaluation of assets in order to reduce property tax
- overevaluation of stocks
- underevaluation of commercial and financial discounts.

The detection of outcome management scams is very difficult. Strategic discussions with the company management and auditors offer the greatest possibility of detecting the more blatant cases of corporate outcome management.

According to specialist literature in the field, outcome management detection techniques may be formalised as follows:

- *Employment of trend analysis*, which involves the comparison of quarterly

profit margins and financial statements with those of the previous year, review of previous income and expenditure patterns, and the identification of significant changes in the last quarter

- *Probability-based examination of circumstances*, i.e. examination of unusual or rare transactions, verification of any unjustified changes in accountancy procedures, examination of any changes or adjustments made in the last quarter, changes in accountancy policies, a focus on areas open to professional judgement, verification of debt history, the age of stock holdings and outstanding payments
- *Analysis of annotations*, which implies reading those notes concerning accountancy policies and the evaluation of stocks, and comparing them with those of the year preceeding, examination of notes regarding pensions and other post-employment benefits in order to identify changes in policy
- *Analysis of the correlation between predicted and actual profits*, through examination of financial performance trends, checking of profits against average share price estimates
- *Incentive analysis (motivating factors)*, which involves analysis of the climate in which the company is operating, with a view to identifying factors and motives which might inspire management to manipulate figures or disguise final profits.

Literature in the field of outcome management offers differing opinions on the issue. Certain authors feel that outcome management is detrimental to users, and investors in particular, since it distorts financial performance figures, artificially boosts share prices, and encourages short-term decisions to the detriment of long term performance. Others hold the 'whitewashing' of figures, within reasonable limits and within the parameters of Generally Accepted Accounting Principles (GAAP), to be acceptable on the grounds that the resultant reduction in volatility brings a growth in benefits; the market perceives lower risks, and the share price tends towards stability. We argue the case for honest and transparent reporting of financial outcomes, regardless of the end user in receipt of this data.

It may be seen from the above presentation that changes in accounting methodology can lead to alternative perceptions of the financial position and performance of a business operation.

Room for manoeuvre in the formulation of accountancy policies, and the freedom of accountants to choose their methods, have been the source of controversy in many papers covering the topic of accounting reality.

Aside from this room for manoeuvre in the framework of generally accepted accounting practice, which permits producers of financial-accountancy information to manipulate profit figures and present a desirable image of their operations and performance, there is another issue. The existence of alternative accounting systems with differing agendas leads to large discrepancies in profit reporting, which companies may find themselves obliged to reconcile in order to conform to the rules of others' accounting systems.

4. Conclusions

Thus, in order to assert itself in international capital markets, a multinational company must align itself with multiple financial structures:

- one set of principles conforming to national regulations
- another set conforming to European accountancy norms, where the company is based in a non-EU country
- a third set corresponding to international accountancy norms
- an additional set corresponding to US – GAAP standards where the capital market is located in the USA.

In such a situation, the most important aspects of financial statements compiled by companies under national accountancy legislation must be reconciled with, and presented under, the other legislative frameworks in accordance with European, international, and US-GAAP accountancy norms. This has repercussions upon profit figures, the discrepancies among which must be reconciled. International financial communications must therefore overcome significant difficulties, hence the need for assimilation of all current accountancy methods into one coherent system, a process

which may only be achieved through the standardisation and harmonisation of accountancy and its procedures at an international level.

We recognise that in order to limit the effects of creative accounting and outcome management, the IASB must reduce the number of permitted alternative methods available, in order to ensure a true harmonisation of systems whilst creating stricter standards to bring greater uniformity to global and international accountancy and financial reporting.

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Development of the Romanian Legal Framework in the Field of Consumer Protection in the Context of E.U. Integration

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Abstract

This paper aims to demonstrate that, in fact, building a coherent national system of consumer protection in Romanian domestic market was achieved mainly due to the process of accession to the European Union, to harmonize its system with that prevailing in Europe, and especially in context of the conditions for turning the Romanian economy into a functioning market economy, able to cope with competitive pressures within the European single market.

Romania is just at the beginning in terms of consumer protection, and therefore, it is natural that there will not be possible to do in a short time what in the old European Union Member States has naturally been done in decades, as a result of the action of market economy objective laws.

Key words: consumer protection policy, harmonization, obligation, consumer regulation

J.E.L. classification: D18, F15, O52

1. Introduction

Since Romania has manifested, in the post-communist period, a near constant interest for the European structures, materialized by signing the EU Association Agreement, the activity of our country regarding the consumer protection focused in the following years on the harmonization of national legislation with the valid one in the European area. To this end it was expressly provided the cooperation between the parties regarding the exchange of information and experts, the access to EU databases,

completed by training activities and technical activities.

2. Romanian Consumer Protection - assumed obligation in the EU accession process

Over time, the consumer protection legal framework developed in Romania - whose foundation was the Government Ordinance no. 21/1991 on consumer protection - has been improved to some extent, without ensuring the complete harmonization with the existing *acquis communautaire* during the operation changes.

The most frequent *criticisms* that have been made in this respect were related to the content analysis of its text that reveals, on the one hand, the predilection assertion of the state role to protect citizens as consumers, by providing the necessary legal framework for their protection, and on the other hand, the omission of two of the main consumer rights recognized in Europe - namely the right to be heard, in the sense of audience's interest for the consideration of the full goodwill of its interests in the process of developing and carrying out economic policies, and the right to appropriate education (the first right is not mentioned in any legislative provision adopted so far, while the second, although mentioned in Government Ordinance no. 21/199, it was not developed further).

To these rights can be added another one, also not covered by the fundamental legal framework of consumer protection system, namely the right to basic needs satisfaction by acquiring goods and services designed to ensure consumer survival. In addition, the right to a healthy environment, able to improve the quality of consumer life,

although not recognized in its favor as a distinct right, is stipulated by the Romania's Constitution, namely in the 2003 revised version, as the fundamental right of "everyone to a healthy and ecologically balanced environment" on which "individuals have the legal duty to protect and improve the environment" (art. 35 of the Constitution).

So, the legal framework on consumer protection can be blamed to be confined to the vision that the State protects and consumers are assisted. This view is supported by the fact that most legal acts relating to consumer protection developed directly or indirectly during 1992-2007 period were adopted by ordinances or decrees of the Government and not directly by the Romanian Parliament, which shows a strong involvement of central authorities in the process of Romanian consumer protection.

Process improvement and development of new normative acts designed to protect the Romanian consumer was marked, therefore, by numerous *deficiencies* related especially to:

- superficiality of political authorities in the adoption of laws that were amended or withdrawn at short time intervals;
- insufficient and sometimes even lack of collaboration between central public administration bodies on drafting legislation affecting the consumer, which endangered the harmonization of legal provisions or, worse, has led to their mutual infringement;
- lack of provisions, in some laws, on cooperation between state institutions and civil society structures or the limitation, where they exist, of their access to the decision-making process;
- the delay in adopting the *acquis communautaire* in key consumer protection areas, such as consumer credit, insurance policies, etc.

However, the warnings came from the European Union periodic monitoring reports on Romania's progress towards accession, fired a warning about the shortcomings of the national legislation, imposing the speed up of its harmonization with the *acquis communautaire*. As a result, the majority of European consumer protection directives have been transposed into national law only since 1999, although some dating back even before 1990, making it finally possible to

temporarily conclude the negotiations with the EU in this area in 2003, without any transitional arrangements for Romania.

Moreover, to meet the assumed obligations, significant changes in the legislative framework for consumer protection came into force on 1 January 2007 (Law no. 296/2004 on "Consumer Code" as amended by Laws no. 363/2005 and no. 456/2006), the official date of Romania's accession to the European Union, and aimed as *new elements*:

- extending for the first time, the existing rules in this area also on services, including financial ones;
- highlighting the importance of indirect consumer protection exercised by the state, by initiating special programs developed in collaboration with schools at all levels, with operators and independent consumer organizations, to ensure the appropriate information and education of Romanian consumer, in order to enable him to operate separately, for a fair choice of goods and services needed, and be familiar with his legal rights and responsibilities;
- recognizing two more rights for the Romanian consumer, namely to reject the conclusion of contracts which contain unfair terms according to legal provisions, and not to be prohibited by an operator to obtain a benefit expressly provided by law. It can be noted that there are not included among the rights recognized to the Romanian consumer, the one to his education in the spirit of self-protection against the purchase and consumption of products which could endanger his health and even his life, or the right of representation of its interests in the development and conduct of economic policies at local and central level;
- providing for the establishment of a National Consumer Institute, organized as a public institution of national interest, with legal personality, as a center for research, information and studies on consumption, whose revenue is secured from legal budgetary and extra budgetary sources. We note however that, unlike the situation in the EU Member States, where such institute is a nongovernmental entity, according to the Romanian legislator view, it is designed to be an authority of the state, which increase the involvement of central authority to control the consumer protection process.

However, although on the Romania's official accession to the European Union, January 1st, 2007, the *acquis communautaire* in the field of consumer protection had been entirely implemented at national level, *a thorough analysis of the Romanian legal framework currently applicable in the field reveals several differences, and even deficiencies, of how it reflects the requirements of the European Union.*

First of all, the reported difference between the provisions that make up the *acquis communautaire* in the field and the normative acts (mostly government ordinances) by which they were internally implemented lies in the fact that Romania has called on various occasions, like many other Member States, a minimum number of clauses or exceptions allowed by Community rules in force. For example, the valid national rules regarding consumer protection in the negotiation and conclusion of distance contracts (as in Greece and Italy) establish his right to terminate such contract in 10 days, although the minimum rules laid down by Community law to exercise that right is 7 working days

Also, the law on selling goods and the associated guarantees, as established by the Romanian legislature shall not apply to "second hand" goods sold at public auctions in which participation is allowed for individual consumers (other countries that have turned to the exceptions provided for in Community legislation are: Bulgaria, Estonia, Finland, France, Germany, Greece, Great Britain, Sweden and Hungary). Moreover, national rules on contracts concluded away from business premises does not apply, under the exceptions allowed by EU rules, to some contracts, such as: those for the total amount to be paid by the consumer is less than the equivalent in lei of 30 euros calculated at the current rate of National Bank of Romania; contracts for the construction, sale and lending of immovable property, and contracts containing other rights relating to such property; contracts for the supply of household products for families, delivered regularly by an official dealer; contracts based on a trader's catalog; insurance contracts; contracts on securities (to these minimal clauses have also turned countries like Bulgaria, Ireland and the UK).

In addition to the provisions of the *acquis communautaire* in the field, according to Romanian law, contracts concluded away from business premises must be completed in written form, and their content to include at least the complete identification of the contracting parties, the object and the contract price, and the date and place of its conclusion (the same requirements are set by the legislation valid in Belgium, Greece, Malta, Netherlands, Portugal and Spain). Most importantly, only in Romania exist an explicit clause specifying on the consumer's right to terminate the contract away from business premises, and it must be stipulated in the contract with capital letters and right next to the place reserved for signature of the consumer, along with the name and the address of the trader to the consumer may exercise this right.

Secondly, there are certain situations in which the Romanian legislature proceeded to extend the Community provisions, but in the context of its permitted limits, such as the legal norms regarding the contracts negotiated and concluded away from business premises, which also applies to contracts concluded during a visit to any place where consumer can be found, even temporarily, for reasons of work, study or treatment, when the visit does not occur at his express request (such extensions did other countries such as Denmark, Italy and Lithuania). Also, additionally to the provisions regarding the effects of the contract denunciation, the Romanian legislature exempts the consumer from any obligation, except that related to the return of the goods delivered (similar provisions are found in the Danish, Maltese, Polish, Portuguese and Slovak consumer protection law), situation in which the latter, within 15 days of receipt of communication on consumers' decisions to opt out of contract, it must reimburse all amounts paid and any expenses.

Last but not least, can be also reported certain deficiencies in the transposition of EU rules in domestic consumer law, such as, for example, contracts negotiated away from business premises, for which the deadline deadline for exercising the right of consumer to terminate such a contract begins to run even when the dealer failed to inform him of his right of termination or if the information

was incomplete or wrong, so he would not exercise such a right (this deficiency can be also seen in how they translated into national legislation the consumer protection european law other countries such as Bulgaria, Italy, Lithuania, Poland and Slovenia). In the latter case, the time required by the Romanian legislation for giving up a consumer contract is extended by 60 working days to the seven days counted otherwise.

This approach may be criticized because the consumer that is not informed about his right to opt out of such contract or is not notified in writing, but orally, on this right, is not sufficiently protected. Also, the consumer may not be aware of the alternative of giving up the contract nor within 60 days.

3. Conclusions

In the field of consumer protection, under legislative terms, Romania has achieved in general its obligations under the full membership of the European Union, situation that contributes to creating an enabling environment for the development of consumer confidence in carrying out transactions on the national market, especially since prior to the transposition of Community provisions, there was no specific legal framework in force on the trade relations that could establish between the manufacturer / retailer and consumer, except for a few provisions of the Civil Code, also valid, within certain limits, for individuals as consumers.

Although there are some differences, and even "slippage" of the Romanian legislation with the *acquis communautaire* in the field, they can not be blamed only our country, since similar examples can be found in the legislation of other countries, mostly new members of the European Union, from the former communist bloc, where the transition to a market economy was gradually and liberalization of national economies and their opening to foreign competition automatically entailing the need to protect the economic interests of consumers. However, this situation does not exonerate the Romanian legislator for any inconsistencies to the Community rules, but most often they are the result of a process of adaptation to national specificities and, above all, to a mentality of conscious and active consumer in full

training, and are allowed, moreover, under the terms of the minimum requirements of relevant Community legislation completed by the principle of subsidiarity

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The Permanent Development of the Human Resources

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Abstract

The development of the human resources is a process of enriching the knowledge and skills through learning, in order to obtain higher performance.

Professional training is an investment in the organization human resources with immediate effect and perspective.

The high quality of education and training are essential for Europe to be developed as a knowledge-based society.

Key words: human resources, objectives, knowledge, performance, responsibility.

J.E.L classification: O15.

Generally, the human resources management is a responsibility shared between the line managers and the human resources specialists.

The specialists consider that the human resources have an important role in society, but also at a company level. [1]

In very small organizations, the owner is usually both the line manager and the human resources specialist. The person involved handles all or the majority of the human resources management activities. As the company grows, a human resources manager is assigned to take over most of the responsibilities. As growth continues, additional staff positions are added if needed.

Specific human resources management activities are designated to those who are in the proper position to perform them. The human resources planning and the job analysis are usually elaborated by the human resources specialists with input from the line managers. Also, the recruiting and selection process are generally handled by experts team, although the line managers are involved in the hiring decisions.

Orientation programmes are usually assigned to the human resources specialists and the orientation itself is carried out by

both the human resources specialists and the line managers.

The human resources development is a permanent process consisting in specific activities, as follows:

1. The human resources training with the aim to develop the key competences of the employees in order to be able to carry out the present and future specific job demand;

2. The careers management which means that the available jobs and the career strategy within an organization have to meet the career needs of the employees;

3. Organization development with the aim to ensure healthy relations between groups and to help them to anticipate, initiate and lead the change. The organization development means the implementation of a strategy and reorganization in order to deal with the accelerate rhythm of change.

Also, the human resources management takes into account the implementation of all activities related to the human resources procurement, training, motivation and retain in order to efficiently achieve the organization objectives and to satisfy the employees needs.

Today, the vision towards the human resources is totally different as it was several decades behind. So, it is mandatory for companies to change the own employees in a real strategic resource in order to face to a market which is becoming more competitive.

A company resists on a competitive market if the employees are transformed into a real strategically resource. [2]

Everyone knows that people are the most valuable and dynamic organization resource. A special attention it is needed to the employees in order to valorize their intellectual and physical potential, that is why the motivation, the employment procedure, the compensation, the professional training have to be included in the human resources procedure of the organization.

The professional training is situated in the middle of the changes and transition towards a knowledge-based economy and society. The main tool for an organization to meet the specific market demand is the human resources training. The professional training of the human resources is a planned process to improve the knowledge and the competences in order to achieve a specific level of performance in relation to the activities carried out³. During a professional training, the participants acquire theoretical and practical knowledge.

The human resources training should start with the staff induction process. An efficient staff induction can lead to a positive attitude towards the organizational culture and to obtain better results in a short period of time. The process has the aim to familiarize the employees with the new work conditions, the new team and to create a safety and confidential atmosphere. The specialists consider that the first six months are very important for the future achievements of the new employee. During this period of time, the employee realize if the new job meets his expectations and if the relations with the rest of the organization members make him to believe that is a part of the team. After this stage, the training of the employee follows other steps taking into consideration the employee level of knowledge and the organization training strategy.

The training need can be characterized as a gap between the actual situation and the desired standard, in other words between the present and the future. This gap can be removed/reduced using the training activities. [2]. This gap can be determined by the employee level of training, the organization development strategy (the development/downturn, the reorganization, the increase number of posts), the external factors (changes in the fiscal policy, rules in the activities organization, the technologies development, etc.).

The identification of the training needs must be seen as a necessary step in order to establish a training plan for the organization employees.

Compensation systems (including the benefits) are mostly often developed and implemented by the human resources management team. However, the line managers are those who recommend the salary increase and the promotions. The training and development activities are usually the connected responsibility of the

human resources specialists and the line managers. The performances evaluation is the responsibility of the line managers, although the human resources staff is likely to design the company evaluation system.

The human resources planning refers to the strategies development with the main objective to meet the future human resources needs. The starting point for this planning is the organization's overall strategic plan. The human resources specialists must determine whether the human resources needs are satisfied, they must forecast the supply of human resources within the firm. Finally, they have to take the steps in order match the supply side with the demand side.

The human resources strategy of the most European organizations provides training and development activities to improve the employees' skills and abilities.

These activities are usually differentiated as follows:

- training is a learning process for the operational or technical staff in order to carry out their jobs as efficiently can be;
- development is the retraining process of the line or middle managers or other employees from various organizational structures to assume increased responsibilities in both present and future positions.

The training and development are needed to increase the personal and organizational performances.

Generally, the employees want to improve their performances and compensation. The training and development are important aspects of the human resources management.

The competitive companies make great investments in training and development. These activities involve costs, therefore, the responsible managers should evaluate those efforts periodically.

At the end of the training period, the evaluators will measure the output of the trained employees. The results of the training evaluations should be made known to all those involve in the program – including trainees and upper management. For trainees, the results or evaluations can enhance motivation and learning. For upper management, the results may be the basis for taking decisions on the training program itself.

As a rule, in most of the companies, the performance evaluation represents the organization current evaluation and allow to

the managers to take objective decisions concerning the human resources. On the other hand, the performance evaluation provides an effective basis for distributing rewards such as: salaries raise and promotions. Also, performance evaluation helps the organization to monitor the employee selection, training and development activities.

If a high number of employees still register lower performances comparative with the expectations, the human resources selection process must be revised, or an additional training and career development program may be required.

The results should be discussed with the employee after the evaluation process is completed. The managers should explain the basis for the present reward and should let the employee know what he or she can do to be recognized as a better performer in the future.

The specialists in the human resources management analyzes the influence of the human resources management applied in the United States of America towards the European human resources practices.

As regards the characteristics of the American human resources management comparative with the European management, it is obvious that the USA is characterized by a low level of state interference and a stronger emphasize on individualism. Contrary, in Europe, the State and the European Agencies are very much involved and there is a huge organizational and managerial responsibility towards the employees. Also, the trade unions have a high social legitimacy in Europe compared to the USA.

Nevertheless, due to the cultural and institutional differences of the European Countries it is difficult to define a common Human Resources Management model in Europe.

Although, some European countries go to a directional convergence (whether countries share the same trend), the final convergence (whether countries are becoming more alike) is still far from being achieved. As a result, it should be assumed that neither the American human resources practices will significantly influence the European Human Resources Management nor that Europe will lead towards the convergence of a common model in the future. Countries will continue to be different in their human resources practices due to their unique cultural and institutional framework.

The human resources development is one the strategic option of the organization interested in its expansion. The organization capacity to adapt to the environment changes, to grow, depends in a great measure of the way in which the organization selects the employees, trains them, leads them taking into account their aspirations and potential.

The careers management or the human potential development within an enterprise points out the achievement of the best balance between the staff needs, expectations concerning the work, the potential and aspirations.

To set up a human resources development programme must be considered as an investment for the enterprise, the future results being measured in terms of labor productivity, improvement of the social climate, increase of the personnel stability, increase of the working efficiency.

The management of the employees careers must start from knowing these development steps and specific needs which in the same time are very different from one person to another. As a result, the elaboration and implementation of the careers development plan for the employees will have as a fundament an employee evaluation programme capable to offer a clear image of their potential and performances. Taking into consideration the evaluation results, the human resources development plans will be distinctive for each employee in close relation with the future company needs in the workforce field.

The long-life learning is a necessity and a solution for the actual changes from different activity fields of the contemporary society. One of the important characteristics is the rapidity of these changes comparative with the last decades when the social changes were characterized by a rhythm which assured a normal, slow, progressive development of values, things and ideas, people being able to easily adapt to the less or more constant life conditions. But, today, everything happens so rapidly then the people must go on this road of changes many time during the lifetime (jobs which disappeared or which were entirely transformed, appearance of new jobs, socials movements etc.)

The accelerate rhythm of globalization will also influence the labor force. It will increase the number of persons who will have to follow a long-life programme in order to comply with this situation, the educational system having the responsibly to answer to the changes on the labor force at international level.

It is the moment to „retrain” the labor force, a necessity which is becoming an essential job characteristic influencing the diversity and the flexibility of the educational services. The content of the educational offer, of the curricula is determined by the organizational interests, but also the participants who have the chance to choose what they want to learn. At this age, learning is related to the adult occupation, his job, the long-life learning becoming a vital component of a global competition.

All employees need to acquire and continually update their knowledge, skills and competences through lifelong learning, and the specific needs of those at risk of social exclusion need to be taken into account. This will help to raise labor force participation and increase economic growth, while ensuring social cohesion.

Any employee, organization or company must to engage into competition of the 21st century, must invest energy in the elaboration of a culture based on team, named culture of the success. [4]

These considerations are highly relevant to the EU's current reflection on the future development of the European social model. Europe is facing enormous socio-economic and demographic challenges associated, in particular, with an ageing population, high numbers of low-skilled adults and high rates of youth unemployment.

Nationally, reforms are moving forward. Many countries have established, or are establishing, their own targets that relate, to varying degrees, to the reference levels of average European performance for education and training.

Since 2000, as far as total investment in key sectors of the knowledge-economy is concerned, the gap has not narrowed between Europe and competitor countries such as the United States. What is more, some Asian countries, such as China and India, are catching up fast.

Nonetheless, public spending on education as a percentage of GDP is increasing in nearly all EU countries.

As regards lifelong learning strategies, many - but by no means all - countries have now developed policy statements, such as strategy documents or national action plans. Others have put in place framework legislation.

Too little attention is paid and too few financial resources are allocated to increasing access to adult learning opportunities. Older workers, whose numbers are set to increase by around 14 million by 2030, and the low-

skilled are particularly affected.

As for the reforms of higher education and vocational training, funding remains a key challenge and an obstacle to implementing the modernizations agenda for many countries.

Strengthening collaboration between higher education and industry is recognized by most countries as a basic requirement for innovation and increased competitiveness, but too few have a comprehensive approach to this issue. Part of the problem is that national innovation strategies too often do not incorporate higher education reforms.

Most countries concentrate on target populations in this context, in particular on young people, as vocational education and training programmes have a positive effect on reducing dropout rates. On the other hand, too low a priority is still placed on adults and older workers.

The professional development of vocational teachers and trainers also remains a real challenge for most countries.

With regard to the European dimension in the national systems, all countries consider it important to increase participation in mobility in education and training. However, despite some promising initiatives, for example as concerns quality of mobility, the national strategies are not enough.

Member States should in particular ensure that:

- education and training have a central position in the national Lisbon reform programmes, in the national strategic reference framework for the Structural Funds, and in the national strategies on social protection and social inclusion;

- mechanisms for coordinating the implementation of the work programme at national level are in place in all countries, involving the different Ministries concerned and the main stakeholders, especially the social partners;

- national targets and indicators should be further developed, taking account of these European references;

- the evaluation of policies is improved, to enable progress to be better monitored, and to create a culture of evaluation, making full use of research results. The development of high-quality statistical instruments and infrastructure is therefore indispensable;

- the various European agreements adopted in the context of the work programme are used as important reference points when designing national reforms.

The process of human resources development must be a permanent preoccupation both employees and employer.

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The Relationship Between Productivity and Relative Prices in Romania (Balassa-Samuelson Internal Mechanism)

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Abstract

During the catching-up process with the developed European countries, industrial productivity increased with higher rates than in services sector. The aim of the present paper is to test the influence of a growing productivity on relative prices as internal mechanism of Balassa-Samuelson Model. In reaching our purpose we used VEC methodology. Finally, we found a long-run relationship between variables and a weakly connection in the short-run.

Key words: Balassa-Samuelson internal mechanism, VEC model, productivity differential, relative prices

J.E.L. classification: F31,C32,E31

1. Introduction

In the last years, Romania witnessed a significant productivity increase, especially in industrial sector. A higher productivity rate in tradable economic sector against non-tradable sector generates a growing inflation and appreciation of local currency. These influences are known as Balassa-Samuelson Effect.

Balassa-Samuelson Model implies the following conditions:

- Labor productivity growth determines a higher relative prices ratio (internal mechanism);
- A faster productivity growth in Romania against the Eurozone leads to a higher relative prices ratio differential and therefore to an appreciation of exchange rate between euro and Romanian leu.

Testing the first condition involves checking for a positive relationship between labor productivity and relative prices. We'll use a VEC model to test the relationship between variables in short and long run.

2. Data description and methodology

We choose the Eurozone as benchmark, based on the followings:

- Euro is the reference currency since 2003;
- Exports to euro area represent almost 55% from total volume of Romania (74% are directed to European Union member states);
- Romania has already announced its intention to adopt the single currency in 2015;
- Most prices are euro denominated.

If over 10% of economic sector output is oriented to exports, we say that sector is tradable [4]. In Romania, the tradable sector is represented by industry, especially manufacturing, as we can observe from the following proportions of goods destined to exports for period between January 2010 – September 2010 (the main groups of products): machinery, mechanical appliances and electrical equipment (27%), vehicles (12%), textiles, leather, footwear (12%), metal products (12%), furniture, construction materials (10%), chemical and plastics (9%), food products (9%), mineral products (6%). The non-tradable sector includes activities that are not destined for international exchanges: transport and storage, post and telecommunication, trade, hotels, restaurants, financial activities, real estate transactions, renting, public administration, education, health and social assistance [6].

Given all that, we'll use as proxy for the relative prices the ratio between services and industry prices. Based on Eurostat data, we'll use as price index for Romania a fixed basis index for both sectors (I2005=100): tradable and non-tradable.

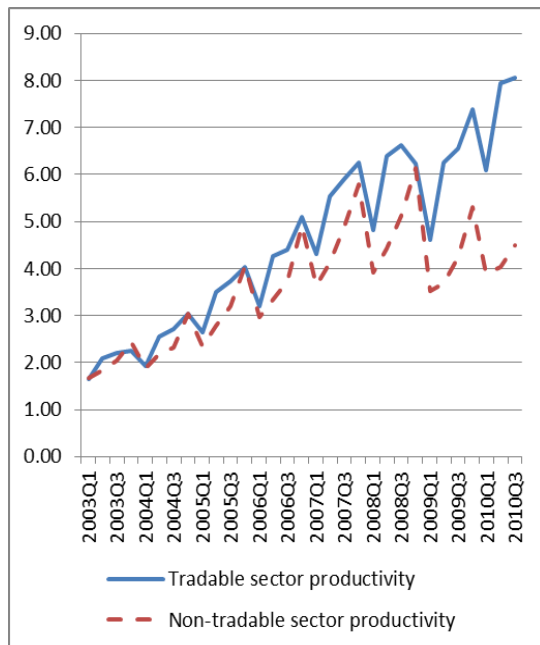
According to Dumitru [1], the productivity for both sectors can be calculated as ratio between gross value added and the number of employees for each case.

We use a VAR methodology for explaining the relationship between productivity differential (the difference between productivity in manufacturing and services) and relative prices (ratio between non-tradable and tradable sector). After testing variables stationarity, we'll proceed to a Vector Error Correction (VEC) if the variables are cointegrated. Finally, we'll find out if relative prices respond to a growing productivity in industrial sector. According to Balassa-Samuelson model, growing labor productivity in industry should lead to a higher value of relative price ratio [2].

3. Productivity and relative prices characteristics in Romania

The productivity, as ratio between gross value added and number of employees is higher in manufacturing than in services sector.

Figure 1. Productivity evolution of the Romanian economic sectors in 2003-2010 period (fixed base index, quarterly series)

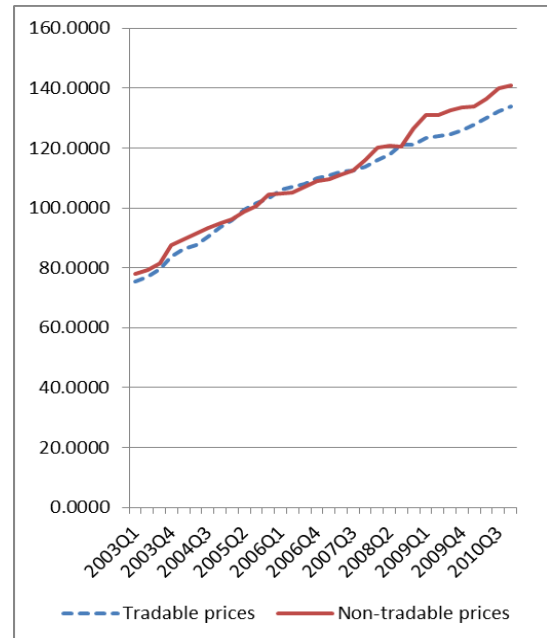


Source: authorial calculation

Figure 1 shows a higher value of productivity in industry than in services. Since wages tend to be the same in both sectors, the employees will request bigger ones. Therefore, price increase in non-tradable area in order to cover the increased wages that aren't based on productivity.

In the last years, inflation level in industry was higher than in services sector.

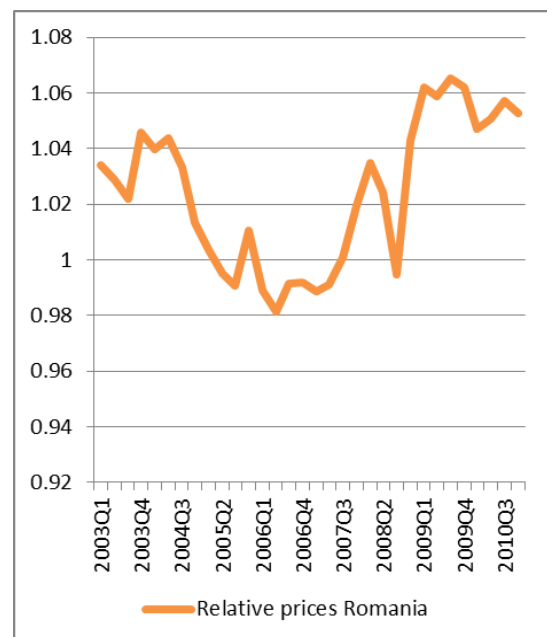
Figure 2. Romanian price indices in industry and services for 2003-2010 period (fixed base index, quarterly series)



Source: [7]

Figure 2 shows higher growth rates in manufacturing sector than in services sector. Productivity growth in manufacturing leads to wage increases in both sectors and consequently, to price increases, in order to keep the same profit margins.

Figure 3. Relative prices in 2003-2010 period (fixed base index, quarterly series)



Source: authorial calculation

According to figure 3, relative prices have been higher in the last years, due to a bigger productivity in manufacturing.

4. Econometric analysis

In 1997, Engle and Granger identified a causal unidirectional or bi-directional relationship between variables, known as Granger Causality. They point out this causality for the cointegrated variables. Also, they found an Error Correction Model representation for the cointegrated variables. However, in practice, Johansen-Julesius methodology is preferred because:

- a change in the direction of regression may lead to wrong conclusions;
- difficulties in working with more than two cointegrating vectors in the case of multivariate analysis;
- it is a procedure with two steps and, therefore the series generated in the first step are used in the second.

We'll test the cointegration using Johansen procedure. Therefore, we'll estimate the relationship between productivity differential and relative prices using a VEC methodology. VEC is a special type of restricted VAR which can correct a disequilibrium that may affect the entire system. In order to remove heteroscedasticity problems from the model, both series are expressed in natural logarithm.

In the beginning, we verify both variables in order to assess their stationarity (a series is stationary if its mean and variance are constant). If stationary, a shock is temporarily and it is absorbed over time. Causality tests are considered sensitive to the characteristic of stationarity. Most of the series are non-stationary. Stationary series can be verified using Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. The null hypothesis that will be tested, refers to a unit root presence. If the probability is over the classical relevance threshold of 5% (of be wrong in our presumption) the series has a unit root (is non-stationary). Test results are reflected in the table no. 1.

Table 1. ADF and PP stationarity test

Variables	ADF (<i>t</i> -statistic, [prob.])	PP (<i>t</i> -statistic, [prob.])
Productivity differential (natural logarithm)	1.988038 [0.9997]	-1.372119 [0.5824]
Productivity differential in first difference	-1.299294 [0.6110]	-8.235511 [0.0000]
Relative prices (natural logarithm)	-1.449834 [0.5451]	-1.449834 [0.5451]
Relative prices in first difference	-5.517583 [0.0001]	-5.580444 [0.0001]

Source: authorial calculation

Phillips-Perron stationarity test shows that both series are first order integrated with a unit root. If both variables are cointegrated, we use a Vector Error Correction (VEC) model, a special case of multivariate models of first difference (for that series which are level stationary and non-cointegrated we use a VAR test).

Table 2. Cointegration test for all possible assumptions

Data Trend:	None	None	Linear	Linear	Quadratic
Test Type	No Intercept	Intercept	Intercept	Intercept	Intercept
	No Trend	No Trend	No Trend	Trend	Trend
Trace	0	0	0	1	1
Max-Eig	0	0	0	1	1

Source: authorial calculation

According to table 2, for two of the five assumptions we found long-run relationship between variables.

Based on stationarity and cointegration tests, we use a VEC model to explain the relationship nature between variables. General equation for a VEC model with lag intervals '1 1' is:

$$D(Y_{g,t}) = A(g,1) * Coitg +$$

$$\sum_{k=1}^G C(g, k) * D(Y_{g,t-1}) + C(g, G + 1) + \mu_{g,t} \quad (1)$$

In order to study the connections in the short run between productivity differential and relative prices we'll perform a Granger causality test. The obtained results are reflected in table 2:

Table 3. Granger causality between variables

Dependent variable: D(L_PR_RO)			
Excluded	Chi-sq	df	Prob.
D(L_DIFERENTIAL_PROD_R)	3.636403	1	0.0565
All	3.636403	1	0.0565

Source: authorial calculation

According to table 2, the null hypothesis is rejected (probability is higher than 5%). Thus productivity differential is a Granger causality of relative prices in short run. However, the causality between variables is not strong.

The VEC Model results are presented in table 3:

Table 4. Productivity differential influence on relative prices in Romania using a VEC model

Cointegrating Eq:	CointEq1
L_PR_RO(-1)	1
L_DIFERENTIAL_PROD_R(-1)	-0.077172 -0.02887 [-2.67312]
C	0.021501
Error Correction:	D(L_PR_RO)
CointEq1	-0.187656 -0.08701 [-2.15668]
D(L_PR_RO(-1))	-0.001876 -0.20316 [-0.00923]
D(L_DIFERENTIAL_PROD_R(-1))	-0.01732 -0.00908 [-1.90694]
C	0.001901- 0.00278 [0.68340]

Source: authorial calculation

The relationship representation between variables according VEC is reflected in equation 2:

$$D(L_PR_RO) = - 0.19 * (L_PR_RO(-1) - 0.07 * L_DIFERENTIAL_PROD_R(-1) + 0.02) - 0.002* D(L_PR_RO(-1)) - 0.02* D(L_DIFERENTIAL_PROD_R(-1)) + 0.002. \quad (2)$$

Thus, productivity differential has a positive influence on relative prices.

If $|t_0| > 0$ or 1,96, the corresponding independent variable has a significant adjusted (partial) effect. The condition is verified for cointegration equation. Hence, relative prices are higher if productivity is increasing in industrial sector than in services sector. Considering the t-value, VEC model shows an insignificant relationship in the short run.

5. Conclusions

The present paper tests the relationship between productivity differential (the difference between productivity in industry and services) and relative prices (as ratio between non-tradable and tradable sectors). Our main conclusions are:

- the Eurozone is the most adequate benchmark for testing Balassa-Samuelson internal mechanism due the commercial, political and geographical connections between Romania and euro area;
- Romanian economy can be divided in two large sectors: tradable (industrial manufacturing) and non-tradable (services) using as criteria, their participation in international exchange;
- productivity can be properly reflected as ratio between gross value added and number of employees for each sector;
- our research found a higher productivity in the tradable than the non-tradable sector;
- in the short run the tradable sector productivity has a low influence on relative prices;
- using a VEC model we found a positive relationship between productivity and relative prices in long run.

As we highlighted above, Balassa-Samuelson internal mechanism is valid.

6. Acknowledgements

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Credit Institutions – Actors on the Romanian Capital Market

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Abstract

Over a long period of time, it was thought that the banking sector and the capital market are two separate, constantly competing, components of a country's financial system. Lately though, this idea has been put aside and the direct involvement of the trust companies has increased on the capital market. After taking up the universal bank design for the organization of the capital market in Romania, credit institutions were granted access on the market as mediators. This particular paper's goal is to analyze the performances achieved by commercial banks functioning as intermediaries on the capital market in Romania in recent times.

Key words: credit institutions, financial intermediation, capital market.

J.E.L. classification: G10, G21

1. Introduction

No matter the way in which we define the capital market, as a component of the financial market or as a whole that integrates the financial market, it represents the place where the demand meets the supply through brokers.

The capital demand comes from entities in search for financial funding needed for carrying further with its activity or for investing in development (public and private companies, financial, banking and insurance institutions, public institutions, the government and local authorities, international financial and banking organizations). The capital offer comes from those entities holding financial funds exceeding their own needs and in search for a placement option that will bring future income.

Throughout time, economists have considered that commercial banks and the capital market represent two distinct segments of the financial system within a country and that they are in a constant competition to attract funds (Jacklin 1987, Diamond 1997, Allen and Gale 2002). Within the last few years it has been more clearly pointed out that the two systems coexist and are interconnected even. (Song and Thakor, 2010).

Several authors (Fama 1985, Diamond 1991, James 1987, Lummer and McConnell 1989, Best and Zhang 1993, Dahiya et.al. 2003) have emphasized the indirect role of banks on the capital market in respect to the dissemination of information concerning issuers. Thus, the privileged reports that the banks hand out to their clients grant the latter access to information regarding the financial situation of different companies. At second hand, capital market investors can orient based on the behavior banks display with regard to granting loans to companies for the investment in financial instruments.

Recently, banks have become directly active on the capital market, as issuers but also as investors and brokers.

2. Credit institutions acting on the Romanian capital market

The role of commercial banks on the Romanian capital market has increased sensibly over the last few years due to the modified legislative circumstances, as well as the attempts to expand their activity toward new sectors with the purpose of maintaining and increasing profits.

As exponents of capital demand, three of the commercial banks in Romania are presented in the capital market through the share offer listed in the 1st category of the Bucharest Stock Exchange: Transilvania Bank – since 15.10.1997; The Romanian

Bank for Development – since 15.01.2001; the Carpatica Commercial Bank – since 9.06.2004.

To these we can add the Erste Group Bank AG present in the international category since 14.02.2008.

The credit institutions' shares listed at the BSE are also support assets for derived financial instruments traded on the Sibiu Stock Exchange. In December 2008, BRD was admitted as participant on the derivatives regulated market at Sibiu, so becoming the first bank to trade on the Sibiu Exchange.

Currently there are 3 shares futures available for trading for credit institutions (BRD, Transilvania Bank, Erste Bank), 3 options on these futures and 2 CFD (BRD, Transilvania Bank).

As exponents of the capital offer, trade banks can acquire shares from commercial companies with non-bank object of activity, all the while respecting the regulations of the National Bank of Romania, regulations that do not allow the transgression of more than 20% of the issuer's social capital.

The defection from the principle of separation in 2002 in favor of the principle of the universal bank for the organization of the Romanian capital market, has allowed commercial banks to develop brokerage activities on the capital market.

The brokerage activity on the capital market is a countenance of the disintermediation tendency exhibited by the banking system, deployed by commercial banks in the BSE as well as Sibex, either through specialized departments, or through Financial Investment Services Societies, which are members of the banking groups.

At the BSE, in July 2011 there were 6 Romanian credit institutions acting as intermediaries, a credit institution and a branch of a credit institution from another state member of the EU and 3 FISSs members of a banking group (table no. 1).

Of all the credit institutions acting as intermediaries on the BSE, BRD recorded top trade values starting 2007 throughout the first semester of 2011 (data is available for this timeframe).(figure no 1)

On the segment of fund shares and holding units traded on the regulated market, BRD intermediated transactions, in the aforementioned time period, summing up to 2.121.965.986 Lei, representing market

listings with an annual growth, the highest point being in 2010 when the volume of intermediated transactions reached 661.110.078,65 Lei. Starting with 2009 BRD occupied the first position among mediators on the bonds segment, negotiating annual trades of 1 to 3 billion Lei. up to 2009 the first position in bonds operations was held by another credit institution, RBS Bank Romania, who in 2007 recorded a trade percentage of 79,18, respectively 29,31% in 2008.

First position on the two new segments of the BSE market, the structured, traded products on the regulated market and the alternative trading system, is occupied by another credit institution, BCR, who, in 2010,intermediated 46,18% of the trade value in structured products and 50,93% of the value of traded shares on the ATS market, respectively 40,26% and 47,65% in the first semester of 2011.

All this data leads us to the conclusion that credit institutions show a special interest in the expansion of their traditional activities toward new areas of the financial system and that these have the potential of becoming important pawns in the capital market game.

In respect to the role of mediator on the derived instruments market, in the short period of time since BSE introduced the futures products, two SSIFs members of a banking group and a loan institution have been active, with the following mediated trades values (table no.3)

Credit institutions and SSIFs members of banking groups are also present in the activity of intermediating derivatives trades on the Sibiu Exchange. One of the most active brokers at Sibex is BT Securities Cluj-Napoca, member of the Transilvania Bank financial group, of whose social capital the Transilvania Bank holds 95.5%, opposite to 75.4% which was recorded in 2001 (figure no.2).

In the period between 2005-2009, BT Securities was among the first 10 brokers at Sibex, the highest achieved intermediation volume being reached in 2006, with 722.857 contracts representing 16.93% of the total trades of the Stock Exchange. Since 2009 and until the first semester of 2011, the volume of realized intermediations dropped, a minimum was recorded in 2010(7.192 contracts representing 0,44% of the total). Even so, BT

Securities remains one of the most important brokers on the Sibiu Exchange, due to their accumulated experience and trust that they earned among investors.

The most important credit institutions acting as brokers on the Sibiu Exchange are, as in the case of the BSE, the Commercial Bank of Romania and the Romanian Bank for Development to which we add Piraeus Bank. These together with Romextterra finance, Unicredit CAIB Securities and Alpha Securities ,realized an average of 1,78% and 3.53% of the total volume of trades, in the period between 2006 and the first semester of 2011, as follows (figure no. 3).

BRD as well as BCR recorded maximum intermediated trades volumes in 2007, later having a decline in activity, a lot more visible in the case of BRD, who in 2008 intermediated 29.14% of the volume recorded in 2007, while BCR recorded a drop that was much slower up until 2010 when the intermediation volume reached 7.62% of the previous year's achievements. Unlike these two brokers, Piraeus Bank debuted on the Sibiu Exchange during a full financial crisis , increasing the volume of intermediations in 2009 31,4 times in relation to 2008, but ultimately finding the downward trend of the other analyzed banks.

3. Conclusion

We consider that the direct involvement of credit institutions on the capital market can be beneficial for both segments of the financial system. On the one hand the capital market can develop under the impulse of the involvement of the credit institutions as brokers because they command financial power but also a good reputation with investors. The double regulation and supervision of the banks' activities on the capital market by C.N.V.M. and B.N.R. is enough to increase stability and diminish the risks of a crisis being shared among systems. On the other hand, credit institutions can find new opportunities on the capital market to maintain profit and development in the context of the international disintermediation tendency.

We consider that commercial banks tend to become some of the most important actors on the Romanian capital market and that, at the moment; they hold all the necessary instruments to become the carriers of the development of the Romanian capital market.

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Table 1. Credit institutions acting as brokers at BSE

BSE brokers	Exchange segment		
	Spot	Derivatives	ATS
Credit institutions			
Banca Comercială Română	X		X
Banca Română pentru Dezvoltare	X	X	X
Credit Europe Bank	X		
OTP	X		X
Piraeus Bank	X		X
RBS Bank România	X	X	
Foreign credit institutions from other EU countries			
Raiffeisen Centrobank AG	X		
Branches of foreign credit institutions from other EU countries			
ING Bank NV Amsterdam sucursala București	X		X
Investments firms members of banking groups			
BT Securities	X	X	X
EFG Eurobank Securities	X	X	X
Unicredit CAIB Securities	X	X	X

Source: BSE

Table 2 Share of BRD brokerage operations in the total transactions on the BSE

Instrument	BSE			RASDAQ	ATS
	shares	bonds	structured products	shares and rights	shares
Year					
2007	1,78%	0,42%	-	0,81%	-
2008	1,43%	4,84%	-	0,92%	-
2009	3,84%	39,97%	-	0,84%	-
2010	5,88%	37,16%	0,17%	0,40%	-
SI 2011	3,43%	66,88%	0,16%	0,48%	1,98%

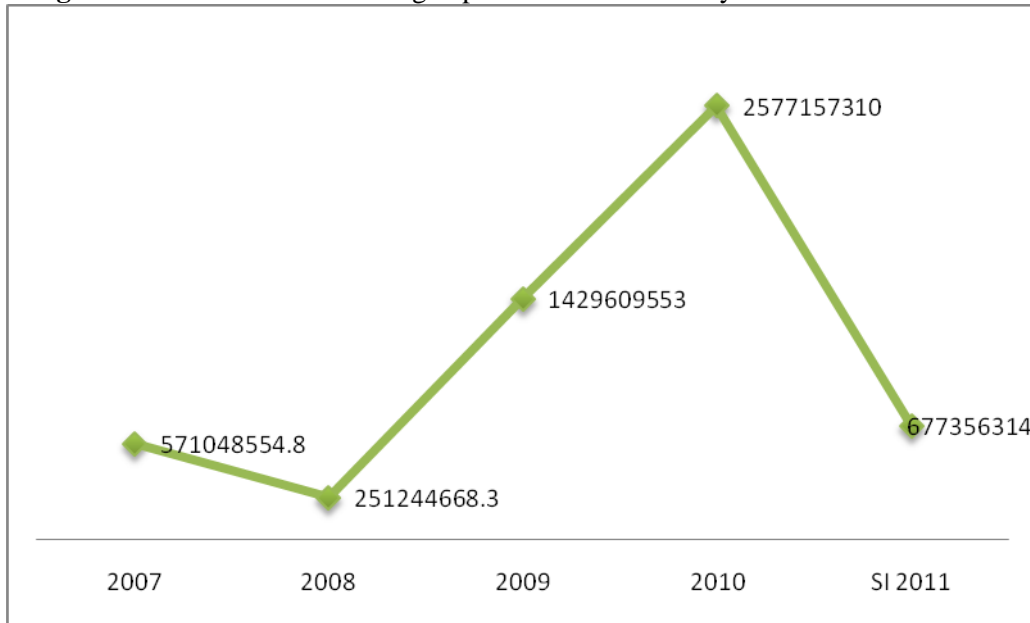
Source: BVB

Table 3 Value of derivative transactions intermediated by credit institutions on the BSE

	EFG Eurobank Securities	BT Securities	RBS Bank România
2007			
value (lei)	12.950	82.950	
percent (%)	1,2	7,67	
2008			
value (lei)	18.819		
percent (%)	0,05		
2009			
value (lei)			64.559.347
percent (%)			48,14%
2010			
value (lei)			85.479.961,5
percent (%)			39,92%
Sem. I 2011			
value (lei)			2.978.072,5
percent (%)			11,57%

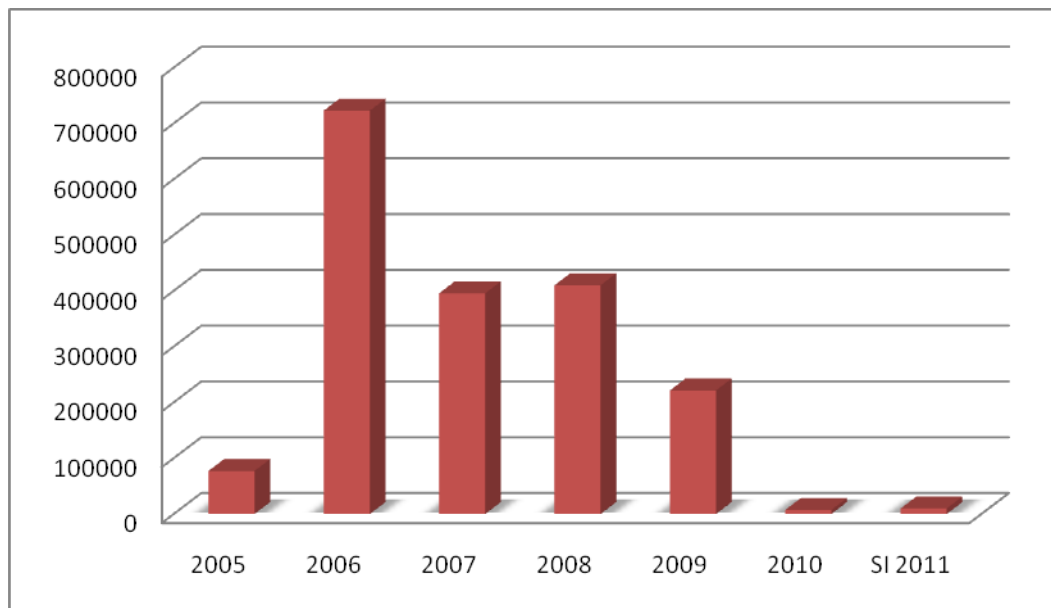
Source: BVB

Figure 1 The amount of brokerage operations conducted by BRD at BSE



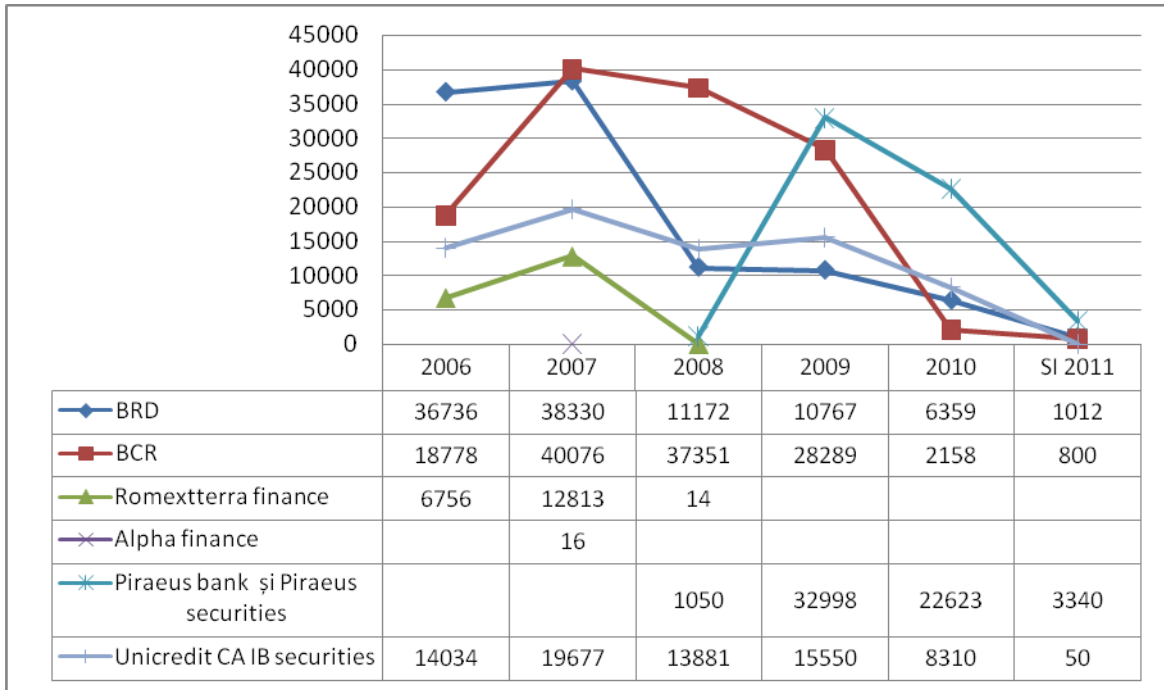
Source: BSE

Figure 2 The value of transactions carried out by BT Securities brokerage in Sibex



Source: Sibiu Stock Exchange

Figure nr. 3 The amount of brokerage operations conducted by credit institutions at Sibex



Economic Versus Social - Economic Efficiency Assessment Criteria

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Abstract

The paper aims to highlight the need to achieve a post-crisis economic growth that considers both economic and social objectives. Macro-economic efficiency assessment should be based on a set of indicators which quantify the positive and negative effects in developing appropriate strategies and policies.

Key words: Unpopularity index, Stability index, Inflation, Output-gap.

J.E.L. classification: E00

1. Romania's Overall Macroeconomic Coordinates

At the macroeconomic level any government advocates to achieve the following objectives:

- Achieve a sustainable economic growth;
- Inflation control and manage its relationship with GDP growth;
- Increase the degree of labor occupation, thus reducing unemployment at an optimal level;
- Establish the equilibrium between aggregate demand and aggregate supply.

It is known that in 2000-2008, Romania had achieved a Gross Domestic Product built on a basis that created further vulnerabilities. This created a relative wealth, but also hid the real current account deficit and thereby our economic inefficiency.

The evolution of macroeconomic indicators which will be analyzed are shown below:

Table no. 1 Evolution of GDP, unemployment rate and inflation rate in Romania during 2000-2010 – indices of the preceding %

Year	GDP- %	Unemploy- ment rate - %	Inflation rate - %
2000	2,4	10,50	40,70
2001	5,70	8,80	30,30
2002	5,10	8,40	17,80
2003	5,20	7,40	14,10
2004	6,20	6,30	9,30
2005	4,20	5,90	8,60
2006	7,90	5,20	4,87
2007	6,30	4,10	4,84
2008	7,30	4,40	6,30
2009	- 7,10	7,80	4,74
2010	-1,20	6,87	8,10

Source: National Bank of Romania, The Balance of payments.

The decrease in GDP in 2009-2010 to about 10% and the effects on social welfare has shown that development strategies and macroeconomic policies require taking into account all economic and social variables. We will review briefly two correlations.

A first correlation is between the **output gap** (the gap in GDP) and inflation.

Table no. 2 Evolution of output gap and inflation in Romania – indices of the preceding %

Year	GDP - %	Output-gap %	Inflation rate %
2000	2,4	-2,22	40,70
2001	5,70	-0,60	30,30
2002	5,10	-0,48	17,80
2003	5,20	-0,97	14,10
2004	6,20	1,04	9,30
2005	4,20	-1,09	8,60
2006	7,90	0,81	4,87
2007	6,30	2,17	4,84
2008	7,30	6,20	6,30
2009	- 7,10	-2,95	4,74
2010	-1,20	-3,92	8,10

Source: Statistical data from INSEE (National Statistical Institute)

Tests on the three macro variables of GDP, output gap and inflation rate, highlight the following:

- in 2000 – 2004: there is a trend of effective growth and we are witnessing an increase in the use of internal resources as a contribution to GDP; the disinflation in substance to attract foreign capital and currency appreciation is fast; in 2004 under the impulse of capital entry and to cover a domestic account deficit, we already have the first signs of excessive demand growth;

- in 2005 – 2007 we are witnessing an actual growth, except for a decrease in 2006, the excessive demand growth still has an increasing trend, but the inflation rate still has a lighter decrease trend;

- during 2007 – 2008 we have a new economic growth, but excessive demand increased substantially and therefore inflationary outbursts are introduced; actually the first signs of economic crisis appear in our country;

- 2009 – 2010 is the recession period and the time when the inflation rises.

We appreciate that sustainable growth should

be between 3-5% to close the output gap in 2014-2015.

We state that there is a need for a sustainable management of the disinflation process to minimize excessive demand deficit.

This year exports are intended to be the main economic growth engine, after that, it will give way to increasing domestic demand.

A **second correlation** is between the GDP and unemployment. We highlighted the intensity of this correlation using the statistical function Corell, in Excel, based on a statistical coefficient which is of the form:

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

We focused on the analysis of growth during 2000 – 2008.

Performing the calculations, results a correlation coefficient $r = -0.752$.

The data shows that between the two variables there is an inversely proportional relationship with an above average intensity. This indicator in conjunction with the previous correlation analysis reveals that the gross domestic product has grown primarily through the capitalization of imports of final consumer products.

Periods of crisis and recession and then again crisis must be the "purgatory" for a new economic model based on exploiting first the local resources.

However, still remains the problem of solving the contradiction between economic and social.

2. Evaluation Indicators of Economic Efficiency in Terms of Economic and Social Relationship

The recession that we hope to conclude soon, has generated many social disturbances, particularly in the form of unemployment. The basic problem that arises, in our opinion, would be solving the social side without sacrificing economic efficiency.

For a pro-domo plea to achieve this goal, we will use three indicators of economic performance that combines economic and social goals of macroeconomic policy.

Canadian Economists M. Parkin, L. Phaneuf

and R. Bade proposed three indicators – combinations between unemployment and inflation:

- a) Poverty index (I_S);
- b) Unpopularity index (I_{IP}),
- c) Index of stabilization policy (I_{ST}).

a) **Poverty index** (I_S) – is an economic performance index, calculated as the sum of unemployment (R_s) and inflation rate (R_i).

Calculation relation is as follows:

$$I_s = R_s + R_i$$

The following comments on the above relationship:

Poverty index shows how government management objectives have been met or not; the indicator give equal importance to the two rates, as follows:

- rising the unemployment rate leads to unsustainable GDP growth;
- increasing the rate of inflation affects exchange rate stability.

A decrease in inflation will lead to the existence of a lower real exchange rate:

$$CSr = \frac{1}{CSnom} \times \frac{Pmi}{Pme} < 1 \text{ where:}$$

CSr- real exchange rate; Csnom - nominal exchange rate; Pmi– the price of goods manufactured in the country; Pme – the price of goods manufactured abroad.

On short term between inflation and unemployment there is a relationship of balance: a lower unemployment can be achieved by a high inflation or inflation can be reduced by accepting higher unemployment. This relationship is called Philips curve.

However, Economists observations have shown that in the long term, under the impact of increasing prices of some basic products (such as petroleum products) the relationship is no longer valid.

b) Unpopularity index (I_{IP})

- the three above-mentioned economists have analyzed the unpopularity index established by R. Fair of Yale University:

$$I_{IP} = R_I - 3 \times R_{PIB}, \text{ where}$$

RPIB- growth rate of GDP

They compared the poverty index with this index and have established a link between the real GDP growth and unemployment.

In this way, the unpopularity index formula becomes:

$$I_{IP} = R_I + (9 \times R_s)$$

c) Index of stabilization policy (I_{ST})-

to determine this indicator, the above-mentioned economists have focused on the study of Okun's law:

$$R_{S+1} = R_s - 0,5(R_{PIB/t/t-1} - 3)$$

Unemployment in the current period will be higher or lower compared with the previous period, as the GDP will be higher or lower than the growth trend (3%).

Thereby, they established the following relation for the index of stabilization policy:

$$I_{ST} = R_I + (3 \times R_s)$$

The performed calculations give us the following results:

Table no. 3 Evolution of poverty, unpopularity and stabilization policy indexes in Romania - %

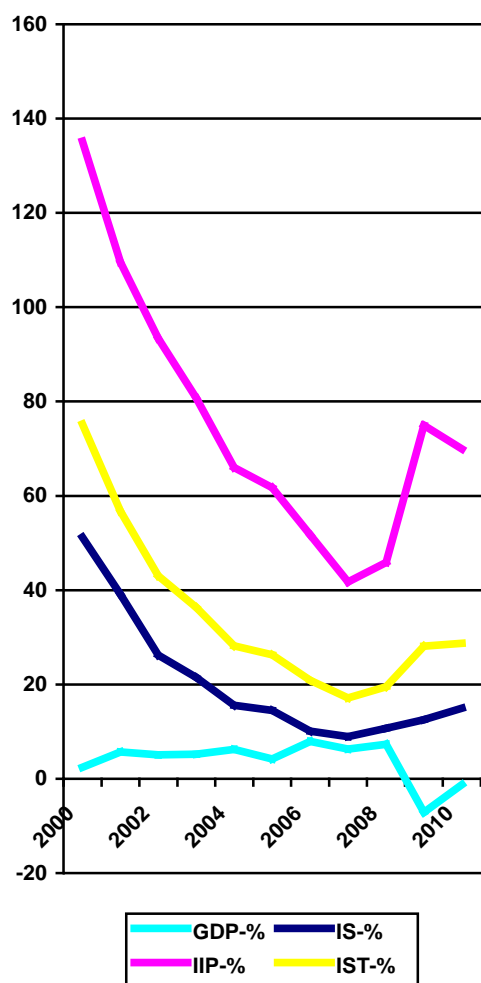
Year	I_s -%	I_{IP} -%	I_{ST} -%
2000	51,20	135,20	72,20
2001	39,10	109,50	56,70
2002	26,20	93,40	43,00
2003	21,50	80,70	36,30
2004	15,60	66,00	28,20
2005	14,50	61,70	26,30
2006	10,07	51,70	20,87
2007	8,94	41,74	17,14
2008	10,70	45,90	19,50
2009	12,54	74,94	28,14
2010	14,97	69,93	28,71

Source: Authors calculations based on INS (National Statistical Institute) statistics and National Bank of Romania.

It aims to reduce the values of these indices.

The evolution of GDP and the three indices is shown in the following figure:

Fig. no.1 Evolutions in GDP and the three indices in Romania during 2000-2010.



Source: Table no. 3

The graphics shows the evolution of the three indices in correlation with the evolution of GDP.

2000 – 2008 period is marked by a decrease of the three performance indicators in accordance with the Romanian economy. In 2009 and 2010, during the recession, the three indices increase in an inverse relationship with the gross domestic product. Romanian performance analysis shows a similar trend during the reviewed period.

It requires, in our opinion, a comparative analysis with the EU-15 countries, the core of today's European Union.

Table no. 4 Evolution of Gross Domestic Product, unemployment and inflation rates in the EU-15 between 2000–2010 – indices of the preceding %

Year	GD P-%	Unemployment rate -%	Inflation rate -%
2000	3,9	8,7	1,9
2001	2,0	8,5	2,2
2002	1,2	8,9	2,1
2003	1,3	9,0	2,0
2004	2,5	9,1	2,0
2005	2,0	8,9	2,2
2006	3,2	8,2	2,2
2007	3,0	7,1	2,3
2008	0,5	7,0	3,7
2009	-4,2	8,9	1
2010	1,8	9,5	2,1

Source: National Bank of Romania, The Balance of Payments

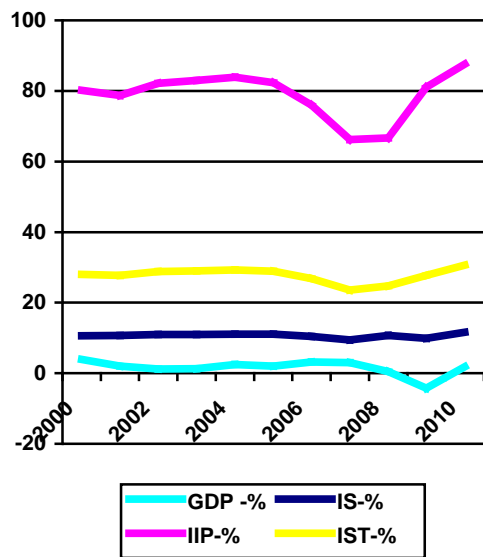
Calculations of the three indicators are embedded in the following table:

Table no. 5 Evolution of poverty, unpopularity and stabilization policy indexes in the EU-15 - %

Year	I _S -%	I _{IP} -%	I _{ST} -%
2000	10,6	80,2	28,0
2001	10,7	78,7	27,7
2002	11,0	82,2	28,8
2003	11,0	83,0	29,0
2004	11,1	83,9	29,3
2005	11,1	82,3	28,9
2006	10,4	76,0	26,8
2007	9,4	66,2	23,6
2008	10,7	66,7	24,7
2009	9,9	81,1	27,7
2010	11,6	87,60	30,6

Source: Authors calculations based on INS statistics and National Bank of Romania

Fig no. 2 Evolution of GDP and the three indices in the EU-15 between 2000-2010.

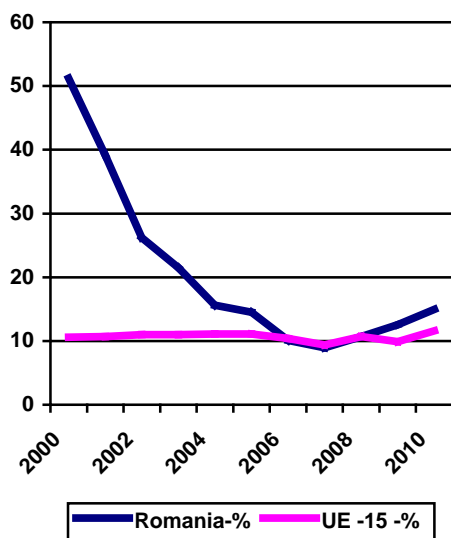


Source: Table no. 5

Also in EU, there is an inverse relationship between the three indices and gross domestic product.

A comparative analysis of the poverty index between Romania and the EU-15.

Fig no. 3 Comparison of poverty index between Romania and the EU-15 during 2000-2010.



From the graph, it appears that in the shown period, the indicators of poverty in EU-15 have values between 10-12%; in our country they have reduced from 51.2% in 2000 to 9.4% in 2007, after which, they increased to 14.97% in 2010. Analysis based on indices can be supplemented by other indicators. These could include: gross domestic product per capita, human development index.

3. Conclusions

The study of macroeconomic and macro-social variables in terms of these indices in relation to gross domestic product provides information for government management towards substantiation the strategies and economic policies.

Ensuring sustainable economic growth on medium and long term involves a series of painful reforms, but they must be permanently linked to social factors. High poverty shows not only lack of resources for subsistence, but also issues related to economic education.

Unpopularity degree shows the potential strength to reform measures.

The stability degree demonstrates the economic performances.

Therefore, to escape from the economic recession with the known social costs, means moving into a new phase characterized by partial crisis, which have to be managed to reach the final objective of any government – assurance of general welfare.

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Services Cost Analysis Under Risk

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Abstract

In this paper, an integrated approach based on Monte Carlo simulation and Six Sigma methodology is used to analyze the risk associated with a services cost. Monte Carlo simulation is applied to understand the variability in total cost caused by the probabilistic cost items. By Six Sigma methodology the range of variation of the service cost can be reduced by operating on the input factors with the greatest impact on total cost to cover the variation of 6s between the limits that were established in the design phase of Six Sigma.

Key words: Services cost risk; Six Sigma; Monte Carlo simulation

J.E.L. classification: C63, D24, D81

1. Introduction

In this paper it is shown how Monte Carlo simulation can be used in a Six Sigma analysis of the cost of a project. The underlying connection between Monte Carlo simulation and Six Sigma is the variability inherent in all business processes.

The Monte Carlo method of estimating project cost is based on the generation of multiple trials to determine the expected value of a random variable. There are a number of commercial packages that run Monte Carlo simulation; however a basic spreadsheet can be used to run a simulation.

In an increasingly competitive services, businesses are turning to new practices like Six Sigma, a structured methodology for accelerated process improvement, to help reduce costs and increase efficiency. Since its inception at Motorola in 1984 for measuring defect rates in manufacturing processes,

the Six Sigma initiative has changed the way people work around the world. Six-Sigma is a customer-focused, facts-based, data-driven, results oriented, project focused, project management approach to quality that can be used by any business, small or large. Six Sigma improves the process by reduction the variation.

The typical determining cost of services often overruns its cost estimates. This happens because cost estimating traditionally fails to take into account the risk that the service will actually cost more or less than provided by even the most competent estimate. The Six Sigma methodology can be used to identify the sources of the variability of the service cost and suggest ways in which costs can be reduced.

Six Sigma is divided into five distinct phases: Define, Measure, Analyze, Improve, and Control (DMAIC).

2. The Define Phase

The define phase is one of the most important phases because it sets the framework and goals for the service. In this paper, it is considered that the total cost of the service is determined by five major components: raw material, labor, equipment, other variable costs, indirects.

The cost risk analysis must answer some questions that include: what is the most likely cost, how likely is the baseline estimate to be overrun, what is the cost risk exposure, where is the risk in this service.

The Six Sigma team can define its goals as understanding and controlling the source of the variability of the project cost in order to reduce cost risk exposure.

3. The Measure Phase

During the measure phase, the Six Sigma team gathers data that describe the cost components of the service.

In Table 1 are presented the costs estimated in the traditional way by the specialists of the service. Of course, an example will consider only two components of cost.

Table 1. Estimated initial cost

Cost component	Estimate [ron]
Raw materials	180
Labor	88

Determining the risk associated with service cost can be achieved only by accumulating more information. The Six Sigma analyst must choose relevant persons to be interviewed. In many projects, it can appeal to engineers and business economists who have experience needed for these estimates, the project head and the other employees that are on the same hierarchical level and components of the project team, such as site foreman, etc.. It is possible and questioning of experts outside the organization, but only in a particular case, designated by the contracting authority or to the relationships established. When these people get into a room, the Six Sigma analyst asks about three numbers for each cost component: the pessimistic cost estimate, the optimistic cost estimate and the most likely cost estimate. Optimistic cost if it is deemed that all goes well and pessimistic cost is achieved in the worst possible case. Cost is usually the most likely price at which bidding the project, although, as will be seen this cost does not have the lowest level of risk. Usually, this price is quite optimistic as to be smaller but, in reality, it need a certain amount of luck to be gained.

Also, in the measure phase, the experts must be asked about a lower limit and an upper of the total cost of the project.

Also, in the measure phase, the experts must be asked about a lower limit and an upper of the total cost of the project.

4. The Analyse Phase

In the analyse phase, the team works to understand the variability of the service cost. Monte Carlo simulation can be used as a tool to help analyse the uncertainty of the project cost. Suppose that the expert interview has occurred and the estimates from Table 2 are obtained.

Table 2. The normal distributions of the service costs

Cost component	Estimate		
	Optimistic cost (a)	Most likely cost (b)	Pessimistic cost (c)
Raw materials	120	180	260
Labor	80	88	110

The Monte Carlo method involves the artificial generation of experience or data by the use of a random number generator and the cumulative distribution function being considered.

The normal distributions of the cost components will be used to run a Monte Carlo simulation.

This solution will be used to run Monte Carlo simulation with Microsoft Excel. The simulation results after 2000 iterations are presented in Figure 1.

The formula used for the simulation experiments are presented in Table 3.

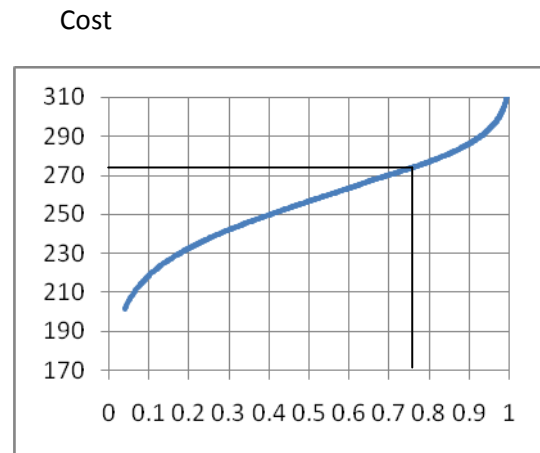
Tabel 3

	Cell	Formula
Normal random number	B3	Data-Data Analysis- Random Number Generation- Distribution Normal
Raw materials	D3	$180+B3*C3$
Probability	E3	$NORMDIST(D5,181.96,23.58,TRUE)$
Labor	G3	$88+B3*F3$
Total	I3	$D3+G3$
Cumulative prob.	J3	$E3+H3-E3*H3$

Figure 1. Monte Carlo simulation results

Iteration	1	2	3	1996	1997	1998	1999
Normal random number	-2.9330	-2.9165	2.9219	3.0460			
(b-a)/3 or (c-b)/3	20	20	26.66	26.66			
Raw materials	121.3398	121.6701	257.8973	261.2065			
Cumulative probability - p1	0.0051	0.0053	0.9994	0.9996			
(b-a)/3 or (c-b)/3	2.66	2.66	7.33	7.33			
Labor	80.1982	80.2421	109.4174	110.3272			
Cumulative probability - p2	0.0334	0.0341	0.9999	1.0000			
Total Raw materials and Labor	201.5380	201.9122	367.3147	371.5338			
P=p1+p2-p1p2	0.0383	0.0392	1.0000	1.0000			
Average					23.58556	23.58556	181.9617
Standard deviation					5.1895	5.1895	89.7108

Figure 2. Probability distribution for raw materials and labor cost



Tabel 4

Cost	271	262	250	240	
Probability	0.75	0.6	0.4	0.3	
Number of services performed	1	0.75	0.6	0.4	0.3
	2	0.93	0.84	0.64	0.51
	3	0.98	0.93	0.78	0.65
	4	0.99	0.97	0.87	0.75
	5	0.99	0.98	0.92	0.83
	6	0.99	0.99	0.95	0.88
	7	0.99	0.99	0.97	0.91
	8	0.99	0.99	0.98	0.94
	9	0.99	0.99	0.98	0.95
	10	0.99	0.99	0.99	0.97
	11	1	0.99	0.99	0.98
	12	1	0.99	0.99	0.98
	13	1	0.99	0.99	0.99

When 2000 iterations are completed the results can be analysed using histogram presented in Figure 2.

The mean cost of raw materials and labor 271.67 m.u. with a standard deviation of 28.69 m.u. and the probability P (Total cost of raw materials and labor) can be determined with formula $P=p_1+p_2-p_1p_2$.

Depending on the number of services performed, you can set a lower average cost. For this we used the binomial distribution of results are presented in Table 4.

5. The Improvement Phase

After the understanding the effects of uncertainty on the service cost the Six Sigma analyst and project manager can try to make improvements to the process in order to increase the sigma level of the project.

In this paper the simulation will be used to analyze the effect of changing the suppliers of raw materials and the human resource management. It is expected that the pessimistic cost of raw materials and cost of labor will decrease from 370 m.u. to 271 m.u. where four services are performed, dedecreasing to 240 m.u. when the service is performed thirteen times.

6. Conclusion

Monte Carlo simulation has a crucial role to play in multiple phases of a Six Sigma analysis project. By moving to a probabilistic methodology, Six Sigma analysts can better quantify the effects of variability and can implement process improvements with greater insight and confidence.

In the case of applying the algorithm presented for calculating costs, companies can achieve competitive advantage by providing necessary affordable rates for customers without affecting profit.

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Worldwide and European Methods for Assessing Living Standards

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Abstract

The article argues the theoretical concept of assessing the population's standard of living, which in conditions of globalization becomes a factor of competitiveness among countries. The authors show some of the methodological concepts used for assessing the quality of life (QL) from a worldwide perspective.

Using a wide range of theoretical and statistical information, they describe The Economist Intelligence Unit's Quality-of-Life Index (QLI). The authors argue that human development can be defined as an enlargement process of opportunities for people to choose from. From the perspective of human development, opportunities for people extend, in most cases, in three critical areas: life expectancy, educational level, and access to economical resources necessary for a decent level of living. All existing methodologies for assessing quality of life express the quality of life but from different perspectives.

Human development is both a process and a final result. From the perspective of human development, the authors argue the role and importance of subjective evaluation in public surveys. The article also analyzes the results of public polls conducted in European Union countries by „The Economist Intelligence Unit” during the years 2005, 2007 and 2009, the QL components and draws some conclusions.

Key words: quality-of-life index, assessment indicators, methodological concept, quality-of-life management, methods for quality-of-life assessment, life satisfaction.

J.E.L. classification: F

1. Human Development

In market economy conditions the quality of life in one country or another is a competitive factor. At the world level, quality of life (QL) is calculated by using the Human Development Indicator (HDI), the method proposed in 1990 by the United Nations, which includes monetary indices or measures of welfare and social indicators.

To measure the average achievements in a country is a challenge. As indicators of welfare, some monetary indices have been proposed - *income and consumption*, considered as important components of overall quality of life dynamics of the population. Income is one of the key factors which directly affects the living standard. If you assume that population's income generally viewed in terms of its use is manifested through consumption, that its surplus can be seen in savings, and that any increase in real income causes an increase in consumption, then this requires a parallel analysis of income and household consumption to assess welfare. It has been demonstrated that the main tool for measuring poverty is the poverty line, which allows the division of the whole society into poor and non-poor people. This is, essentially, the minimum allowable or critical life standard. The people whose welfare levels are below the poverty line, form the poor part of the population, while the rest are referred to as non-poor.

To characterize the quality of life, the authors consider that the most important income is the available income, known as *net income*, which means that part of income that remains available to people to cover consumer's spending and saving. The volume of expenditure in a given period depends on income levels in the same period, the

accumulation of income from prior periods as well as the use of anticipated income. As a rule, individual income of employees or their families are determined by the respective budgets. In addition to the factors listed above, a special place in the assessment of living standards is held by household consumption, which means all the consumed food and non food products, and the services used by population for non-productive purposes in a given period [3; 4; 5,11].

Each year the Human Development Reports (HDRs) make effective recommendations at national and international level. At national level, policy recommendations aim at human development priorities, the need to establish a new partnership between state and market, to promote new forms of alliance between governments, civil societies and institutions, communities and individuals. National, regional and global reports on human development have played a key role in promoting human development.

2. The Economist Intelligence Unit's Quality-of-Life Index (QLI)

The Economist Intelligence Unit's analysts developed a new QL index for the year 2005, which was based on the subjective opinion of respondents to the QL issues. The results of the research revealed surprising data: Ireland was ranked first comfortably. The United States of America, although ranked second due to its GDP per capita (after Luxembourg), according to the QLI ranked thirteenth, and the United Kingdom ranked the 29th. It was shown a long time ago that material wellbeing alone does not adequately measure the quality of life [12]. Money has its importance, of course, but polls have shown over time that substantial increases in income are not always translated into human satisfaction [14].

British Economic Analysis Division of The Economist Intelligence Unit proposed a new variant of QL index, variant based on a unique methodology that links the results of subjective life satisfaction surveys and the objective determinants of QL in several countries. This way, the QL index was calculated for 111 countries in 2005. We are going to present this methodology for calculating the QL index variant proposed by

The Economist Intelligence Unit [12]. According to some previous studies, material wellbeing, as measured by GDP per person cannot be the only explanation of the complex concept of QL in a country. Some of the literature has tried to adjust GDP by quantifying facets which are omitted by the GDP measure - as, for example, various nonmarket activities and social ills such as environmental pollution. But this approach has faced insurmountable difficulties in assigning monetary values to the various factors that comprise a wider measure of socio-economic wellbeing [12].

There have been numerous attempts to construct alternative, non-monetary indices of social and economic wellbeing by combining in a single statistic a variety of different factors that influence QL. The main problem is selection bias in QL factors and assigning weights to different indicators (measured on a comparable and meaningful scale) in order to find a single synthetic measure. GDP, despite its drawbacks, has at least one clear, substantive meaning, and prices are objective weights for the goods and services component. Some researchers have invoked the Universal Declaration of Human Rights to identify factors that should be included in a QL measure. But even if accepted as a starting point, they are not well defined and easy to weigh.

The starting point of the study conducted by The Economist Intelligence Unit for a methodologically improved and more comprehensive measurement of QL is subjective life-satisfaction surveys. In such investigations subjects are asked the question of how satisfied they are with their lives in general. Therefore, a typical question on a scale used in the EU's Eurobarometer studies is, "On the whole are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the life you lead?"

The results of such surveys have enjoyed growing attention in recent years. Despite initial criticism which is related to cultural differences, language barriers, and psychological factors distorting the answers, tests have disproved or mitigated most concerns. One objection is that responses to surveys do not adequately reflect how people actually perceive their lives; they report how satisfied they are expected to be. But the study conducted by the above mentioned

journal indicates that subjects know very well how satisfied they are. Responses are prompt and non-response rates are low. The simple measure of life satisfaction was found to correlate with more sophisticated tests. Survey results have proved more reliable than expected [8].

Another criticism of this type of investigation is that life-satisfaction responses reflect the dominant view of life rather than actual quality of life in a country. Life satisfaction is seen as a judgement depending on specific social and cultural frames of reference. But this degree of relativism is invalidated by the fact that people in different countries report similar criteria as being important for life satisfaction, and also that the majority of differences in life satisfaction across countries can be attributed to differences in objective circumstances. In addition, it has been found that the answers of immigrants in a country are much closer to the local population responses than answers in their motherland. Answers to questions on satisfaction in bilingual countries do not reveal any linguistic bias related to different meanings and connotations of the words "happiness" and "satisfaction."

There are several reasons why it is not sufficient to calculate the QL index of a country as the average life satisfaction score obtained from processing the survey results. First, comparable results for a sufficient number of countries tend to be outdated, while many nations are not covered by the survey results. Second, the impact of measurement errors on assessing the relationship between life satisfaction perception and objective indicators tends to cancel out when the research refers to a large number of countries. There might also be a significant number of errors for any given country. Thus, there is a bigger chance of error in assessing QL between countries, if we take a single average life-satisfaction score as opposed to a multi-component index. The last and most important reason – inter-country variation in the life-satisfaction surveys can be explained by objective factors.

3. Quality-of-Life Indicators

To calculate an objective index, the British specialists have used the survey results on life satisfaction as a starting point, and as a means for deriving weights for the various determinants of QL across countries.

The nine quality-of-life factors chosen by "The Economist Intelligence Unit" and the indicators used to represent these factors are [12]:

1) *Material wellbeing* (GDP per person, at PPP in \$. Source: Economist Intelligence Unit);

2) *Health* (Life expectancy at birth, years. Source: US Census Bureau);

3) *Political stability and security* (Political stability and security ratings. Source : Economist Intelligence Unit);

4) *Family life* (Divorce rate per 1,000 population, converted into index of 1 – lowest divorce rates to 5 – highest. Sources: UN; Euromonitor);

5) *Community life* (Dummy variable taking value 1 if country has either high rate of church attendance or trade-union membership; zero otherwise. Sources: ILO; World Values Survey);

6) *Climate and geography* (Latitude, to distinguish between warmer and colder climates. Source: CIA World Factbook);

7) *Job security* (Unemployment rate, %. Sources: Economist Intelligence Unit, ILO);

8) *Political freedom* (Average of indices of political and civil liberties. Scale of 1 – completely free to 7 – unfree. Source: Freedom House);

9) *Gender equality* (Ratio of average male and female earnings, latest available data. Source: UNDP Human Development Report).

A number of other variables were also investigated but, in line with findings in the literature, they had no significant impact on QL. These were: education levels, the rate of real GDP growth and income inequality (Gini coefficient). Studies have often found a small correlation between education and life satisfaction. A recent report by the ILO found that an indicator of schooling and training was actually inversely related to wellbeing when jobs were poorly attuned to people's needs and aspirations.

The British analysts have pointed out that GDP per capita explains more than 50% of the inter-country variation in life satisfaction and the relationship is linear. Surveys show that in rich countries high-income population is more satisfied with the level of living than low income people. In 24 of the 28 countries that entered the Eurobarometer survey, material wellbeing has been identified as the most important criterion for life satisfaction. However, over several decades there has been only a very modest upward trend in average life-satisfaction scores in developed nations, whereas average income has grown substantially. There is no evidence for an explanation. In The Economist Intelligence Unit's estimates, the level of income inequality had no impact on levels of life satisfaction. Life satisfaction is primarily determined by absolute status related to states of mind and aspirations. The explanation is that there are four factors associated with modernisation that, in part, offset its positive impact:

- a concomitant breakdown of traditional institutions is manifested in the decline of religiosity and of trade unions;
- a marked rise in various social pathologies (crime, and drug and alcohol addiction);
- a decline in political participation and of trust in public authority;
- the erosion of the institutions of family and marriage.

In personal terms, this has also been manifested in increased general uncertainty and an obsession with personal risk. These phenomena have accompanied rising incomes and expanded individual choice.

4. Quality-of-Life-Assessment in 2010

Since 2010 we have witnessed another period in the development of worldwide QL assessment. The new methodology for evaluating the global QL focuses on the following factors [8; 9]:

- cost of living in a country;
- people's culture and hobby;
- economic development;
- degree of cultural development;
- public health;
- infrastructure development degree;

- state security or stability;
- climatic conditions.

Some indicators previously used to assess QL are no longer in use. These are: GDP at PPP in \$, job security, political stability and freedom, family life, etc.

"International Living" Journal 2009 [14] published a top ten best countries in terms of QL, meaning the cost of living (15%), culture and hobbies (10%), economy (15%) environment (10%), freedom (10%), health (10%), infrastructure (10%), security (10%), climate (10%). France ranks first, then Australia, Switzerland, Germany, New Zealand, Luxembourg, the United States, Belgium, Canada and Italy. Australia, for example, is a place good for retirement, living a balanced life, enjoying a temperate climate, vast beaches and great landscapes. Also, people with college degree will find a job easily because of the Australian economy and the Asian boom. In Switzerland, everything works. There is reliability, quality, discretion, punctuality, safety and tranquility. Five languages are spoken in Switzerland. In New Zealand you can see the most beautiful scenery in the world. Moreover, for young graduates, New Zealand is the perfect place. There is a very low crime rate as well. Romania is flanked by the Cayman Islands and the Dominican Republic [2].

5. Drop in satisfaction with life and standard of living in the EU

In general, the most striking changes between 2007 and 2009 were seen in terms of satisfaction with life in general and with standard of living. Between the last quarter of 2007 and September 2009, the average level of satisfaction with life in general across the EU fell from 7,0 to 6,8, or by about 4%. This decline was more marked in the new Member States, where global life satisfaction had been increasing: here, the average score fell from 6,5 to 6,1, this decline of 6% being twice as great as the fall in life satisfaction in the EU15. The biggest falls were in Bulgaria (where average ratings of life satisfaction fell from 5,0 in 2007 to 4,4 in 2009), Romania, Malta, Estonia and Latvia, but also in France where the average life satisfaction rating fell from 7,3 to 6,7. So, in the Baltic States, for instance, the pattern of decline in life

satisfaction reflects the drop in GDP. However, it does not correspond to the relatively small declines in GDP in countries such as Malta and France [13].

There was no difference between men and women in terms of the drop in life satisfaction experienced between 2007 and 2009. However, a clear difference was seen between older and younger people: among people aged between 18 and 34 years, ratings of life satisfaction rating fell by only 1%, while they fell 5% among older people. The survey findings indicate that older people in the NMS-12 enjoyed fewer of the benefits of enlargement and are feeling exposed to the risks of the economic crisis. The ratings of life satisfaction among people aged 65 and over were, in 2009, on average of 7.0 in the EU-15 countries and only 5.5 in the NMS-12, which may in part be related to the poorer health of older people in the NMS-12.

Household income and material conditions have a consistent relationship with ratings of life satisfaction. Both the 2007 and 2009 surveys include a question on how easy or difficult respondents found it to make ends meet. In 2007, the average life satisfaction score for those who found it easy to make ends meet was 7.8; in 2009, this was 7.7. The corresponding ratings for people finding it difficult to make ends meet were 5.3 and 4.9. So, the fall in life satisfaction among people who reported difficulty in making ends meet was, on average, 8% between 2007 and 2009. However, this decline was greater in the NMS-12 – 15% compared with 6% in the EU-15, perhaps reflecting the greater depth of difficulties in the NMS-12. The average life satisfaction score for people who were unemployed at the time of the surveys was unchanged among people in the EU-15, but fell by 11% among respondents in the NMS-12 – from 5.7 to 5.0. A similar pattern of decline can be seen when people's satisfaction with their standard of living is compared. On average, in the NMS-12, citizens' satisfaction with their standard of living increased by 9% between 2003 and 2007. However, it fell by 6% between 2007 and 2009. In the EU15, the decline in satisfaction with the standard of living between 2007 and 2009 was less, at 4%. Moreover, the average rating of satisfaction with standard of living was 6.9 in the EU-15, compared with 5.8 in the NMS-12. The

biggest falls in ratings were in Romania and Malta, followed by Latvia and Portugal, France and Estonia, so the perceived decline in standard of living was by no means only in the NMS-12 or those countries most affected by the crisis.

In terms of social groups, older people in the NMS-12 would appear to have been most influenced by the economic crisis. Among people aged 65 and over, ratings of satisfaction with standard of living fell by 5% in the EU-15, but by 12% in the NMS-12. And older people in the NMS-12 rate their satisfaction with their standard of living at a lower level than their counterparts in the EU-15: in the 2009 survey, among people aged 65 and over, the average rating of satisfaction with standard of living was 6.9 in the EU15 as against 5.2 in the NMS-12. Not surprisingly, people who say that they are finding it difficult to make ends meet are much less satisfied with their standard of living than those who find it easy.

As table 1 shows, around twice as many people in the NMS12 as in the EU15 find it difficult to make ends meet. In 2009, the proportion of citizens having difficulties was highest in Bulgaria, Greece, Hungary and Latvia (more than 30% in each country, and more than 40% in Bulgaria). The pattern was little changed from 2007; the greatest increases (of more than 5%) were in Greece, Ireland, Latvia and Lithuania.

Table 1 Elements of economic strain, EU-15 and NMS-12, %

	EU-15		NMS-12	
	2007	2009	2007	2009
Difficult to make ends meet	10	11	26	22
Cannot afford meat	4	6	20	21
Cannot afford a holiday	24	28	55	55

Source: Trends in quality of life in the EU: 2003–2009

Two particular indicators from the deprivation index were used to identify changes in relatively severe hardship: being *unable to afford meals with meat, chicken or fish every second day*, and being *unable to afford a week's annual holiday away from home*. Table 2 shows that the proportions

unable to afford these items are much higher in the NMS, but that there was relatively little change overall between 2007 and 2009. The biggest increases in deprivation were found in Hungary, where the proportion of citizens who said that they were unable to afford meat rose from 32% to 42% between 2007 and 2009. Meanwhile, the proportion unable to afford a holiday rose from 61% in 2007 to 73% in 2009; the only other country in which people reported comparable levels of deprivation in 2009 was Bulgaria.

While between 2007 and 2009 there were noticeable falls in people's satisfaction with their lives, and their standard of living, there was less change in their satisfaction with other aspects of life. Between 2007 and 2009, satisfaction with family life and health fell somewhat more, but job satisfaction remained remarkably stable, as Table 2 indicates. People rated their satisfaction on a scale from 1 to 10.

Table 2. Satisfaction with different aspects of life, EU-15 and NMS-12

	EU-15		NMS-12	
	2007	2009	2007	2009
Family life	7.95	7.81	7.70	7.52
Job	7.22	7.21	6.84	6.95
Health	7.44	7.26	6.98	6.7

Source: Trends in quality of life in the EU: 2003–2009.

Satisfaction with family life is relatively high in all countries, and it is difficult to discern any consistent trend across the three points in time. However, there are two groups of countries in which satisfaction with family life fell between 2003 and 2007, and again between 2007 and 2009 – Germany and Austria; and Greece, Italy, Portugal and Spain. The views of older people appear to have changed somewhat more than those of the average citizen between 2007 and 2009, with a decline of 3% in their level of satisfaction with family life, compared with a fall of 2% for people aged between 35 and 64 years, and no change among those aged between 18 and 34. There was no difference between the ratings that men and women gave to their levels of satisfaction [13].

Between 2007 and 2009, levels of satisfaction with health fell by 4% among respondents in the NMS12 and by 2% among

people in the EU 15, the most marked drops being in Bulgaria, Romania and Portugal. However, people in Latvia were more satisfied with their health in 2009 than they had been in 2007, so it is difficult to know how to interpret such changes. Overall, average job satisfaction did not change between 2007 and 2009, and in the NMS12 it rose by 2%, on average. This appears paradoxical against a background of economic recession, growing job insecurity and deteriorating working conditions (for at least some workers).

6. Conclusions

From our point of view, the methodology proposed by UNDP in 2010 for QL assessment is interesting and relevant. It allows countries in the world to be compared according to several indicators. However, it is quite cumbersome and time-consuming to compile and systematize primary information. In conclusion, we argue that human development can be defined as a process of enlarging people's choices as much as possible. Every day people make many choices in the economic, social and political areas. From the perspective of human development, people's opportunities to choose are expanding in three critical areas: life expectancy, educational level and access to economic resources necessary for a decent life.

However, the fundamental human development framework is much broader. The concept of human development is linked in a compatible and complementary way to human rights. While human development aims at expanding opportunities and freedom enjoyed by members of the community, human rights is an approach to improving the social structures that facilitate or secure these capabilities and freedom. Other choice areas, whom people assign a high value, is the participation in social life, security, responsible governance and sustainability. In terms of human development all these factors are necessary in order to ensure productivity and creativity, self-respect and the sense of belonging to a community. Ultimately, human development means to develop people for people and through people. The essential difference between the concept of economic growth and human development is that the

former focuses exclusively on a single expansion possibility - to make money, while the latter involves the consolidation of all possibilities – either economic, social, cultural or political. From the viewpoint of the concept of human development, income is a means for human development, but not the only one. Using various methods, the benefits of income should be used to cover multiple aspects of development. Therefore, growth is a necessary but not sufficient condition for human development.

According to Human Development Reports, human development matters first, not quantity, but quality growth. Often governments, especially in transition countries, do not consider improving the quality of economic growth and expanding opportunities for people to choose from. Usually, they are concerned with other aspects of the transition process, such as macroeconomic stabilization, budget execution, foreign policy, marginalizing the importance, structure, quality, and influence of other factors on human development. The experience of several countries in transition in the last decade has proved that there is no direct link between stability, growth and human development.

But even if this link has been established, it may wither away, especially if strategic policies management is not consistent or appropriate to the goals of human development. For these reasons, human development should be incorporated into public policy debates and decision-making process agenda. We should not ignore that the definition of human development goes beyond per capita income, human resource development and basic needs as a measure of human progress. From this year on, the definition should also include the following factors: inequality and human development, social justice, international development assistance and international trade that can unlock the potential of human development.

QL assessment is performed by using more thoroughly standards at the regional (European) level than at the global level. The latter way does not contradict the logical links between the two approaches. We can say that these methodologies are in "cause and effect" relationship. The highest effects are registered at the global level, confirming the impact of regional factors in global

phenomena such as population migration, global warming, viral diseases expansion, less agriculture share in countries' economies, population's poverty increase, etc. [5].

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Understanding the Efficiency of R&D Investments from the Aggregate Production Functions Perspective

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Abstract

The rapid growth in the last decades of the investments in research and development have generated an increased interest for assessing their contribution to economic growth. Researchers have tried to model the economic growth including also the technical progress – based on R&D expenditures- as an exogenous or endogenous factor in the aggregate production functions.

Key words: investment, technical progress, R&D, exogenous factors, Cobb-Douglas production function

J.E.L. classification: O33, C21

1. Introduction

In the economic literature there are many studies which have approached the effects of the R&D investments by the means of econometric modelling. R&D investments, or the larger category- R&D expenditures, were used as a proxy variable for the technological change. In the growth theory technological change is envisaged as the expression of the impact of new knowledge on the production function of the firm or nation. Different variants of Cobb-Douglas production functions were usually employed in such empirical studies. The technical progress may be exogenous if it is issued outside the economic process or endogenous if it emerges from within the economic process.

Modern developments of classical Cobb-Douglas production functions belong to the New Growth Theory which reunites a series of models where growth is driven by the technical progress endogenously resulting from the research-development investments of the economic agents pursuing

maximisation of profit. This hypothesis implies the fact that the funds allotted to the R&D sector are able to determine the long-term economic growth rate.

2. Technical progress and the aggregate production function

The neoclassic models of economic growth originate from the Cobb-Douglas production functions, introduced for the first time in the year 1928 by the American economist Paul Douglas, together with the mathematician Charles W. Cobb. Starting with the works of Tinbergen (1942) and Stigler (1947) elements such as total factors productivity and efficiency were added as well. Fabricant (1957) estimated that approximately 90% from the per capita growth output in USA between 1871 and 1951 could be attributed to technical progress.

Other empirical applications on the aggregated production functions that followed (Douglas, Tinbergen, Abramowitz) were summarized by Solow (1957) who concluded that technical progress is the source of the largest part (87.5%) of the entire economic growth.

Solow formulated an aggregated production function under the form:

$$Y = F(K, L; t), \quad (1)$$

where Y is output and K and L represent capital and labour inputs, and the variable t (time) is expressing in the production function the technical progress. Solow explicitly called technical progress any shift of the production function, including the improvement of labour force training. When technical progress is neutral, the equation (1) may be reformulated as:

$$Y = A_t f(K, L). \quad (2)$$

Output elasticity depending on capital is defined as $w_K = \frac{\partial Y}{\partial K} \cdot \frac{K}{Y}$, and elasticity in

relation to the labour factor is $w_L = \frac{\partial Y}{\partial L} \cdot \frac{L}{Y}$.

Differentiating equation (2) in relation to time, there results that:

$$\frac{\dot{Y}}{Y} = \frac{\dot{A}}{A} + w_K \frac{\dot{K}}{K} + w_L \frac{\dot{L}}{L}. \quad (3)$$

If we assume the hypothesis of a constant returns to ($w_K + w_L = 1$), note $Y/L = y$, $K/L = k$

and consider that $w_L = 1 - w_K$, and $\frac{\dot{y}}{y} = \frac{\dot{Y}}{Y} - \frac{\dot{L}}{L}$,

then equation (3) becomes:

$$\frac{\dot{y}}{y} = \frac{\dot{A}}{A} + w_K \frac{\dot{k}}{k}, \quad (4)$$

which is easy to calculate based on data regarding output and capital per man/hour and the share of capital in output, considering the production competitive.

This model of Solow (1957) dominated empirical studies up to the beginning of the seventies. The initial conclusion of Solow, which attributed to technical progress almost the entire economic growth, began to pale as the statistical methodology and the national accounts improved. Nevertheless, there are relatively recent studies (Jorgenson 1990, Denison 1985, Matthews et al. 1982) which suggest that an important part of economic growth (about a third) is "residual growth".

A limit of the Solow type studies is that they do not allow for a more in-depth analysis of the determinant factors of technical progress and the measurement of their contribution to economic growth. The major difficulty relates to measuring innovative outputs. From all available data for measuring R&D inputs and outputs, most frequently the R&D expenditures are used, along with the number of patents, the technological balance of payments, machinery and tool import, and dissemination.

3. R&D investments as a factor in the production functions

The majority of researchers selected the R&D expenditures as measure of input in

innovation more for reasons of availability and correctitude of data than for theoretically substantiated reasoning. Studies of researchers like Griliches (1980a), Mansfield (1980), Nadiri (1980a), Scherer (1982), Terleckyj (1974), Griliches and Lichtenberg, (1984) estimated total factors productivity growth with production functions of the Cobb-Douglas type and have compared it (by regression models) with various input indicators, as a rule, the expenditures for research-development, either aggregated or decomposed on components such as fundamental and applicative research, or private or governmental research.

The typical evaluation model of total productivity of R&D factors and efficiency starts from a standard Cobb-Douglas function which includes the stock of knowledge as separate production factor (Griliches and Lichtenberg, 1984):

$$Y_t = A \cdot D_t^\beta \cdot K^{\alpha_1} \cdot L^{\alpha_2} \cdot e^{\mu t} \quad (5)$$

where Y_t is output, D_t is the stock of knowledge, L_t is the labour input, K_t is capital input, A is a constant and μ is a trend variable which catches other influences. Total factor productivity (TFP) is measured as:

$$TFP_t = Y_t / (K, L) \quad (6)$$

By combining equations (5) and (6) results:

$$TFP_t = A \cdot D_t^\beta \cdot e^{\mu t} \quad (7)$$

and in the logarithm it becomes:

$$\log TFP_t = \log A + \beta \log D_t + \mu t \quad (8)$$

Differentiating equation (8) depending on time and writing $[d \log TFP_t] / dt = \dot{T} / T$ results:

$$\dot{T} / T = \beta \dot{D} / D + \mu \quad (9)$$

From equation (5) we can consider β as being the output elasticity depending on the knowledge capital:

$$\beta = \frac{\partial \log Y}{\partial \log D} = \frac{\partial Y}{\partial D} \cdot \frac{D}{Y} \quad (10)$$

Equation (10) may be rewritten as:

$$\frac{\dot{T}}{T} = \frac{\partial Y}{\partial D} \cdot \frac{D}{Y} \cdot \frac{\dot{D}}{D} + \mu = \rho \frac{R}{Y} + \mu \quad (11)$$

where: $\rho = \partial Y / \partial D$ and $R = \partial D$ (net investment in knowledge capital).

Estimates of the effect of innovation on total productivity of factors can be obtained in two ways (Griliches and Lichtenberg, 1984):

- by using a measurement of the R&D stock of capital, as in the relation:

$$\log TFP_t = \log A + \beta \log D_t + \mu t \quad (12)$$

- by using a measurement of the R&D intensity (depending on output) in a regression relationship of the change of the total productivity of factors:

$$d \log TFP_t = \rho \frac{R_t}{Y_t} + \mu \quad (13)$$

where R_t is the R&D flow, in contrast to D_t which represents the accumulated capital of RDS.

Equation (12) offers a measurement tool of output elasticity depending on scientific knowledge (parameter β), while the equation (13) represents a measurement tool of the social efficiency (profitability) of scientific knowledge (parameter ρ), R and Y being expressed with the same measurement unit. The choice of one of the two methods depends particularly on access to quality statistical data and on the area of interest.

Applying these two methods rises some theoretical and practical issues. From the theoretical point of view, the issue of separating knowledge from the other factors of the production function is not fully clarified. Total of factors productivity is calculated, as a rule, by deducing from output the capital and labour factors, weighted by their specific weights. Under conditions of perfect competition, the price of the production factors is equal to their marginal productivity; hence their shares in output are equal to their exponents from the production function (Hall, 1990). Under conditions of imperfect competition, measuring the total productivity of factor would give errors.

From the empirical viewpoint, the usual issues appear in measuring the variables, especially in the case of value added and research-development. Value added can be affected by several errors, the most important being generated by the use of gross product deflator for building the series of real values added (Stoneman and Francis, 1994). The data referring to R&D raise even more issues due to the difficulty in defining the variable, resolving the aspects related to lag, depreciation and inflation (Griliches, 1988). An important aspects refers to taking into account the cyclic nature of the data regarding the total productivity of factors (Cameron and Muellbauer, 1996).

The theory of endogenous economic growth represented the starting point for a series of models where growth is driven by the technical progress resulting from the research-development efforts. The fundamentally different nature of investments in knowledge has a central place in the endogenous economic growth model of Romer (Romer, 1990). The model has four factors: capital, labour, human capital and technology. Knowledge is separated by the rival (competitive) component embedded in individuals – human capital H – and an non-rival technological component A which is independent from individuals and which can be accumulated without limits. Technology is represented by a stock of manufacturing industrial models (designs) of goods, which are accumulated in time, as result of research efforts.

4. Concluding remarks

The massive increase in investments for research and development and their orientation towards practical, exacting purposes have determined a growing interest for learning about the efficiency of these expenditures. Therefore aggregated R&D expenditures and their efficiency are representing an important research area related to economic growth modelling.

The dissatisfaction determined by the hypothesis of the exogenous character of technical progress adopted by the neoclassical theory of economic growth brought about new theoretical and empirical developments. Under the theoretical aspect, researchers like Arrow (1962), Kador and

Mirrlees (1962) have attempted to demonstrate the endogenous character of technical progress, while from the empirical viewpoint the researchers have tried explicitly to model the total factors productivity by including data referring to R&D investments. Several of these empirical studies use models that might be interpreted as pertaining to the category which renders endogenous the effects of innovation.

The analysis of efficiency of the R&D investments, envisaged by various economic growth models, pursues to identify a balance position between the dangers of over- or under-investment in certain activities, aiming at enhancing the overall economic efficiency.

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Credit Insurance, Fluidization Level of Exchange of Goods

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Abstract

Credit insurance activity appeared on the market as a result of the phenomenon of overlapping of the activities conducted by the financial institutions with those of insurance, by which the insurers take over the risks of financial losses from the banks, as a result of an analysis that would allow them to define the dimensions of risk, the probability of producing it.

By concluding the insurance contract for credit risk, the insured transfers to the insurance company the risk of non-payment of amounts owed by the buyer, due to a precarious situation of the buyer or not knowing enough of the buyer or special circumstances existing in the importer country (different regulations of some economic phenomena, conflicting states, war, embargoes on products, border protection regime).

Key words: risk, debts, insurance, credit .

J.E.L classification: G22 insurance .

1. Introduction

Commercial economic social activity in the current stage of development of society knows a high degree of diversification, with a high degree of interdependence and reciprocal interrelation, which involve at the same time both action and overlapping of a multitude of risks, more or less serious, more or less known, easier or more difficult to avoid.

2. Credit risk, component of economic activities

In definition given by OCDE in 1983 it is estimated that "*risk consists of possibility that a fact with undesirable consequences to occur*" [8; 76]; this definition is based on the eventuality (anticipated with a certain probability or unexpected by the decision

maker) to materialize and negatively affect certain aspects of economic activity. In fact, in this sense, the emphasis is on effects that respective event generates.

The Risk is a component of any economic activity and it can be found in the daily agenda of company managers. At any time you need to know what is the risk and if this risk is greater than earnings. Unexpected changes in interest rate evolution, exchange risk or the price of a product not only affect a company financial results, but may event lead to bankruptcy. In fact, financial decisions involve uncertainty. Financial decisions are taken according to cash flows provided by future contracts, which are by nature uncertain.

It is not surprising that an important function of the financial system is allocated the risk associated with interest rate evolution, stock price, exchange rates or the price of certain commodities, etc.

The business world knows a mobility that was unthinkable a few decades ago. Every year thousands of companies worldwide go bankrupt because they fail to ensure a balance between receipts and payments. At the same time thousands of companies are founded, with varied activity object from which less than a quarter manage to resist on the market more than a year, the other ending their activity because of the perfect ignorance of the market mechanisms, risks that act in the field of activity chosen by these companies remaining with large debts to partners. Many times the reason is the insolvability of their customers which makes impossible to recover these amounts and therefore continues the series of the problems and it flows on others, creating a chain reaction that affects a large number of market operators.

Carrying on the current activity assumes that market operators to conduct and carry out commercial transactions, but many of them do this thing without protecting themselves against the danger of not collect

the counter value of the sold goods from the buyers, executed works or performed services, especially during recessions.

A huge transformation suffered also the way of carrying out business, they no longer runs by using their own money, but by using to an increasing degree the commercial credit. Today, payment at the time of purchasing is used increasingly less, especially when business partners are not known, buyer hasn't a good reputation in the market or comes from a high-risk business environment (or country).

But most business is conducted through the use of commercial credit, respectively the goods are purchased now and paid later, sometimes after 60 or even 90 days, this thanks to both the good reputation got by the buyer on the market and some rules imposed on market regarding the payment modality of purchased products.

By law of bill, promissory note and check harsh sanctions are stipulated in case they are not honored on time, including penal sanctions. Commercial banks also have a strict record of these settlement instruments, having also the obligation in situation when a company registered a major incident regarding the use of bill, promissory note or check, they must proceed urgently to the following measures: to retry the instruments of that type released to that firm, not to issue that type of debit instrument to the firm for a year, to inform the police unit where it operates about that incident and to register it at Payment Incidents Register. The Payment Incident Register is an organism that is operating beside National Bank of Romania and which manages all payment incidents registered by the economic agents and which can be consulted both by commercial banks and traders. Under such conditions, in case an economic agent registers payment incidents, this fact may be quickly brought to the attention of other market operators and banks that will proceed to take protective measures against them, respectively: will provide in contractual relationships with these economic agents immediate payments ways for the counter value of goods shipped, executed works and performed services, as well as penalties for failure to pay obligations under contracts within time, will apply restrictive measures on access to credit of such economic agents asking for additional

guarantees and without accepting at discount the bills, promissory notes and checks issued by the economic agents with an inadequate record registered at the Payment Incidents Register.

Economic agents contract bank credits and investment credits for achieving their current activity in order to resume production process till they collect the counter value of the delivered goods, executed works and the performed services with different payment (further delivery time), as well as for the enlargement and modernization of existing production capacities.

But, as mentioned above, upon request of credits by economic agents, the banks make a detailed analysis of their activity, both economic and financial situation and reputation, seriousness and confidence they have in the business environment, in their relations with employees, with local and central budgets, as well as, compliance with environmental rules. The made analysis highlights the applicant's capacity to meet its outstanding obligations to suppliers, local and central budgets, employees and banks in time. Banks will also conduct an operative consult of the Payment Incidents Central, an institution set up beside the National Bank of Romania, whose operation requires the recorded of all delays registered by traders in paying their contractual obligations due to financial institutions (banks, leasing companies, etc).

Meanwhile creditors look for a protection in order to cover non-recovery of money lent by applying some forms of financial loss insurance.

3. Credit insurances – taking over instrument of the financial risks of economic agents

Insurances intervene in commercial activity by taking the risk related to the possibility that the debtor can not pay its contractual obligations on the appointed date, activity known as financial risk insurance. This type of insurance activities in accordance with economic environment conditions, in which risk factors act that are different from other forms of insurance.

The most important form of financial insurance is the insurances of loans to the

population or economic agents for carrying out current activity, for the production delivered at export or on the domestic market and for financing of the investment activity.

Credit insurance activity appeared on the market as a result of the phenomenon of overlap of the activities conducted by the financial institutions with those of insurance by which the insurers take over the risks of financial losses from the banks, as a result of an analysis that would allow them to define the dimensions of risk, the probability of producing it.

Credit insurances are different from bank guarantees by the fact that bank guarantees are made by the banks as an additional protection for the eventuality that the activity accomplished by the borrower, which until that moment has proven viable, not to allow payment on the appointed date of the outstanding rates and related interests, while by financial insurance risks are taken over only under certain conditions, namely analyzing the risk of non-payment sizes, risk analysis, its imminent to occur and the probability to appear in time.

By concluding the insurance contract for credit risk the insured transfers to the insurance company the risk of non-payment of amounts owed by the buyer, due to a precarious financial situation of the buyer or not knowing enough of the buyer or some special circumstances in the importer country (different regulations of some economic phenomena, conflicting states, war, embargoes on products, border protection regime). In these situations the credit insurance protects the producers and exporters of occurrence of non-payment risk, their debts can be accepted at lending by banks till their collection.

Costs charged by insurers for insurance receivables by the sellers are quite high, they varying according to specific situations in economy and being higher in case of deliveries of goods in countries with political instability, with high risk or in times of economic crisis. For this reason, credit insurance becomes sometimes a luxury insurance, especially in cases when insurance companies take over the risk of non-payment of the debts related to deliveries of goods, executed works and performing of services made by beneficiaries from countries with unstable political regime. In order to avoid

the use of credit insurances, suppliers of goods, works and services to beneficiaries from unstable areas prefer to take a series of measures to diminish the risk of default like: carrying out of receipts by first rank banks that offer them a full safety, stipulation in economic contracts of some definite settlement instruments (letters of credit, letters of bank guarantee issued by first rank banks) and avoidance of documentary collection or term payment unsecured by banking instruments issued by first rank banks, delivery of goods with payment in advance, etc.

Contracting an insurance credit involves several steps, beginning with investigation the risk of non-payment, this requires knowledge of the debtor status, its periodic review, its economic relations, its capacity to pay. Ongoing surveillance by permanent supporting of the insured in order to recover the amounts for deliveries he made and delayed at payment, by submitting the necessary documents on the banking circuit, by tracking in terms of meeting the protest refusals to pay and initiating the necessary legal proceedings to recover money, where appropriate. The support given by the credit insurer also consists in counseling the suppliers in negotiating the contractual terms concluded with the beneficiaries, by offering them information regarding the economic and customs legislation from beneficiary country, by supporting in establishing by contract of the law that governs the carrying out of that contract and judging of any disputes that may occur in its put into practice.

In order to stimulate the economic agents to take all measures to prevent the risk of debt default there are excluded from inclusion in credit insurances the following risk categories like claims for deliveries of goods or inadequate performances of services, penalties or other losses in connection with non-execution of the contractual obligations under the sale-purchase contracts concluded by the seller (insured) with the buyer, as well as unfavorable exchange rate differences which could be recorded in carrying out of the contracts for deliveries to export, these being independent of the action or inaction of the insurance company or insured.

The credit insurance is an indemnity insurance because it supposes the compensation paid to the insured for the loss suffered as a result of insolvency or inability to pay of the insured and not appearing an event that causes damages like in situation of other insurances. Therefore it is a pecuniary insurance, of financial loss and not material . [7 ; 42]

A form of credit insurance is the insurance of the credit rates , used in insurance of banking credits granted to the population and economic agents , rescheduled at repayment in more rates , on medium or long term . Takeover by the insurance companies of default risk by the borrower of the credit rates and the related interests is accepted only under condition that the insurer to participate with an own contribution of 25% minimum of the counter value made with bank credit.

In order to encourage the export more and more countries constitute specialized bodies as governments agencies or insurances companies that collaborate with government agencies and which take over a part of the non-payment risk during the export contracts in progress. The eventual losses of the credit insurance activity carried out are covered by the state concerned by the provision of budgetary allocations in this sense. Among the main operators on the market for the credit insurers we specify the French credit insurance company COFACE or EXIMBANK from our country that has as aim the encouraging the foreign trade of the Romanian companies , penetration of certain foreign markets, subsidizing of a part of the interest related to achieving the production for export and the export, etc, within the limit of an annual budgetary allocation approved by Parliament by the law of the state budget .

By the credit insurances the default risk is taken over by the insurer during the crediting period , namely the interval of time between the delivery of goods, execution of works or performing of services upon the receipt of their counter value. The responsibility of the insurer generally begins at the moment of coming into force of the contract between the insured and the buyer and expires at the moment of receipt by the insured party of the counter value of the deliveries made to the beneficiary under normal carrying out of

the contract or at full repayment of the loan , in the event of a damage or if the insured party fails to fulfill its obligations assumed by the insurance contract .

Analysis of the non-payment risk is made on the basis of analysis of a varied information range related to the business environment and the buyer like : the history of the company , economic financial indicators achieved by it in a certain period, usually 3 years , respectively patrimonial liquidation , patrimonial solvability , own capital profitability, indebtedness degree, the volume of outstanding debts to budgets , suppliers , shareholders and employees , the degree of contracting for the achieved production, information regarding the business relations with different partners , degree of creditor control, etc.

It is also analyzed the buyer's activity, the quality , professionalism and competence of its management , the relations with the suppliers , beneficiaries , banks , previous experience in the credit field , mainly full repayment of the credits and at deadlines , payment capacity , follow closely of the purpose for which the credit is granted, acquisition of new assets , investments and if all of these are consistent with its financial situation , determining the capacity of the company and all necessary features to frame in a certain type of borrower. The financial analysis completes the image about the buyer and it is based on the analysis of balance sheet and profit and loss account for the last three years, proceeding to drawing up and analysis of the cash flow for the period of crediting by which it is analyzed the evolution of receipts and payments in progress , checking the coverage degree of the payments from the projected revenues during the crediting period . The cash flow is prepared based on both receipts and payments on data resulting from carrying out of the economic activity of the insured party (the volume of the concluded contracts, the terms of collection stipulated in contracts , the payments for the supply of raw materials, materials, fuel, energy, wages required to achieve these contracts).

4. Conclusions

Credit insurances made their presence felt increasingly in the current economic crisis in which the risk of not collecting the value of products delivered to customers is more present, the economic agents preferring to apply these guarantee forms to collect the debts on the appointed date. In these periods the risk factors are analyzed with increased rigor, the managers of companies are in a position to choose the contracting of more expensive credit insurance products, solution that is preferred to fail to receive these debts and entry into insolvency. Through this, the credit insurances contribute to the mobilization of some internal reserves that will lead to increase of labor productivity and decrease of production costs. At the same time it is required that the state to intervene in the economic life by increasing the annual budget allocation approved by Parliament for governmental agencies (in our country EXIMBANK) in order to encourage the foreign trade of the companies, the penetration of certain foreign markets, by subsidizing of a part of the interest related to the achievement of production for export and export, respectively a part of the costs of credit insurance.

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Eco-Marketing - a 3rd Millennium Premise for the Commercial Practice and Business Pattern Development

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Abstract

Extending the applicability of marketing seems to surprise no commercial world today, in the context of the globalization trend imposed by the total rate requires a well-known for the development of nonlinear business area. This new work aims to underline the need for organizational decision maker's respondent's orientation towards marketing approaches that focus more visible in the eco area. This neo-positioning involves a set of measures based on media and means to identify the optimal information dissemination so as to ensure safe signals, concrete and real to the purchaser, consumer or user in order to reach level of accountability for their lifestyle.

Certainly the eco-marketing impact does not stop the progress we have presented in the conditions that continually occur and appear new extra connection in the marketing relationship with our business, particularly amid the economic and financial unrest and social effervescence that dominates current global trade pattern.

Key words: eco-marketing, globalization, development, eco-consumption, eco-behavior

J.E.L. classification: M31

1. Introduction

Considering that eco-marketing is a marketing technique which is able to promote a product/service based on the environmental benefits and its market impact direct and/or indirect, we are therefore able to grasp the fact that this approach is based on a complex mechanism of action, development and

evolution, implying clearly the orientation towards a management system [1] entirely responsible.

In fact, the quintessence of this neo-concept, without departing from the science which crystallized it, receives new meanings and new interconnections in the XXI century economy, while keeping intact all the essential powers [2] directly anchored to the representative 5P of the modern marketing mix.

In other words, the applicability of eco-marketing should be able to lead to a new orientation of the options and manufacturer thinking to the benefit and of the direct and/or indirectly that will directly reflect on BCU's contemporary life.

2. Method and materials

As a working method for this work it was chosen the achievement of a presentation regarding the current level of eco-marketing to what should become in the shortest time.

The novelty of this work is reflected in the proposed terminology, the figures presented and transparent way to deal with cross-marketing issues as opposed to the angle of the current professional literature cited in this paper.

Also, it is considered that a successful eco-marketing approach will not be able to produce only in the context if a responsible management will ensure its current moves on the EFS (economic-financial-social) global stage. This management responsibility will certainly be focused on methodological issues directly related to functional, organizational and practical mechanisms found in the modern marketing mix [3] if we consider the anticipation actions of NPE (needs, preferences, expectations)

corresponding to modern BCU (buyer-consumer-user), in a more natural and sustainable way [4], in order to generate repeatable consumer-purchase-utilization act regarding the concerned eco-products and/or eco-services.

Moreover, this eco orientation begins to take visible shape in the global business culture, especially in the context in which we're speaking more and often about DES (digital eco-sustainability) as a neo-concept allowing organizations to increase the informational current spectrum of the eco-product/service through on-line niches [5].

In fact, eco-business information accessibility seem to be positioned far from fully satisfactory level, if we think that apart from accessibility to information is really needed for the acceptability process to consume-purchase-use the products and/or services found in modern organizations book [6].

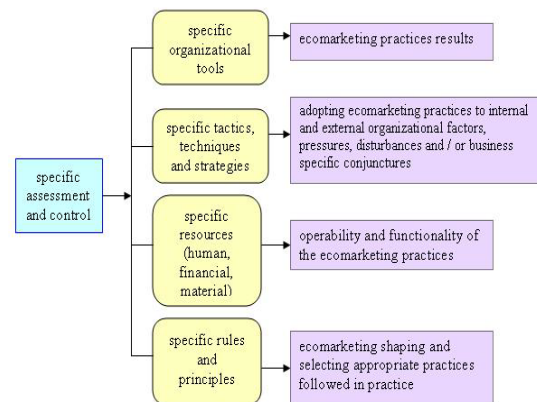
This is actually one of the main errors that are assigned to the current eco-marketing strategies respectively the focus almost exclusive on the phenomenon known as crowd-sourcing, relying on capturing the public interest to something new and beneficial to the own health and/or their individual benefit.

3. Results and discussions

In our view, tomorrow eco-marketing must be able to see and to understand all the benefits of the LRI (local-regional-international) empowerment barometer leading to an approach involving the contemporary BCU in a constant search of a better life, more qualitative [7] and sustainable based on sufficient eco-instruments, carefully anchored in the surrounding reality.

By this the millennium marketing carries on his shoulders the burden of vital role which it involves by the introducing and promoting of some eco-products and/or services so as to bring about a rationalization of resources consumption and a careful review of their own lifestyle and the current society as a whole. This requires effective and transparent understanding of the transformational approach imposed by eco-marketing in upstream and downstream of its concrete actions, namely:

Figure 1 Transformation approach imposed by the actions and commercial decisions of eco-marketing



In the current EFS (context, carrying out in the commercial practice of such a mechanism will be able to provide a visible long-term opportunity, given the general crisis pattern that dominates over the LRI contemporary business scene.

This is why we consider the marketing involvement as beneficial in this complex global term, especially since the modern BCU is able to accept a neo-oriented commercial offer based on eco-products /services [8], aspect which can be extended even under the form of acceptance and implementation of some corresponding and harmonized international eco-standards [9]. For this we also consider that it should be channeled in a synergistic way all the marketing efforts especially in the area concerning the justification of the sensitive high cost for the eco-products/services, especially under the current global financial instability.

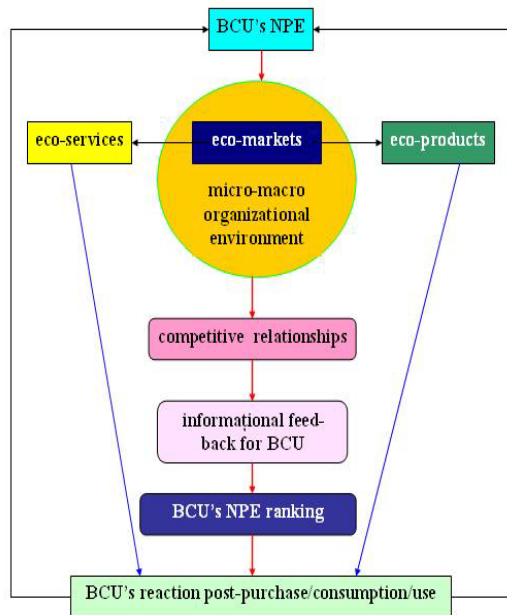
In this context, the eco-mix of such products/services should be based properly around such a SWOT which must remain perfectly justifiable and credible for the eco-guidelines views. Like this it will be caused a new level of informing the widely BCU regarding the full impact of the commercial-industrial trends on the environment and the global changes that can not be hidden from the contemporary human eye.

Furthermore, modern BCU seems so willing to abandon the traditional purchase-consumption patterns, and it becomes more interested in assimilation of some neo-ways

and/or practices in order to be accountable to the current and future LRI framework.

A valuable tool in this landscape is reflected in the arrangements of modern advertising and it disseminate more and more eco-messages whose main subject is the compatibility BCU's NPE towards the respect of modern global environment.

Figure 2 BCU's NPE versus current trade offer



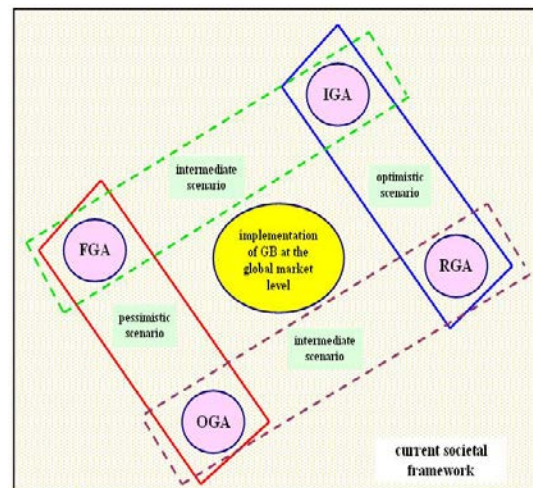
However, we must be fully aware that these campaigns can not fully impose the global will regarding the replacement by the BCU of the products/services/resources which are currently consumed-purchased-used [10] with others exclusively eco, as long as is currently missing a real sustainable context of self-discipline.

To arrive at this point it would be needed, obviously, channeling a proactive energy toward the absorption of a GMST (green modern sustainable training) especially for the proactive factors [11] responsible for the advertising space but also for the specifically one of current business, which must associated a GPA (Green practical advice) directly applicable to the eco-marketing area. If these efforts would be accomplished then we appreciate that it could reach a RVIC (green reaction of credible information) which once offered to modern BCU may be able to channel its NPE towards eco-NPE's on medium-term and long term. At the same

time, at this stage it will be able to openly talk about a GGB (green global behavior) specific for the orientation of the green company [12], which will expand to the market level given both an optimistic and a pessimistic scenario, without omitting intermediate scenarios.

All these aspects will occur in the context of the specific mutations that appear on the commercial global chessboard [13], where they're meet and confronting through material and/or immaterial relationship FGA (false green actors), OGA (opportunistic green actors), RGA (real green actors) and IGA (intelligent green actors).

Figure 3 Implementation of GB (green behavior) at the global market level



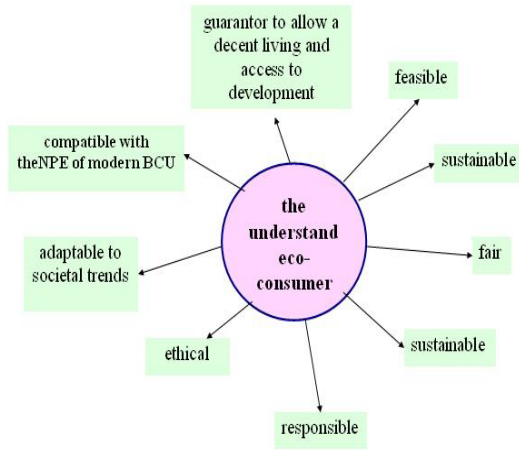
Given the typical scenarios to implement a GGB, we appreciate the fact that modern BCU will be able to extract its own green strategy, in order to satisfy the current and future options in order to include a pragmatically degree of acceptability towards the eco-trade offers, regardless of the specific organization activity, the implantation country or organizational size.

However, modern BCU will need to understand that this neo-perspective will not be able to influence negatively or uncontrollable the desires related on the comfort in living standards and/or present or future welfare level if it will produce a sincere guidance for eco-consumption.

It will thus attain an understanding eco-consumer stage, whose generic features are presented in figure 4, which will lead to a neo- perspective of the buying/consume-use

process for the general and/or specific products/services.

Figure. 4 Characteristics of the understood eco-consumption by BCU



More so, it must be known that from here it will follow a set of advantages that can be outlined carefully at a SLC (sustainable lifestyle choice) level along with the efforts channeled towards the careful selection of only those technologies and business and/or industrial practices likely to generate eco-efficient and eco-sustainable methods able to produce the maximization of the eco trends effects at LRI area.

There must not omit the fact that the BCU must focus the responsible efforts also towards maintaining a responsible eco-balance between the commercial report offer-demand both at the real market level and those potentials.

In addition, we appreciate that the principles of eco-consumption should be carefully selected and harmonized in a unstable global which must be then assume by all present and future organizational actors so that the effects that will follow naturally from their work to be transposed in a positive way both over the societal framework but also over the specific and global environment [14].

4. Conclusions

It becomes increasingly clear that eco-marketing currently holds a specific mission concerning the abandonment of the vicious circle hidden under the masks of current business practices, and they must be replaced

as soon as possible with another opportunity to support global business activities.

Thereby, the option for ensuring a sustainable and concrete development mustn't remain a simple goal stayed on the border between the evolving world and one in the developed process, but an actual law of modern BCU, for acceding to a neo-way of living and an eco-behavior [15].

However, scientific progress can't be still focused entirely in the direction of R&D orientation towards a real SLC, reason for that it is required a neo-global vision specifically for the sustainable development. Timely it can generate a deep reconfiguration of the current commercial pattern which must transform into a less dependent one on the energy consumption, integration of harmful and/or toxic substances, non-renewable material use, integration of components that can not be recycled, etc.

Just to achieve this goal it is recommended implementing of measures that will generate profound, structural and justified changes in the current model of consumption [16], involving all instruments capable of meeting this generic action until the moment when it will be reached the NCC (neo-culture of consumption) at the EFS sustainable level.

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The Regions of Economic Development and Categories of Activities

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Abstract

Regional development is a primary objective, representing the essential element in ensuring a decent standard of living and a quality level of life in the entire national environment. The study puts forward inter-regional differences from the viewpoint of the gross added value as a result of economic activity. Nevertheless we can distinguish regional differences in terms of inclination for some economic activity categories.

The share of counties in the total value of the VAB leads to the classification in 5 typological classes on which we can identify economic development factors.

Key words: regional development, positioning, classifications

J.E.L. classification: O1, O5, R5

1. Introduction

The harmonious regional development has been a constant concern that should allow the a similar level of life-quality within the entire national environment.

In order to reach these objectives, in 1998, the Law no. 151 defined 8 regions of development proper to the statistic level NUTS II, in accordance to the system performed into EU countries.

As it is stated within the document: "Unlike rural communities, municipalities and counties, the areas for development are not administrative-territorial units and do not have legal personality. The institutional framework, the objectives, the features and the instruments for the regional development policy in Romania have been revised in 2004 within the context of the 21st chapter "Regional policy and structural instruments' coordination", by the approval of the Law no. 315/2004 on regional development in Romania (The Romanian Government, The

National Plan for Development 2007-2013, 2005, p. 10).

The 8 regions are: 1. North-East (Bacau, Botosani, Iasi, Neamt, Suceava, Vaslui); 2. South-East (Braila, Buzau, Constanta, Galati, Tulcea, Vrancea); 3. South-Muntenia (Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman); 4. South-West Oltenia (Dolj, Gorj, Mehedinti, Olt, Valcea); 5. West (Arad, Caras-Severin, Hunedoara, Timis); 6. North-West (Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu-Mare, Salaj); 7. Center (Alba, Brasov, Covasna, Harghita, Mures, Sibiu); 8. Bucharest-Ilfov (Bucharest, Ilfov).

The proposed analysis targets the regional gross added value and the 6 categories of economic activities. According to the National Institute of Statistics: "The gross added value measures the surplus value of goods and services produced more than the value of goods and services consumed for production, thus representing the new value created in production".

Categories of activities considered within the statistical reports are: A01 - Agriculture, hunting and forestry, fishing and fish breeding, A02 - Industry, including electricity, gas and water; A03 - Construction; A04 - Wholesale and retail trade, repairing of motor vehicles, of motorcycles and of personal and household goods, hotels and restaurants, transportation, storage and communications; A05 - Financial brokerage, real estate, rentals and services for companies; A06 - Public administration and defense, education, healthcare and social support.

2. Methodology of analysis

In order to determine possible limitations that underpin the evolution of a regional development model, a first analysis of the current status may provide useful information. The economic development of a region is depending on the economic activity

that takes place, on the potential on intensive development, as well as on its strategic opportunities for economic reorientation or simultaneous development.

Using statistical data for the timeframe 2002-2006, one could outline how the region evolved in terms of GDP, RGVA developments reported during this period, for each region and category of activity, expressed in percentages, as well as the ratios for each category in the formation of the RGVA, respectively the VAB share corresponding to each region, in a rundown for categories of activity.

By calculating the ratios and applying logical selection tests there will be a classification of counties into five categories of study in order to identifying conditions and factors that stimulate or inhibit the economic development.

3. Hypotheses for the Analysis

The assumptions the analysis intends to verify are:

I1 - the evolution of the GDP per development region depends on its initial level;

I2 - RGVA developments in different regions are depending on the category of activity;

I3 - the share of economic activities is constant during the 2006 period as compared to the 2002 timeframe;

I4 - regions' shares in the categories of economic activities is constant;

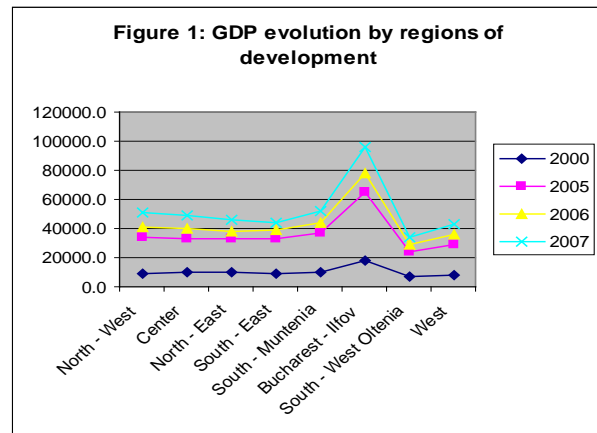
I5 - the shares of the counties in the categories of economic activities are different;

I6 - based on the ratios in the GVA formation on categories of activities, the counties can be grouped into types of contributors.

4. Results of the analysis

Using statistical data on the GDP for the development regions, one could observe that from 2005 to 2007 it experienced a constant, systematic increase in all regions. The only highlighted exception is the region Bucharest-Ilfov, which - unlike the other regions - recorded a spectacular growth.

Yet at a closer look one can perceive that it has increased in 2005 compared to 2002 about 3.5 times, about four times in 2006 and from 4.5 to 5 times in 2007 respectively, in all regions.



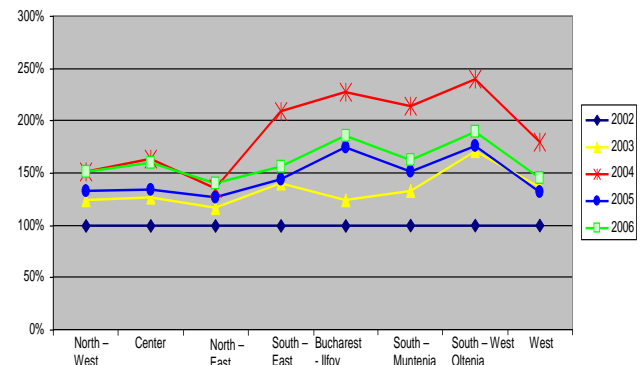
Source: the National Institute of Statistics

Thus I1 is confirmed in the sense that a higher initial value leads to spectacular values, in the context of constant growth rates.

RGVA evolution on categories of activity is presented as a percentage, having as basis the reporting year 2002, in order to highlight inter-regions differences.

In Figure 2 for A01 one could distinguish that the South-Eastern, Bucharest-Ilfov, South-Muntenia, South-West Oltenia regions recorded higher increases (between 250-300%) compared to other regions in 2004, while in 2005 and in 2006 there has been a return to the level of 150-200%. However the Bucharest-Ilfov and South-West Oltenia regions recorded higher positions.

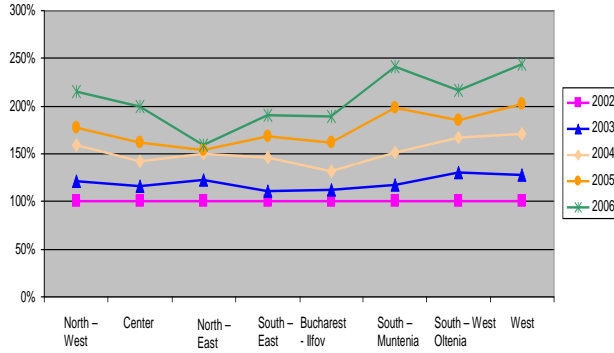
Figure 2: The gross added value by regions of development - A01



Source: the National Institute of Statistics

In Figure 3 one can perceive that with respect to A02, the North-East region is placed in a position of decline, while South-Muntenia and West regions recorded the strongest increases.

Figure 3: The gross added value by regions of development - A02

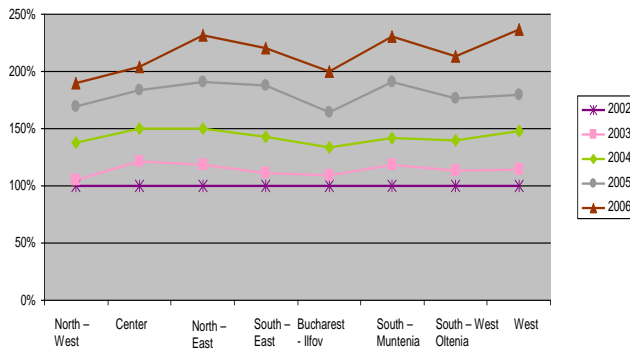


Source: the National Institute of Statistics

The values shown for A03 and A04 highlight relatively constant increases from year to year for all regions, with the sole exception of the Bucharest-Ilfov region, which continuously recorded higher rates, after a period of five years recording a growth of about 50% (for A03 the general level is between 250-300% and between 200-250% for A04).

In figure 4 one could see that - unlike other categories of activities - A05 experienced a constant evolution without major differences between regions.

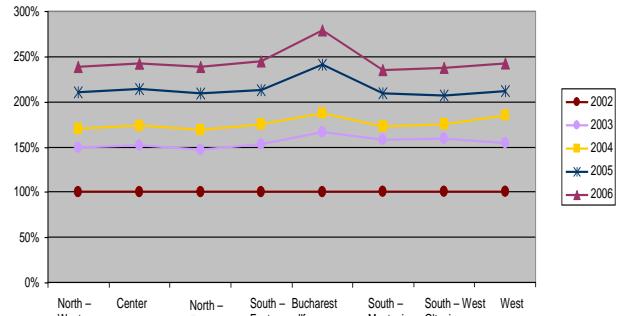
Figure 4: The gross added value by regions of development - A05



Source: the National Institute of Statistics

The Bucharest-Ilfov region registers a peak in the A06 compared to other regions.

Figure 5: The gross added value by regions of development - A06



Source: the National Institute of Statistics

One could note from the charts above that the hypothesis of RGVA different variation depending on the category of economic activity is partially verified. This should be overall understood as a general trend with consolidated exceptions. It is obvious that the Bucharest-Ilfov region is such an exception. Source: the National Institute of Statistics

A second form of RGVA analysis is where one can see the contribution of different regions to each type of economic activity considered.

The comparison is performed for the values for 2002 and 2006 respectively.

Figure 6: The share of regions in economic activities - 2002

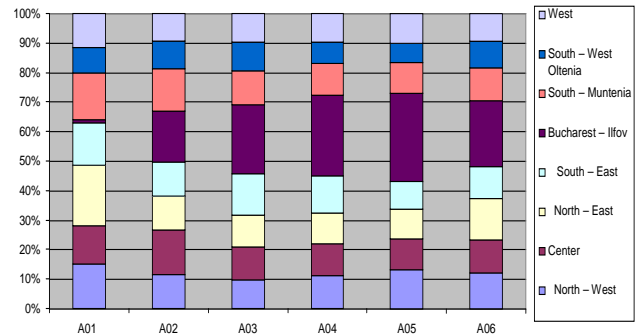
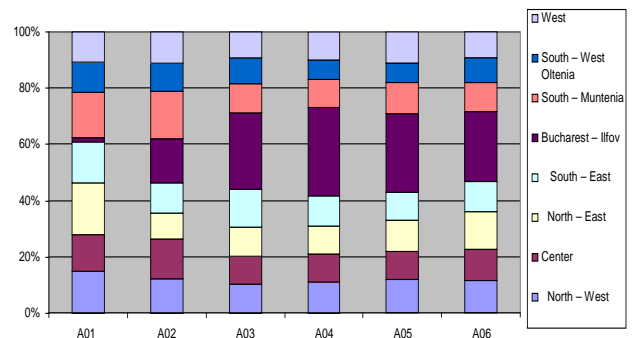


Figure 7: The share of regions in economic activities - 2006



From the previous figures it can be easily noted that the West and South-West Oltenia regions contribute to all six categories of activities with ratios of 10-15%, the sum not exceeding 20%.

The Bucharest-Ilfov region is a major contributor within the A04 and A05 areas, where it contributes with about 25-30%. It also has significant contributions within the A03 and A06 areas.

The South-East and North-Eastern regions' contributions are of 10-15% in all economic activities' categories except the A01 where it records an increase towards 20%.

At the same time the North Central and West regions have constant contributions of about 10% for A03, A04, A05 and A06, their major contributions being focused in A01 and A02 but without exceeding 15%.

Figure 8: The share of economic sectors in gross added value by regions - 2002

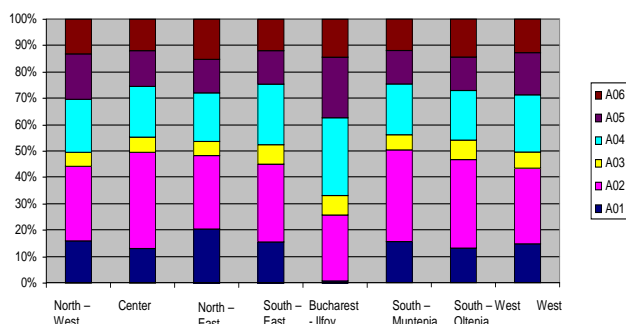
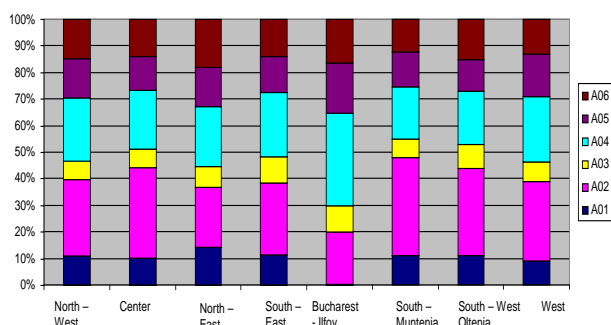


Figure 9: The share of economic sectors in gross added value by regions - 2006



Source: the National Institute of Statistics

From the Figures 8 and 9 one could notice that the shares of different types of activities in the RGVA formation for the 8 regions have not changed substantially between 2002 and 2006. Also it might be noted that A02 and A04 are the categories of activities with the highest ratios in the RGVA formation.

The highlighted differences originate from the contribution of each type of activity. Thus, in the Central, South-West South-Muntenia and Oltenia regions, A02 has the largest share of over 30%. In Bucharest-Ilfov, A04 has recorded the highest share of over 30%, A02 reaching up only to 20%.

A more detailed analysis can be achieved at county level within the structure of a region. This will provide information on how each county participates in the creation of the RGVA.

If we look at the ratio of activities in the RGVA formation in two regions, namely North-East and South-Muntenia, one could verify if - inside the region - the contributions of each county are proportional or not.

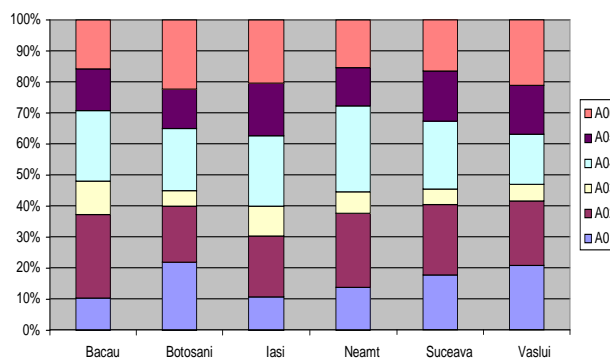
The two presented regions are placed at the opposite sides of the regional analysis; the North-Eastern region has a relatively uniform distribution of the contribution of the categories of activities, as opposed to the South-Muntenia region which has a weighting in favor of a single category.

The ratio of the categories of activity in the North-East region is about 25% for A02 and A04 (considered as basic constituents in all regions), about 15% for A01, A05 and A06 and less than 10% for A03.

The county ratios show that each of these counties participates in a different way. Thus, Botosani and Vaslui register different ratios from those recorded throughout the entire region.

For the county of Botosani, A0, A02, A03 and A06 entail comparative ratios of about 20%, in the county of Vaslui, A01, A02 and A06 are maintained at 20%, while A03 and A05 are placed at 15%.

Figure 10: The share of economic activities in GAVR - North-East Region /2006

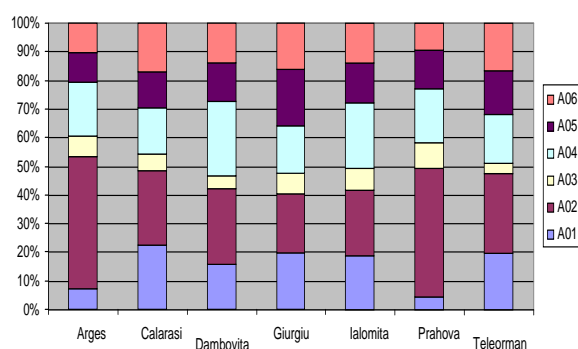


Source: the National Institute of Statistics

As seen in Figure 10 only the county of Neamț preserves the ratios recorded for the region. Certain uniformity in the ratios of activities' categories at the level of the regions is not based on homogeneity distributions in the counties, so one must identify the factors that determine these ratios at the county level.

The second example is the South-Muntenia region, shown in Figure 11, which unlike other studied region has a discrepancy ratio in favor of A02, positioned at about 35%.

Figure 11: The share of economic activities in GAVR - South-Muntenia region/2006



Source: the National Institute of Statistics

One might note from the chart that, for this region, the ratios for activity categories in counties are quite diverse. Thus, the Arges and Prahova counties record amounts above 40% for A02, while Giurgiu only 20% and Ialomita records slightly over 20%. At the same time, the Giurgiu county places A01, A02 and A05 on an equal level which – on their turn - are placed at 20%. Concurrently, Ialomita records 20% ratios for A01, A02 and A04.

If we calculate the ratios of the six activity categories for VAR in 2006, we find that the highest discrepancy values in the 41 counties and Bucharest are registered in Bucharest. These are 13% for A02, 24% for A06, 25.8% for A03, 26.35% for A04 and A01. In the case of A01 the amount is 0.09%, a very low level.

The following values are registered at less than half, namely 6.49% and 6.25%. For this reason the total ratios were calculated without Bucharest.

Table 1: THE SHARE OF ACTIVITIES IN GAV BY COUNTY *

	million lei - current prices					
	A01	A02	A03	A04	A05	A06
Alba	2.23%	2.83%	1.51%	1.69%	1.82%	2.36%
Arad	2.77%	3.07%	2.54%	3.20%	3.59%	2.67%
Arges	2.86%	6.48%	4.10%	3.42%	3.26%	3.10%
Bacau	2.95%	2.72%	4.29%	3.03%	3.00%	3.42%
Bihor	3.02%	3.53%	2.28%	3.92%	3.82%	2.97%
Bistrita-Nasaud	2.07%	1.49%	1.19%	1.11%	1.64%	1.59%
Botosani	2.58%	0.77%	0.83%	1.10%	1.21%	2.02%
Braila	2.12%	1.26%	1.81%	1.36%	1.42%	1.68%
Brasov	2.38%	4.39%	4.86%	4.64%	3.95%	3.52%
Buzau	2.51%	1.77%	1.72%	1.52%	2.51%	2.03%
Calarasi	1.99%	0.84%	0.69%	0.69%	0.87%	1.19%
Caras-Severin	2.25%	1.11%	1.53%	1.98%	1.66%	1.64%
Cluj	3.52%	4.14%	6.70%	5.66%	5.13%	5.18%
Constanta	3.02%	5.08%	8.43%	7.42%	3.59%	4.01%
Covasna	1.78%	0.96%	0.66%	0.82%	0.91%	1.10%
Dambovitza	3.27%	2.03%	1.38%	2.59%	2.29%	2.27%
Dolj	2.89%	3.35%	3.29%	2.97%	2.72%	3.91%
Galati	2.84%	2.30%	3.87%	2.21%	2.82%	2.70%
Giurgiu	1.60%	0.61%	0.86%	0.64%	1.28%	1.03%
Gorj	1.77%	3.06%	2.74%	2.12%	1.62%	1.78%
Harghita	2.03%	1.84%	0.95%	1.44%	1.52%	1.56%
Hunedoara	1.69%	2.90%	2.82%	2.30%	2.50%	2.55%
Ialomita	2.07%	0.91%	1.18%	1.20%	1.22%	1.19%
Iasi	3.50%	2.37%	4.59%	3.52%	4.44%	5.27%
Ilfov	1.39%	2.84%	1.54%	6.56%	2.36%	1.23%
Maramures	2.59%	1.97%	1.58%	2.15%	2.37%	2.40%
Mehedinti	1.57%	1.00%	1.66%	0.90%	1.17%	1.51%
Mures	2.93%	3.44%	2.47%	2.73%	2.42%	3.12%
Neamt	2.69%	1.65%	1.88%	2.55%	1.87%	2.32%
Olt	2.58%	1.64%	1.79%	1.03%	1.49%	2.04%
Prahova	1.98%	7.47%	5.58%	4.05%	4.85%	3.41%
Salaj	1.47%	1.12%	0.55%	0.90%	1.28%	1.25%
Satu Mare	2.11%	1.77%	1.41%	1.30%	1.83%	1.91%
Sibiu	2.01%	3.06%	3.14%	2.49%	3.13%	2.60%
Suceava	4.15%	1.90%	1.68%	2.43%	3.01%	2.96%
Teleorman	2.50%	1.29%	0.58%	1.05%	1.53%	1.63%
Timis	4.07%	5.67%	5.71%	6.26%	7.40%	5.25%
Tulcea	1.56%	0.99%	0.99%	0.74%	1.19%	1.49%
Valcea	1.86%	2.31%	2.55%	2.11%	2.14%	2.08%
Vaslui	2.35%	0.85%	0.83%	0.87%	1.39%	1.86%
Vrancea	2.49%	1.03%	1.23%	1.32%	1.79%	1.96%

* Calculations are carried out without the contribution of Bucharest Municipality

From Table 1 it should be noted that only the Constanta county registers a share over 8% in the case of A03. Between 7-8%, Constanta is placed in A04, Prahova in A02 and Timis in A05.

Between 6-7%, there are Arges - A02, Cluj - A03, Ilfov and Timis - A04, and between 5-6%, the number of "taxpayers" increases: Cluj - A03, A04, A05; Constanta - A02; Iasi - A06; Prahova - A03; Timis - A02, A03 and A06.

Another issue to be noted is that Timis county has homogeneous contributions placed between 4-8%, followed by Constanta (3 to 8.43%) and Cluj (3-7%). On the next level, there are Arad, Arges, Bacau, Bihor, Brasov, Dolj, Galati, Iasi, Mures, Sibiu. A special case is Prahova which registers only 1.98% for A01 and 7.47% for A02, exceptionally positioning itself in the first category.

A benchmark composed of 14 counties with remarkable results placed on two levels (as shown above) can be revealed, from their analysis being able to identify determinant factors of economic performance.

One could observe that counties which register ratios of less than 1% - for at least three categories of activities - are facing economic difficulties. We are speaking of Calarasi and Covasna (A02, A03, A04, A05) and Giurgiu, Tulcea and Vaslui (A02, A03, A04). The number of those who register ratios between 1-2% is high; however, it is relevant the manifestation of these ratios simultaneously with the ones under 1% or between 2 to 2.5% for all categories of activities.

Table 2: THE SHARE OF ACTIVITIES IN GAV BY COUNTY* - DEFICIENT AREAS

	A01	A02	A03	A04	A05	A06
Alba	2.23%	2.83%	1.51%	1.69%	1.82%	2.36%
Arad	2.77%	3.07%	2.54%	3.20%	3.59%	2.67%
Argeş	2.86%	6.48%	4.10%	3.42%	3.26%	3.10%
Bacău	2.95%	2.72%	4.29%	3.03%	3.00%	3.42%
Bihor	3.02%	3.53%	2.28%	3.92%	3.82%	2.97%
Bistriţa-Năsăud	2.07%	1.49%	1.19%	1.11%	1.64%	1.59%
Botoşani	2.58%	0.77%	0.83%	1.10%	1.21%	2.02%
Brăila	2.12%	1.26%	1.81%	1.36%	1.42%	1.68%
Braşov	2.38%	4.39%	4.86%	4.64%	3.95%	3.52%
Buzău	2.51%	1.77%	1.72%	1.52%	2.51%	2.03%
Călăraşi	1.99%	0.84%	0.69%	0.69%	0.87%	1.19%
Caras-Severin	2.25%	1.11%	1.53%	1.98%	1.66%	1.64%
Cluj	3.52%	4.14%	6.70%	5.66%	5.13%	5.18%
Constanţa	3.02%	5.08%	8.43%	7.42%	3.59%	4.01%
Covasna	1.78%	0.96%	0.66%	0.82%	0.91%	1.10%
Dâmboviţa	3.27%	2.03%	1.38%	2.59%	2.29%	2.27%
Doj	2.89%	3.35%	3.29%	2.97%	2.72%	3.91%
Galaţi	2.84%	2.30%	3.87%	2.21%	2.82%	2.70%
Giurgiu	1.60%	0.61%	0.86%	0.64%	1.28%	1.03%
Gorj	1.77%	3.06%	2.74%	2.12%	1.62%	1.78%
Harghita	2.03%	1.84%	0.95%	1.44%	1.52%	1.56%
Hunedoara	1.69%	2.90%	2.82%	2.30%	2.50%	2.55%
Ialomiţa	2.07%	0.91%	1.18%	1.20%	1.22%	1.19%
Iasi	3.50%	2.37%	4.59%	3.52%	4.44%	5.27%
Ilfov	1.39%	2.84%	1.54%	6.56%	2.36%	1.23%
Maramureş	2.59%	1.97%	1.58%	2.15%	2.37%	2.40%
Mehedinţi	1.57%	1.00%	1.66%	0.90%	1.17%	1.51%
Mureş	2.93%	3.44%	2.47%	2.73%	2.42%	3.12%
Neamţ	2.69%	1.65%	1.88%	2.55%	1.87%	2.32%
Olt	2.58%	1.64%	1.79%	1.03%	1.49%	2.04%
Prahova	1.98%	7.47%	5.58%	4.05%	4.85%	3.41%
Sălaj	1.47%	1.12%	0.55%	0.90%	1.28%	1.25%
Satu Mare	2.11%	1.77%	1.41%	1.30%	1.83%	1.91%
Sibiu	2.01%	3.06%	3.14%	2.49%	3.13%	2.60%
Suceava	4.15%	1.90%	1.68%	2.43%	3.01%	2.96%
Teleorman	2.50%	1.29%	0.58%	1.05%	1.53%	1.63%
Timiş	4.07%	5.67%	5.71%	6.26%	7.40%	5.25%
Tulcea	1.56%	0.99%	0.99%	0.74%	1.19%	1.49%
Vâlcea	1.86%	2.31%	2.55%	2.11%	2.14%	2.08%
Vaslui	2.35%	0.85%	0.83%	0.87%	1.39%	1.86%
Vrancea	2.49%	1.03%	1.23%	1.32%	1.79%	1.96%

* Calculations are carried out without the contribution of Bucharest Municipality

In our opinion, Calarasi, Covasna, Giurgiu, Mehedinți, Salaj, Tulcea are placed on the most vulnerable positions. On a second posture, but equally relevant one could find Bistrita-Nasaud, Braila, Caras-Severin, Harghita, Ialomita, Satu Mare, Teleorman and Vrancea.

A deeper analysis of these counties can provide information on possible vulnerabilities or conditions and factors that hinder economic development in these areas.

5. Conclusions

The conclusions drawn from this study are presented consistent with the established assumptions.

I1 - the evolution of GDP on development regions depends on its initial level - it has been partially verified, discovering also a large increase in the absolute value of GDP in the Bucharest-Ilfov region, which in 2002 (taken as reference) recorded the highest value. In percentages, all regions record - during the studied timeframe - comparable increases.

I2 - RGVA evolutions are different by regions, depending on the category of activity - the hypothesis was verified in part, the evolution of the RGVA highlighting a general trend of growth, similar in most regions. In other words, by categories of economic activities, in 2002-2006, a growing trend with highlighted exceptions can be revealed. The Bucharest-Ilfov region is an atypical case in all situations.

I3 - the ratio for economic activities is constant in 2006 with respect to 2002, leading to the conclusion that there are a number of factors of economic stability in the regions. Important for further studies is whether this stability is maintained also at the county level, an element that would be a starting point in determining regional economic development factors.

I4 - the ratios of regions in economic activity categories are constant - hypothesis checked from the perspective of the moments when determinations were made, but untested from the viewpoint of the regional structure. Calculations showed that the regions have relatively constant ratios of economic activity in each category for the five years analyzed. Each region's contribution to the GVA formation differs from one activity to the other.

For a better understanding of the phenomena that occur in the regions, the analysis was detailed at the level of counties. The hypothesis from which the study started is I5 - counties' ratios in economic activities' categories are different. The two studied regions have confirmed that the counties do not have a similar behavior at regional level, to be reflected in the results of the region.

The values acquired for the regions are the result of summing up the contributions from each county, which could be very different.

The last hypothesis that was the foundation of this analysis is I6 - based on ratios for GVA formation on categories of activities, counties are grouped into classes of contributors.

Consequently, five classes of registration were outlined:

- C1 - counties with major contributions;
- C2 - counties with significant contributions;
- C3 - county with average contributions;
- C4 - counties with vulnerabilities;
- C5 - counties with major flaws.

Starting from this classification of counties in terms of their contribution to the formation of the VAB on categories of economic activities, one could determine the similarities, conditions and factors that allow economic development, but also those which hamper possibilities. Combined with other regional analyses, the information might facilitate the creation of a system of relationships that could enable economic

recovery in all counties through concerted state actions and of the business environment.

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Managerial Functions: Leverage to Improve Performance Indicators

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Abstract

This study aims to emphasize how performance indicators can be improved by implementing an appropriate management. The counterbalance of a poor funding from the state budget for a program can be achieved by using the levers of the management process functions, particularly referring to the planning and organization. The comparative method of the research data is applied to the institutional performance indicators obtained for four consecutive years.

The analysis of the results obtained in the study undertaken reflects an appreciable improvement of the performance indicators over a comparable funding from the state budget related to each of the four years for which the comparison is made.

The study value lies in presenting a specific case of a management policy aimed at improving performance indicators in virtually unchanged terms of a poor funding.

Key words: indicator, management, performance, program, public administration.

J.E.L. classification: A3, D73, M12, M54

1. Introduction

The managerial perspective on performance in public sector implies an increasing pressure on managers to implement a results-oriented vision. This fundamental shift in the nature of thinking and acting moves away the management from the administrative focus on processes and regulations (Callahan, 2009, p.4).

The usability of various resulting data from the performance indicators measurement of an organization is a managerial tool to help the improvement of efficiency and

effectiveness and to create value added. The process of creating a bond over time and space between individual capacities and organizational potential to achieve the expected results defines the performance (Table No. 1). In terms of efficiency and effectiveness, performance is determined by the manager's ability to change, to deliver, to understand and to learn (Proulx et autres, 2006, p.36, 37).

Table No. 1

Ways and means of intervention X (competences)	Ways and means of the organization =	Combined results
Organization	to understand	to orient
Strategy	to change	to manage
Management	to deliver	to serve
Continuous training	to improve	to progress

A management designed to improve performance indicators of public institutions requires the fulfillment of several conditions:

- to determine the precise objectives, to negotiate about the means at their disposal and about predetermined time;
- delegating responsibilities;
- results measurement using indicators;
- fair reporting of the results, regularly (monthly, quarterly, half yearly).

2. Case study for the Sport Directorate of Bucharest (SDB)

The study about SDB management is relevant in terms of its influence on the institution performance indicators. SDB is a decentralized public service of the National Authority for Sport and Youth, being in subordination of the National Agency for Sports (NAS) during 2006-2008 and in

subordination of the Ministry of Youth and Sport (MYS) during 2009. The institution is financed from the state budget and from own revenues, having as main attribute to support sports activities in the territory according to law number 69/2000 of physical education and sports.

The Government priority programs in the area on the promotion of sport performance (P1) and on the promotion of sport for all (P2) find their local support through the work being done under the direct coordination of SDB.

The main problem that stands in front of the management system refers to the efficiency of the institution activity in terms of budgetary allocations increasingly smaller. This means to find the opportunities of improving SDB performance indicators in the new created conditions.

3. Research hypotheses

Hypothesis 1. The link relation between the values of performance indicators and the amount of funding sports programs from the state budget is a clear and measurable working hypothesis.

Hypothesis 2. The use of the managerial functions to improve performance indicators may largely cancel their dependence from the budgetary allocations.

Budgetary financing policy aims to improve decisions during the budget process, a strengthening transparency and manager's accountability to increase efficiency and to achieve economies (Bouvier, 2007). The budget system must not be restricted only to put in context the use of resources, but it requires to improve quality and to increase performances and the use by decision makers of the managerial functions can respond to this challenge.

4. Research methodology

Comparative methods for the interpretation of research data allows for this case to pass from the hypothesis to the solution of implementing an efficient management to improve SDB performance indicators.

Dependency ratio on the budget for the performance indicators to achieve the objectives of the institution may be greatly improved by the internal logic of the budget

drafting provided in the general policy of the institution, according to the performance triangle as (Matei, 2009, p. 29).

Performance indicators represent a critical component of the results-based management system. They represent the source to allow the integration of results measurement from all the stages of implementing a program. Different levels of the indicators measurement are summary represented in Table No. 2 (OECD, 2010, p.7):

Table No. 2

Inputs	all the resources involved in the program
Activity	implementation and management process
Outputs	Services delivered by manager's intervention, under his responsibility
Outcomes	immediate effects of the programme for sports structures
Impacts	long-term impacts and indirect consequences of the intervention

From the implementation in the territory of the Government policy to support P1 and P2 programmes, we refer in this case to several indicators commonly used to evaluate institutional performances of the sports county directions and that of SDB.

Corresponding to the fundamental objectives, specific to support sports activities, in the next Table are represented the key performance indicators which are established by the coordinating institution NAS (later MYS), which is consistent with secondary objectives provided in the annual development plan of the sports calendar.

Table No. 3

Objective	Indicators
Organization and development of the activities in the field of sports performance	number of competitions provided in the calendar number of completed competitions progress of the sports competitions average cost / competition
Organization and development of the programme "Sports for all"	Idem
Increasing the role of factor for locally dynamic social and economic development through	number of participants in the program "Movement for health" population degree of the

characteristic means for sports activities	participation in sports-entertainment number of partnerships developed to sustain sports activities own revenues used number of school sport associations without legal personality
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To make the calculation of indicators-aggregate (IPA), the percentage weights (P_i) given to each relevant indicator are determined according to their importance in getting the results that contribute to performance measurement at the institutional level, so that:

$$(1) \quad \sum_{i=1}^n P_i = 100\%$$

where n=number of performance indicators.

There are two variants of calculation. The first one uses absolute values of the 10 indicators which are considered representatives to evaluate performance. The second variant uses implementation indexes (reporting) which in the opinion of the authors eliminate discrepancies in calculations induced by the different orders of magnitude of the used values.

$$(2) \quad IPA = \sum_{i=1}^n P_i \times IP_i$$

Variant A

Performance quantitative indicators and their weights are represented in the table below:

Table No. 4

Indicator	Name	Weight (%)
IP ₁	Number of competitions provided in the calendar for the program P1	10
IP ₂	Number of completed competitions within the program P1	10
IP ₃	Average cost / competition (Ron) within the program P1	5
IP ₄	Number of competitions provided in the calendar for the program P2	15
IP ₅	Number of completed competitions within the program P2	15
IP ₆	Average cost / competition (Ron) within the program P2	5
IP ₇	Number of participants in the program "Movement for health"	15

IP ₈	Number of partnerships developed to sustain sports activities	15
IP ₉	Own revenues used (Ron)	5
IP ₁₀	Number of school sport associations without legal personality established in the current year	5

Variant B

Performance percentage indicators are derived from performance quantitative indicators. They are represented in the table below with weights to each of them:

Table No. 5

Indicator (%)	Name	Weight (%)
IP _{1,2}	The progress of the competitions for the program P1	20
IP ₃	The utilization /competition of funding the program P1	5
IP _{4,5}	The progress of the competitions for the program P2	30
IP ₆	The utilization /competition of funding the program P2	5
IP ₇	Population degree of the participation in sports-entertainment	15
IP ₈	The utilization /competition of collaborative partnerships	15
IP ₉	Own revenues utilization	5
IP ₁₀	The representation of school sport associations without legal personality established in the current year	5

IP_{1,2} and IP_{4,5} represents the ratio between the number of completed competitions and the number of competitions provided in the calendar for programs P1, P2 respectively.

IP₃ and IP₆ represent, similarly, the ratio between the average costs / competition and the number of completed competitions.

IP₇ is the ratio between the number of participants in the program "Movement for health" and the number of Bucharest population (it takes into account the number of two million inhabitants).

IP₈ is the ratio between the number of partnership contracts made and the total number of competitions completed (sum of both programs P1 and P2).

IP₉ is the ratio between own revenues used to support competitions and the total sum of own revenues received.

IP₁₀ is the ratio between the number of school sport associations without legal personality established in the current year and the total number of sport associations without legal personality.

Using statistical data provided by SDB, NAS and MYS, a comparison was made between the institutional performance indicators for a period of four years (2006-2008). To suggestively put in evidence research hypotheses, there will be used both work variants.

5. Research results

Variant A

Due to the different orders of magnitude of performance quantitative indicators (IP_i), to have a more fair accuracy in the calculation of obtaining the indicator-aggregate, there will be used the correction coefficients (C_i) which apply to each indicator. The values of these correction coefficients related to each performance indicator (see Table No. 6) are as follows:

$$(3) \quad C_1=C_2=C_4=C_5=C_8=C_{10}=10^0; \\ C_3=C_6=10^{-1}; C_7=C_9=10^{-2}.$$

Table No. 6

IP_i	P(%)	C	2006	2007	2008	2009
IP_1	10	1	199	150	80	233
IP_2	10	1	135	105	91	211
IP_3	5	0,1	829,63	1386	1159	1141
IP_4	15	1	92	77	75	78
IP_5	15	1	84	85	130	97
IP_6	5	0,1	682,27	952	957	742,27
IP_7	15	0,01	18848	32000	37000	26436
IP_8	15	1	5	16	34	9
IP_9	5	0,01	7311	22542	77456	5737
IP_{10}	5	1	0	0	75	19
IPA			100,04	123,16	161,52	124,89

An analysis of the achievement of objectives for the year 2007 in conjunction with the trend continues to reduce funding from the state budget for SDB imposed a realistic adaptation of the 2008 calendar for both of the programs P1 and P2 (indicators IP_1 and IP_4).

From the results can be seen a 23% performance increasing in 2007 over the previous year. Growth continues in 2008 with 31%, while in 2009 fell by 23%. The decrease is mainly due to the replacement (on political criteria) of the institution manager.

The paradoxical situation of IP_3 and IP_6 indicators is due to the compromise to be made between efficiency and quality: on the one hand, unit costs should be as small as possible, but on the other hand their values should be sufficiently large to ensure an acceptable quality level on European and

international scale. Success of sporting competitions requires for example to cover rents for the rooms and land competition, expenses related to providing medical assistance, payment of referees, sports awards, and other. Should be noted that an average cost / competition below 500 Ron does not meet the requirements of the optimal development of sports activities.

Performance indicator IP_8 has an important role due to attracting collaborators to support sports actions in partnership with SDB. In this way, part of required expenses to support some competitions are taken by the partners, creating the prerequisites for scale competitions, with international participation, but also some unexpected additional events (see IP_2 and IP_5 indicators).

Performance indicator IP_9 contribute with IP_8 to support sport shares by the possibility of mobilizing a part of the own revenues.

Performance indicator IP_{10} aims to attract a larger number of school-children to be involved in the official competition "School Sports Olympiad", initiated after the elaboration by the specialists in sports and education of the Common Order for approving "The Protocol for providing the framework of cooperation for continued development and permanent operation of the national system of physical education and sports".

Variant B

Performance indicators weights are determined depending on their importance of getting institutional results similiary with variant A. The values of the correction coefficients related to each performance indicator (see Table No. 7) are as follows:

$$(4) \quad C_{1,2}=C_{4,5}=C_9=C_{10}=10^0; \\ C_3=C_6=C_7=10^2; C_8=10^1.$$

$IP_{1,2}$ and $IP_{4,5}$ indicators were obtained from the ratio between IP_1 and IP_2 and between IP_4 and IP_5 (see Table No. 5), becoming in turn performance indices and cumulating shares previously owned by the two of the indicators. There was previously explained the way of calculating each of the indicators described in Table No. 5, the results being presented below based on the statistical data provided by the concerned institutions:

Table No. 7

IP _i	P (%)	C	2006 (%)	2007 (%)	2008 (%)	2009 (%)
IP _{1,2}	20	1	80	70	113,75	90,56
IP ₃	5	100	0,7407	1,5231	1,2878	0,871
IP _{4,5}	30	1	91	110,39	173,33	124,36
IP ₆	5	100	1,3645	1,904	1,914	1,0309
IP ₇	15	100	0,9424	1,6	1,85	1,3218
IP ₈	15	10	2,283	8,421	15,385	2,922
IP ₉	5	1	6,02	27,27	100	17,15
IP ₁₀	5	1	0	0	43,6	9,95
IPA			71,69	102,25	148,77	90,5

Results obtained are similar in trend, with higher values, i.e. a 43% increasing in 2007 over 2006, a 45% increasing in 2008 over 2007 and a decrease of 61% in 2009.

The financing of the institution for each of the two programs during 2006-2009 is presented in the table below (thousands of Ron):

Table No. 8

2006	2007	2008	2009
ATotal	ATotal	ATotal	ATotal
162	141	140	203

Where ATotal - total amount, sum of AP1- the amount allocated to Program 1 and AP2- the amount allocated to Program 2.

The recovery rate of the budgetary financing (efficiency financing) for each of the four years (η_F) is the percentage ratio between the performance indicator-aggregate and the total amount (A) related to financing (in thousands of Ron, including own revenues), according to the formula:

$$(6) \quad \eta_F (\%) = IPA/A$$

For a more eloquent clarification of checking research hypothesis, in the table below there are highlighted recovery rate values of the budgetary financing which are calculated for each of the two work variants:

Table No. 9

Recovery rate	2006	2007	2008	2009
Variant A	61,75	87,35	115,37	61,52
Variant B	44,25	75,52	106,26	44,58

It can be seen that even these ratios highlight similar increases and decreases, which confirms research hypotheses.

6. Conclusions

The experience of success management, which presumes having a strategic plan, a configuration of manager's mission, of his

own vision, of the purposes and objectives, of the measurement mode of success (Mader, 2009, p. 7), was the basis for guiding SDB organization to achieve performance indicators by maximizing values and reducing risks.

The horizon chosen for the program P1 (Promotion of sports performance) had in mind also the relatively short periods of peak performance for sportspersons (the exceptions in this case are very rare), medium or long-term prognosis considering more the program P2 (Sports for all) which has as targets the selection.

The creation of the premises for the performance indicators improvement is conditioned by the mode of realizing the functions to plan and to develop the actions plan for SDB. It should be noted that the activities programming for achieving objectives was done mainly by two vectors coordinators:

- the distribution in time of the updated goals by preparing and adapting sports schedules on programs, subprograms and sports;
- the distribution in space of the updated goals by establishing the work teams on programs, subprograms and by individual and team coordination for sports related to clubs and municipal sports associations.

In developing by the manager the framework programme to prepare SDB sports calendar there were also taken into account the provisions of the partnership contracts drawn up at that time. Depending on the priorities already established, the heads of programs distributed under the coordination of the manager the amounts needed to support each competition of the own calendar.

To be able to follow the numerous requests of supporting sports activities appeared during the running of the already budgeted calendar, the role of own revenues becomes predominant.

The managerial function of SDB organization took into consideration the annual repeatability of the same steps to follow into the decisional process regarding institutional results obtaining. Therefore, the changes of the Rules of Procedure and Operation (RPO) or that of the institution organizational structure were not timely, in contrast, another heads of programs were assigned for P1 and P2 both in 2007 and

2008. This fact had as a logical consequence the change of the job description for those employees but also for other members of the organization who took some of those secondary tasks.

In the action of team training and coordination to achieve the proposed goals, employee's motivation has an important role. Through the mechanisms which contributed in this direction we call: appreciation, personal material interest, work involvement, competition, and pride to belong to an institution. The same importance was also given to the continuous stimulation of the initiative and cooperation spirit within the team.

The improving of manager's style and methods proved to be absolutely necessary. So, managerial flexibility could make possible an equitable distribution of tasks and their balance depending on phenomena evolution, activities that represented an important reference.

Making corrections has been achieved also by including in the calendar a lot of unexpected competitions which appeared at the request of several internal or external partners, according to the institutions objectives. The use for this purpose of the financial resources from own revenues, attracting of new partners as well as concluding volunteering agreements during the entire year 2008, made possible the overruns represented by the indicators.

The post-operating dimension of the scoreboard gave to the manager the opportunity of acquiring the useful information on possible deviations and the causes that have generated and, according to these, the decisional side of this tool helped him to adopt the proper decisions.

Managerial acts to achieve SDB objectives represent the first step to performance in this institution. The analysis regarding the improvement of performance indicators proved that during the years 2007 and 2008, thanks to a period of stability at the management level, management tools could be used to obtain the best performances compared to both previous and next years.

The accuracy of the hypothesis formulated about managerial ability to improve significantly performance indicators of the public institution in the circumstances of a minimum funding from the state budget was

verified. This is another proof that management leverages can mostly compensate some major shortcomings that could compromise the quality of the delivered public services.

Taking into consideration that, beginning with the year 2009, the intervention of the political actors into the public administration disrupted the activity of this sector, the equation of the evaluation of the efficiency of the public service must also take into account the incidence of the political factor,, the major factor of adjusting the offer of the public sector, without which the analysis of the managerial results is only partial. The global evaluation of the performance of the public action implies both administration and politics: viewed only from the administrative angle, the evaluation of the management by results is illogical, inconsistent and useless (Proulx et autres, 2006, p. 54, 55).

Undoubtedly, performance analysis for public institutions by the methods of indicators-aggregate and of the upturn rate can provide relevant information on management quality.

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The International River Law Supporting the Development of Global Economy

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Abstract

The international river law affirms its existence by linking specific legal rules with a significant number of legal rules from other fields and, particularly, from the international trade law. Their obvious general connection, their importance to the relations between co-riparian States is a crucial argument for the need of systematic knowledge within this branch of international law. No international bi - or multilateral treaty, no international river commission cannot provide the specific regulation required by circumstances, if such solutions will be somewhat improvised according to the specific circumstances of each situation, without precisely knowing in advance the specific legal rules.

Key words: The International River Law; international water way

J.E.L. classification: K33

1. Introduction

If the law of the sea has already got an international regulation by adopting the Convention on the Law of the Sea of 1982, the international river law entered the stage when some of its areas need universal multilateral rules, designed to mutually support the beneficial collaboration between the world economies of States.

In the literature specific to the area of international river law, Professor Crauciuc Olimpiu Adrian Gelu says that "the matter has evolved considerably over the years and the specific characteristics of each river have left their mark on the legal rules governing

their operation" [1].

The discipline of "international river law" consecrates its autonomy during the last part of the twentieth century. Professor Edwin Glaser supports the existence of an international river law, not the existence of a law of international drainage basins, as shown in the "Helsinki Rules", developed in the 1966 session of the International Law Association (ILA) [2].

Rivers present interest for the communication between States and people, when they are navigable and cross several states. They are important not only for navigation but also for the use of their waters for industrial, agricultural (irrigation) and energy (hydropower) purposes.

Professor Dumitru Toma says that "the international river law is composed of all the legal rules governing the relations between States regarding the use of non-maritime waters, primarily for navigation" [3].

In order to explain and present several notions, we consider necessary and sufficient to note that, in our opinion, there are several legal rules of river law and not legal rules of the law of national and international drainage basins [4].

The Barcelona Conference of 1921 brought the concept of international water, thereafter using the concepts of "basin" or "international watercourse system". However, some States categorically contested the concept of "basin". Nevertheless, the notion of "international water way", used by several States, should be legally and precisely defined. The aim is to determine the extent of the "internationalization" of its legal regime, the number and the extent of the obligations of States under the international law.

The International Law Commission has proposed, regarding the use of international watercourses, the concept of "shared natural resource", consecrated, *inter alia*, in the Charter of Economic Rights and Duties of States. This concept stresses the interdependence of the countries that share the waters of the same international hydrographic basin and focuses on the active solidarity and mutual obligations of States and we believe that it meets all the uses of an international river basin [5].

2. The evolution of international river law rules

The establishment of the international regime of several rivers began with the assertion and application of the freedom of navigation principle on some rivers for the commercial vessels of riparian States and, in certain circumstances, for the commercial vessels of non-riparian States. The idea of freedom of navigation on some rivers was affirmed by Hugo Grotius [6] and was consecrated by a French national act on 16th November 1972 [7].

The international regulation on the navigation on certain rivers was made by numerous treaties, conventions and international protocols. However, in the evolution of the cooperation between States on the international regime of certain rivers, their concern to establish some common principles of such regimes increasingly emerged, by adopting several general international acts.

2.1. The first regulations

a) A primary concern in this respect was manifested at the Congress of Vienna, which, by its Final Act of 9th June 1815, defined the concept of International River and established the general features of the international regime of the navigation on these rivers. It reaffirmed the principle of freedom of navigation on these rivers, consecrating the full freedom of the navigation for the commercial vessels of riparian States and only the freedom of commercial transport for the vessels of non-riparian States (art. 108-109). The principles established by the Congress of Vienna were applied through special agreements to the Elbe, Scheldt, Meuse and Rhine rivers. The

international regime of navigation on the Danube was established by the Peace Treaty in Paris on 18/30 March 1856 [8]. Nowadays, the Danube region contains about 115 million people in 14 countries [9] from Germany to the west to the Ukraine to the east.

b) The Congress of Berlin in 1885, by its general Act, extended the principle of freedom of navigation on Niger and Congo rivers, in Africa. Some peace treaties of 1919 and 1920 include provisions for the international navigation on some rivers. Thus, the Peace Treaty with Austria, in 1919, reaffirms the international navigation nature of the Danube river, based on the principles of freedom of navigation and equal treatment of all flags (art. 290, 292).

c) For the development of the international river law, the Barcelona Conference in 1921 is an important moment. Its importance lies in the development and adoption of several international instruments which aimed to establish several general valid rules for the international regime applied to several rivers. It adopted the "Convention concerning the regime of waterways of international concern", of 20 April 1921, which was ratified by a limited number of States participating in the conference. The conference also adopted a statute and a protocol.

The Barcelona Convention, in 1921, is still the only source of international river law with a universal character. The Convention provides that its provisions apply to "all water ways", which are naturally navigable towards the sea and from the sea. It establishes two basic principles of the international regime applied to certain rivers:

a) the principle of freedom of navigation for the commercial vessels of States (Article 3);

b) the principle of equal treatment for the vessels of all States, operating on these rivers (art. 4).

The Convention establishes the following obligations of riparian States: not to hinder the navigation on the rivers with an international regime and to maintain the navigability of these rivers in their domestic sector. It also establishes the right of cabotage only for the vessels of riparian States, in their national sector, and it grants the riparian States the right to levy taxes from the foreign vessels for their services.

After the Second World War there have been some regional acts on water regime in general, and multilateral agreements on the prevention of water pollution of rivers with international regime or of frontier waters. Within the Council of Europe, there has been adopted the "European Water Charter" of 1967 (or the Bern Agreement for the protection of the Rhine, in 1983, or the "Declaration of the Danubian States for the management and protection of waters against river pollution", adopted in Bucharest, in 1985).

2.2. Rules regarding the navigation on international rivers

The legal rules of international river law are emerging as a result of the cooperation among States in the field of international rivers and numerous international documents, which were adopted by them. The legal rules of international river law are part of public international law. The legal rules of international river law can be defined as all river customary and conventional rules and legal institutions governing the freedom of navigation on some rivers and other activities of States in this field, such as: the use of river waters as energy sources, for irrigation and for other purposes; the actions made in order to protect the waters of these rivers against pollution.

The international documents relating to the regime of several rivers reveal certain basic rules of their international regime. At the moment, these rules are more likely seen as "international standards" of the international regime of rivers, rather than as veritable elements of a general statute for rivers with international regime:

- a) each State is sovereign over these river sectors within its territory;
- b) the application of principle of freedom of navigation;
- c) only the riparian States may regulate the navigation on international rivers, by virtue of sovereignty [10];
- d) merchant vessels, in time of peace, enjoy full freedom of navigation; military [11], customs and police vessels of non-riparian States do not have access to international rivers; such vessels belonging to riparian States can navigate only in their sector; for the sectors of other States the authorization is necessary;

e) the riparian States are required to maintain river navigability; they may levy taxes; they have the right of customs and health control;

f) in principle, for international rivers, there are established committees composed of the representatives of riparian States, for the coordination of the activities of these countries [12].

2.3. The use of international rivers for purposes other than navigation

Since 1974, the UN International Law Commission has initiated work in order to codify the law applicable to the use of international rivers for purposes other than navigation, the Convention on the Law of International Watercourses use for other purposes than navigation (it is not in force) being adopted in New York on May 21, 1997. This document provides for the concept of natural shared resources [13], consecrated in the Charter of economic rights and duties of States [14]. From this concept, the following principles (developed in a project of 33 articles of the International Law Commission) derive:

- the equitable use and sharing of the watercourse (art. 5);
- the obligation not to cause significant damage to other States (Article 7);
- the general obligation to cooperate (Art. 8);
- the obligation to regularly exchange data and information on the status of the watercourse (art. 9);
- the need to protect the ecosystems, to prevent, reduce and control pollution.

3. Conclusions

Each river whose course goes through several countries - as it is the case of at least 214 rivers - is supported by a bed that crosses socio-economic-political borders [15].

By means of the globalized trade conducted via river transport, the world economy goes through a significant growth primarily reflected in the cost price per ton of freight, as among the lowest compared with the other existing means of transport.

Also, the international legal regulation of international navigable or non-navigable water courses represents the common interest of humanity on cooperation in protecting the

aquatic environment and of the application of harsh sanctions against the aggression on this environment by unauthorized discharges.

International legal measures, applicable for the countries that support the "absolute sovereignty" over the waters within their borders and that do not recognize the obligations to their neighbors, are needed. Upstream countries take advantage of natural unpolluted waters, but the legal rules in international waters should be strengthened in terms of their operation in an equitable cooperation and the avoidance of environmental damage.

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- [10] Riparian States have the right to be invited at the elaboration and adoption of the regulations on the international regime of the respective river.
- [11] Foreign military vessels, belonging to non-riparian countries are not allowed to navigate on international rivers. The principle of freedom of navigation is applied only to commercial vessels and passengers transportation. The military vessels of riparian States can navigate in the river sectors of other riparian States only on the basis on prior agreements in this respect.
- [12] For the international monitoring of the means in which the international regime of rivers is applied, certain international monitoring commissions may be established. Their establishment is, primarily, under the competence of sovereign States.
- [13] In the light of this concept, the States which share the waters of an international river cannot use these waters abusively and they have a series of reciprocal duties in the name of their community of interests.
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Corporate Responsibility and Control Risk

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Abstract

Control risk (CR) refers to the likelihood that material misstatement of the financial statements can not be prevented or detected and corrected by the entity's internal control. This risk is assessed by the auditor after obtaining an understanding of the entity's control environment risk assessment quizzes (TER) and after obtaining evidence of operating effectiveness of internal controls through control tests (TC). Typically, the auditor establishes a high level of control risk, even 100% as the confidence in the SCI is low. However, there are exceptions, such as identification by the auditor's internal controls well designed and operating effectively, or when the auditor plans to conduct tests to support the extended control that risk assessment at a lower level. However, one thing is certain: the RC is higher; the volume of evidence must be higher to support an audit risk as small. In this study we demonstrate that the correct estimation of risk control as an appropriate methodology will help to streamline the audit process and reduce its costs.

Key words: internal control, control risk, corporate responsibility, auditor approach, control mechanisms.

J.E.L. classification: M14, M38, M41, M42, M48.

1. Introduction

It is important to note that control risk is introduced into the audit risk equation only when the auditor internal control confer a degree of trust and as a consequence, reduce the extent of substantive analytical procedures. Conversely, when the auditor does not intend to rely on the effectiveness of internal control, risk control will be assessed at 100%, and the auditor is forced to extend

substantive procedures to reduce audit risk to an acceptable level.

Knowing the elements of internal control, we use the analysis procedures that apply to the auditor to **understand the internal control system and control risk assessment**. Presented in the table no 1 "Listening tests and objective" *strict tests of internal control* of the five possible tests, namely: *risk assessment tests, including tests to obtain an understanding of internal control (TER), tests of control mechanisms or tests of controls (TC) tests of details substantive tests of transactions or operations (TDO), Analytical Procedures of the Fund (PAF), Tests of details of balances (TDS).*

Table no. 1 Tests of internal control

<p>Risk assessment tests, including tests to obtain an understanding of internal control (TER)</p>	<p>Involves fashion design and operational (implementation) of internal control mechanisms to control risk assess and plan the rest of the audit as efficiently.</p>
<p>Tests of control mechanisms or tests of controls (TC)</p>	<p>Sought to determine the adequacy of the design of certain mechanisms of internal control and their operational effectiveness. Are applied only if control risk is less than 100% and their purpose is to support the risk at that level.</p>

Internal control auditor obtaining approaches in the first stage, an understanding of it, and based on my

knowledge; it will carry out *the estimation of control risk*. As can be observed from the table above, the control risk assessment is less than 100%, the auditor tests use control mechanisms. The results of these tests after determining the underlying risk of detection and planned substantive tests (test details) wider or narrower.

In practice, the procedures used by auditors to understand the internal control vary from one client to another. For small businesses, often for reasons of efficiency, internal control mechanisms are ignored and estimates a maximum control risk as to the acceptable audit risk should be maintained at a low level by extending the test details. For large companies and recurring audit, it is estimated, usually a level of control risk below the audit plan before confirmation.

To plan adequately audit engagement, the auditor should understand well enough internal control. A typical method used by auditors is:

1. *Obtain an understanding of the control environment, risk assessment procedures by the management, information and communication system and methods of supervision to a sufficient level of detail;*
2. *Identification of specific control mechanisms (control activities) and assessment of control risk;*
3. *Testing the effectiveness of control.*

The auditor may support a control risk, low indeed, only go after all three stages..

2. Understand internal control

The auditor should follow, in this approach (understanding of internal control), two aspects, namely: how the various mechanisms have been designed internal control included in each component (shown above) and whether these mechanisms were implemented. In other words, this step aims to determine the procedures used for business intelligence, drafting documents, data processing, circulation of documents, recording data in synthetic and analytical accounting, in chronological record (Journal Register) and systematic (Book Sea), filing documents and books, etc.

As a procedure in which the auditor may seek to achieve these objectives (identification of control mechanisms designed and applied) listed:

- Update information relating to internal control, where recurring tasks;
- Interviewing staff at different levels: managerial, supervisory, operational;
- Gathering information from books of the entity-client system (codes of conduct of the entity, procedure manuals, flow charts, grids segregation of duties, etc.);
- Examination of documents and accounting records;
- Observation of entity activities and operations.

Therefore, interviewing, researching and observation in various combinations are the procedures used by the auditor to understand the internal control system.

To document their understanding of internal control, the auditor may use: presentation of narrative sequence diagrams and internal control questionnaires (CCI).

Narrative presentations (PN) are a written description of internal control mechanisms of a client (the accounting system and its associated control mechanisms) and should contain four elements:

- The origin of each document and records in the system registry (where I come from documents, whoever prepares, how many copies, etc.);
- all processing taking place (which worked out, for example, the computer system);
- place of each document and register of the system (how to classify, shipping to customers or cancellation);
- Presentation of the relevant control mechanisms for the control risk assessment (these include: segregation of duties, authorizations and approvals, internal controls, etc.).

Sequence diagrams (SD) are the schematic representation, using symbols, documents flow of an entity, which must contain the same elements as narrative presentations. These diagrams are useful for auditors because they provide an overview of the client system and to identify control weaknesses, in particular, by illustrating the (un) segregation of duties. Facilitating a clear understanding of the functioning of the internal control system, making it easier to

update, sequence diagrams are commonly used in practice than narrative presentations.

Internal Control Questionnaires (CCI) are a set of questions related to internal control mechanisms applied in every sphere audited (purchases, sales, investments, etc.). Questions are addressed in such a way that negative responses indicate potential shortcomings or weaknesses in internal control system.

CCI advantage is that each area can be analyzed rigorously audited, and even fast enough at the beginning of the engagement. The disadvantage is that they are considered parts of the internal control system, without creating a picture. In Table no. 2, we present a CCI (example) for sales cycle.

Table no. 2 Example Internal Control Questionnaire (CCI) on the sale [Arens, 2003]

<i>Sales cycle - a question and objective</i>		<i>Answer / Comments</i>
		YES/NOT/N/A
A. Recorded sales correspond to actual deliveries to existing customers?	<i>Existence</i>	
1. Record sales are justified and authorized shipping documents approved customer orders?		YES
2. Crediting a customer is approved by an authorized person of the firm?		YES
3. There is a written document delivery and renumbered, bound out of any assets of the entity?		YES
B. Existing sales are recorded?	<i>Completeness</i>	
1. Keep a record of delivery?		YES
2. Document delivery is controlled by a processor so as to ensure that all deliveries are invoiced?		YES
3. Document delivery are numbered and keep a record of their numerical sequence?		YES
4. Bills are numbered and keep a record of their numerical sequence?		NOT Are numbered, but not keep a record of the series. The tests require substantial.

C. Sales recorded correspond to the quantities of goods shipped and invoiced and recorded correctly?	<i>Accuracy</i>	
1. A comparison is made independent of the quantity of goods with the delivery of documents from sales invoices?		YES
2. It uses a list of authorized prices and limited access to systematic file prices?		YES
3. Customer statements are sent monthly summary?		YES
D. Sales transactions are properly recorded?	<i>Classification (correct attribution accounts)</i>	
1. A comparison is made independent of the sales chart of accounts?		N/A All sales are on credit and income is one mind
E. Sales are recorded at the correct?	<i>Timeline (period correct)</i>	
1. A comparison is made independent of the data in the delivery of data records in RJ?		NOT It is a weakness. The tests require substantial
F. Sales transactions are properly and correctly transferred to CM presented?	<i>Systematization and Summarizing</i>	
1. RJ totals are calculated and correlated with CM, independently, each operation?		NOT Examine the reasonableness
2. There is a comparison of the names of customers to deliver documents in the CM records?		YES

Note that the CCI is constructed so that it can be used for the six audit objectives related to operations. To eliminate the drawback of CCI, is ideal and the concomitant use of CCI DS.

To be sure that the system described is well understood, is the real, the auditor uses to use compliance tests, such as direct observation of how work, verbal

confirmation of the data using procedures, specific methods used for confirmation of operations (stamps, visas), observation post, which is to resume flow of documents from their source to test the road map.

3. Initial estimated control risk (CR)

After understanding the internal control system, the auditor shall make the initial estimate of control risk (CR). This estimate expresses the extent to which the auditor is expected that internal control mechanisms to prevent and not detect significant misrepresentations in financial statements. Control risk assessment is usually done for each major category of operations (accounting cycle) for each of the audit and related operations. This estimate can be made using qualitative measures (small, medium, large, maximum) or encrypted using probabilities (see sampling model based on risk).

RC initial estimate of the environmental analysis begins with control. If the auditor concludes that for immaterial internal control management, it is unlikely that the controls are reliable and should be recommended to estimate a maximum CR (100% or 1). Conversely, when leadership is a positive attitude towards the controllers, the auditor shall review all other elements of internal control as a basis for estimation of less than 100% RC.

As mentioned above, especially for small businesses, estimate the RC is at a maximum level for reasons of cost. That is, the auditor may consider it less expensive to expand tests of details only to test the control mechanisms related to operations.

Steps to go to control risk estimation are [Arens, 2003]:

1. Identification of audit objectives related to operations;
2. Identification of specific control mechanisms (usually the key mechanisms - the most important), which contributes to each objective related operations (policies, procedures and activities that ensure the control subjects);
3. Identify and assess the shortcomings (weaknesses) of control (absence of adequate control mechanisms that increase the risk of significant misrepresentations).

If the identification of weaknesses in internal control, the auditor should ascertain whether there is any compensatory controls introduced another component of internal control. For example, when the accountant has access to cash, but the owner manager is an analytical review of all documents related to daily cash, the auditor may consider that this shortcoming is eliminated. Internal control weaknesses may be presented in a separate worksheet ("Summary assessment of internal control"), to appear in columns: weakness, compensating controls, the potential error, significance, impact on audit evidence.

It is noted that most of this matrix control mechanisms covering several audit objectives related to operations, while. After identifying existing control mechanisms (strengths) and weaknesses (weaknesses) in internal control, related to audit objectives related to operations, the auditor may assess control risk (see last row of table). This estimate is used by the auditor in planning the engagement, to complete the worksheet in Section F (F3) - NMA, which is the basis for determining the sample size.

Deficiencies in internal control (weaknesses) are summarized in a report on internal control (Letter of reportable conditions) address as the entity's management. It should contain a description of the weaknesses identified, the consequences and impact on financial statements and settlement proposals and solutions to shortcomings or to improve the situation.

4. Control mechanisms testing

The reasoning below the maximum estimate of RC requires the auditor to perform tests of control mechanisms or tests of controls (TC). These tests aim to determine the adequacy the design of certain mechanisms of internal control and their operational effectiveness. Such tests are called tests of permanence.

Control risk estimate will be reviewed during the audit, if the tests show that these control mechanisms do not work effectively. Control risk estimate will be reviewed during the audit, if the tests show that these control mechanisms do not work effectively.

The procedures used by the auditor to make sure that control actually works mechanisms refer to the same procedures used to identify control mechanisms (understanding the internal control system): interviewing employees, reviewing documents and accounting records, observation of activities on control, customer replenishment procedures, etc. More specifically, to detect shortcomings in the functioning of the internal control system, proceed to the analysis controls for the prevention and detection controls provided by the enterprise. Preventive controls are carried out during the course of operations, before passing to the next stage and before the recording operation. These controls are reflected in a visa or signature on documents (eg verification of receipt and there is good order before giving a bill payment provider). Detection checks are carried out on a group of operations the same way to discover anomalies in the system or to ensure that these anomalies are.

So, support a control risk at a low level of testing necessary to expand the control mechanisms within the meaning of the use of larger samples of documentation procedures, observation and reconstruction. The key difference between the procedures used to identify control mechanisms designed (understanding of internal control) and those used for testing the actual applied (tests of control mechanisms) is that the former are applied only on one or several operations at one time, while what tests are performed on control mechanisms of larger samples of transactions and observations are made in several times.

In this last stage of the internal control assessment, determine the reality of the strengths, weaknesses of the system due to faulty design, as well as those due to misapplication of the procedures and make "Summary assessment of internal control" and "Report on Internal Control". Report on the evaluation of internal control is designed to inform management of the audited entity internal control system weaknesses and to help make organizational and methodological measures to increase the effectiveness of internal control. This report is structured as a rule, in two parts: an introductory and summary (which is synthesized design weaknesses due to poor and ineffective

operation of the accounting system and internal control and the proposals are to increase effectiveness these systems) and some content for detailed (structured and significant areas of audit objectives, listed in order of their importance and accompanied by appropriate recommendations).

In conclusion, we note that tests linking mechanisms control audit planning and control accounts, standing on the basis of defining the appropriate substantive tests (wider or narrower). So we can say that an appropriate internal control may reduce the amount of audit evidence to be collected. In other words, an assessment of control risk below the maximum level will allow the auditor to apply substantive tests on a smaller number of elements and thus a reduction in audit costs.

5. Acknowledgement

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The Link between Company Competitiveness and Financial Performance

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Abstract

Company competitiveness and financial performance are two terms often used in literature but they usually appear distinctly and the relationship between them is not examined. This article provides a reasonable clarification regarding the concept of company competitiveness and theoretically argues for the positive influence it has on financial performance. Theoretical arguments are supported by an empirical investigation based on a linear regression model applied to a sample of 62 non-financial companies listed at Bucharest Stock Exchange. Results confirm the proposed hypothesis, showing that the two variables are positively correlated.

Key words: company competitiveness, financial performance, Bucharest Stock Exchange

J.E.L. classification: D20, L20, L25

1. Introduction

In literature most authors treat the concepts of company competitiveness and performance independently, in spite of the fact that they are apparently similar. Thus there are performing companies and competitive companies. Is there a difference between the two concepts? What are the common elements of the two categories? Romanian literature treats the two concepts separately. Works that focus on company global or financial performance and other related concepts like efficiency, effectiveness or productivity do not mention anything about competitiveness. Also theoretical works that conceptualize company competitiveness do not show the link between this concept and global or financial

performance.

The performance concept at microeconomic level is often seen in literature, and there is a fairly comprehensive theory on this subject (e.g. [3]), but the competitiveness concept is still the subject of different points of view, which is why, until now there is no widely accepted definition of competitiveness and a comprehensive model for the formalization of its content hasn't been developed yet. Current state of research leaves the door open for conceptual disputes on competitiveness. Therefore this study will begin by outlining the concept of competitiveness at microeconomic level, considering the opinions of several authors. After clarifying the significance of competitiveness the hypothesis will be set and appropriate indicators for measuring the two variables will be grounded. On these bases we will analyze the correlation between the competitiveness and financial performance of the non financial companies listed at the Bucharest Stock Exchange, discuss the results and draw some conclusions.

2. Literature review and hypothesis

Despite the fact that there is no cohesive and comprehensive theory of company competitiveness, there are numerous explanations and points of view [1]. Generally competitiveness is a key feature of the contemporary economy. The complexity of the concept and the interest of researchers, practitioners and government are determined by the strong interactions between it and other concepts and areas of economic and social life. Maintaining the company in the competitiveness race means restructuring efforts, will, strategies and actions, managerial policies and mechanisms for effective corporate governance, concern for

education and creativity and risk taking ability.

According to several authors competitiveness is a concept invented by businessmen (practitioners) and not by economists (theorists) and therefore is not sufficiently conceptualized [6]. Thus competitiveness is still a fuzzy concept in literature because of insufficient theoretical justification. The practical character of competitiveness has emerged over time through measurement and assessment approaches, rather than definitions, which allowed the existence of several theoretical points of view and even confusions with other economic concepts (economic growth, foreign trade performance, efficiency, competitive advantage, etc.).

In literature, there are generally two approach levels to competitiveness: the macroeconomic level, describing the competitiveness of a country or region and the microeconomic level describing company competitiveness. Some works understand competitiveness in the light of external trade performance, emphasizing the importance of this activity within companies and economies. Another argument which stimulates the use of such a point of view on competitiveness is the ease with which data on external trade can be obtained.

At microeconomic level competitiveness cumulates elements that confer superior positioning for a company compared to its competitors. Competitiveness is the ability of companies to add value to the production factors and generate profit, based on a high level of utilization and on sustainable basis, in the conditions of a free market. Based on the concepts of competitiveness and comparative advantage given by the endowment with natural factors M. Porter [4] developed the concept of competitive advantage. This advantage is conferred, in addition to natural factors endowment, by the possession and use of appropriate intangible factors, generated primarily by research, development and marketing activities. Competitive advantage is also determined by the supply and demand conditions, the existence of support industries, firm strategies and market structures.

Competitiveness is directly linked to competition. Regarding the ability to sell, competitiveness reflects companies' results in

maintaining and strengthening their market position. The effect of competition is the take over of a company's market share by others, and the result is a change in market structure. A company is competitive if it is willing to accept the just revenue it can obtain by selling its products at market prices.

Uncompetitive companies collect inadequate revenues and are therefore forced to withdraw. In the microeconomic approach the factors affecting company competitiveness are defined by factors and effects of competition. Competitiveness is therefore a rivalry by prices, improved production techniques and marketing. But price is affected by cost, efficiency and productivity in transforming inputs into outputs. Schumpeter, in its theory, argues that competition is based on cost and quality advantage, which he considered more important than price because they capitalize an internal potential advantage. On the other hand, competition results, based on market share, should also be considered.

Industrial competitiveness is generally expressed by supply side characteristics, grouped into two categories: cost and quality. *Cost* is determined by the level of productivity, input prices and other supply side variables (management, investment, organization, etc.). *Quality* has several dimensions: innovation, technology and marketing. The first refers to the ability to incorporate novelty elements into products and services, to implement technical and technological innovations.

Technical dimension of quality refers to the fact that products should be reliable and consistent with their technological specifications. The marketing dimension of quality refers to company or product reputation (brand name) and how well it meets consumers' expectations. A high quality product can bring additional benefits compared to other products in its range. High quality products are competitive even if they have high prices, fact that positively influences profitability.

According to the Oxford Dictionary of Economics [7] competitiveness is the ability to compete in markets for goods and services. This is based on a combination of price, quality and reputation. With the same quality and a reputation already established, producers are competitive only if their prices

are as low as those of competitors. A new manufacturer that has not yet developed a reputation must use lower prices to compete. With a lower quality product than competitors a company may not be competitive even with a lower price, but on the other hand a company with a higher quality product can charge higher prices than competitors while maintaining its competitive status. Thus the reputation developed by advertising and positive customer feedback differentiates two companies that sell similar products in terms of price and quality. Companies with experience and a good reputation also have a competitive advantage over newly founded companies.

Nowadays, in order to improve their reputation, new companies must assume social and environmental responsibilities, not only regarding their own employees and stakeholders, but also regarding the local community and society as a whole. Such activities sensitize consumers, and have a psychological effect, motivating them to choose among similar products and companies. In conclusion competitiveness depends on at least three essential characteristics of the company: (1) cost level, (2) quality of products or services and (3) reputation.

To maintain a competitive position on the market for a longer period of time a company must have a high financial performance; otherwise it will not be able to allocate sufficient resources for activities such as research, development and marketing, which are not directly productive but maintain company's long-term competitive advantage over competitors.

Competitiveness is considered by some authors synonymous with long-term financial performance, company's ability to reward employees and offer owners a higher yield [6]. Companies with sales that generate losses are not competitive. What is surprising, however, is that previous analyses did not verify the link between competitiveness and financial performance, which we will analyze below.

Therefore the following hypothesis is proposed: *Competitive companies have higher financial performance.*

3. Research methodology

Due to difficulties in defining company competitiveness there are some difficulties in measuring it. Given the way we presented the concept above, we suggest an appropriate assessment method. We will start from an argument presented above, that a company is competitive if it is willing to accept the revenues obtained by selling its products at market prices. Uncompetitive companies will achieve inadequate income, insufficient to cover costs and therefore will be forced to withdraw.

Given the cost dimension of competitiveness, we can say that a company is more competitive if it has lower production costs than competitors. On the other hand, market products are differentiated in terms of quality, and they also have different prices. Companies that maintain their sales volume and charge higher prices than competitors due to the high quality of their products are more competitive. Therefore the difference between the costs and prices of products and services sold is a reasonable measure of competitiveness. Thus we will use as indicator for assessing company competitiveness Return on Sales (ROS), also found in literature by the name of Operating Margin, as it presents at the numerator the difference between operational revenues and expenses and at the denominator the market value of sold products. To assess financial performance we will use Return on Equity (ROE) because it is a generally accepted indicator and it is very often used in literature.

However Return on Sales indicator depends on the profile of the company. For example companies in the trade sector usually have a high level of sales and a low operating margin compared to their turnover (e.g. the Romanian company Farmaceutica Remedia, listed al Bucharest Stock Exchange – BSE, has a ROS that varies in the considered period between .25 and 3.33%). At the opposite end we have companies in the services sector that have very high operating margin compared to their turnover (e.g. Turism Hoteluri Restaurante Marea Neagră Company has a ROS ranging from 13.69 to 43.91%).

Considering these aspects it is appropriate to verify the correlation between competitiveness and financial performance for each sector separately. However, this desiderate can only be achieved in the manufacturing sector (NACE Section C, divisions 10 to 30) because other sectors do not have a representative number of companies listed at Bucharest Stock Exchange (BSE).

3.1. Sample and data selection

The initial sample used in this study is composed of all non-financial companies listed on the BSE, in the first, second and third category (a total of 63). Companies belong to the following sectors (according to CAEN national classification Rev.2 and the statistical classification used in the European community NACE Rev.2): mining: 3 companies, manufacturing - 44 companies, utilities - 1 company, construction - 5 companies, trade: 4 companies, transport and storage - 3 companies, hotels and restaurants - 3 companies. Collected data corresponds to a period of three years: 2007 - 2009.

The main data sources considered are the audited individual annual financial statements of companies, namely the Balance Sheet and Income Statement (Profit and Loss Account), obtained from the official website of each listed company and from the official site of BSE. The second source of information is the site of the BSE, which has been used where financial statements were not available in the form presented above.

After collecting the necessary data and calculating study variables, Oltchim Râmnicul Vâlcea Company was excluded from the sample because the value of the shareholder's equity indicator in the considered period was negative, so the values obtained for one of the variables were not relevant. Also for the year 2009 MJM Mailis company was excluded from the sample because the variable used to assess financial performance had an irrelevant value (ROE = -850.21%). Therefore the final sample contains 62 companies for the years 2007 and 2008 and 61 companies for 2009.

3.2. Variables definition

The independent variable used to assess competitiveness is Return on Sales (ROS). This is calculated as the ratio between company's operating income (EBIT) and its turnover.

$$\text{ROS} = \text{EBIT} / \text{SALES}$$

The dependent variable used to describe company's financial performance is Return on Equity (ROE). This is determined by reporting net profit to capitals invested in the company directly (through a capital contribution) and indirectly (by approving the reinvestment of obtained profits), amounts that actually represent the company's equity.

$$\text{ROE} = \text{NET PROFIT} / \text{SHAREHOLDERS' EQUITY}$$

Variables were calculated separately for each company and each year, and only values that belong to the same year were compared.

3.3. Regression model

For examining the relationship between the mentioned competitiveness measure and financial performance indicators we have chosen a simple linear regression, considering it appropriate for this study. The calculation of regression parameters, descriptive statistics and results relevance was done using Microsoft Excel 2003. The general formula of the model is as follows:

$$\text{ROE} = a_0 + a_1 \text{ROS} + e$$

4. Results

4.1. Descriptive statistics

Descriptive statistics for all study variables are presented in Table 1 (ROS) and Table 2 (ROE). We can observe a number of complementary aspects besides the ones that we focused on. Thus one can easily see a fairly low average profitability of non-financial companies listed on the BSE. The ROE indicator decreases from 5.69% in 2007 to the value of -1.23% in 2009. As an

explanation for these poor results we considered the low competitiveness of Romanian economy and the critical period analyzed, marked by the economic and financial crisis. The recession that occurred in 2008, was felt more strongly by some companies than others. The largest gap between the minimum and maximum profitability (of 116.40%) was recorded in the first year of crisis. This is reduced in 2009 when a larger number of companies were affected.

Table 1: Descriptive statistics for ROS

Variable	ROS		
	2007	2008	2009
Mean	7.60%	6.11%	3.99%
Standard Deviation	10.84%	12.01%	11.78%
Range	80.91%	73.74%	60.10%
Minimum	-37.00%	-45.64%	-31.03%
Maximum	43.91%	28.11%	29.07%
Sum	471.42%	378.93%	243.40%
Count	62	62	61
Positive	55	52	49
Negative	7	10	12

Source: author's calculations

Table 2: Descriptive statistics for ROE

Variable	ROE		
	2007	2008	2009
Mean	5.69%	.07%	-1.23%
Standard Deviation	10.72%	18.60%	15.18%
Range	51.63%	116.40%	77.86%
Minimum	-24.61%	-82.54%	50.74%
Maximum	27.02%	33.86%	27.13%
Sum	352.91%	4.35%	74.98%
Count	62	62	61
Positive	55	49	47
Negative	7	13	14

Source: author's calculations

4.2. Hypothesis verification

The relationship between two variables, considering all non financial companies, is presented in Table 3. As we can see, there is a strong positive correlation between Return

on Sales and Return on Equity for all the three years considered. The correlation coefficient is significant for the number of observations made, with a very high probability, of over 99.9% ($p < .001$). Study hypothesis is therefore verified.

As we mentioned above, the value of ROS indicator varies depending on the profile of the company. Thus we also considered a sample of 43 companies from the manufacturing sector. The correlation analysis is presented in Table 4. The results matched expectations. The correlation between competitiveness, measured by ROS and financial performance, measured by ROE, is stronger when we consider companies with similar profile. Although the sample is smaller, the obtained results are significant.

Table 3: Correlation analysis: all companies

Year	No. Obs.	R	R Square	Signif. (p*)
2007	43	.693	.480	.000
2008	43	.671	.451	.000
2009	42	.763	.583	.000
*significant when smaller than .05				

Source: author's calculations

Table 4: Correlation analysis: manufacturing companies

Year	No. Obs.	R	R Square	Signif. (p*)
2007	62	.601	.361	.000
2008	62	.647	.419	.000
2009	61	.738	.545	.000
*significant when smaller than .05				

Source: author's calculations

4.3. Discussion

The study confirms the proposed hypothesis, sustaining the fact that competitiveness and financial performance are closely connected. Moreover it is noted that the relationship between variables is becoming stronger with the deepening of the economic and financial crisis occurs. Thus only competitive companies have managed to maintain an acceptable level of financial performance; and more and more companies recorded losses. In 2007 more than one third

(R Square =.361 in 2007) of company's financial performance was determined by competitiveness. In 2009 the influence is over 50%. Comparing companies that belong to the same sector proved to be relevant. The results obtained for manufacturing industry are very suggestive, validating the fact that it is recommended to compare similar companies for best results using the ROS indicator.

5. Conclusions, limitations and future research

The results obtained in this study confirm a significant positive link between company competitiveness and financial performance. While it may seem a paradox, competitive companies achieve two important goals that are apparently opposite at the same time. On the one hand they bring products to market at relatively low prices compared to their quality, and on the other hand they manage to achieve high financial performance. This is due to the three key elements of competitiveness that companies cumulate: low manufacturing costs, high quality of their products or services and a good reputation.

The limitations of the study are related to the particular sample of companies that contains only 62 companies, composed mostly of companies belonging to the manufacturing industry. Also the measure used for company competitiveness assessment is a synthetic indicator, which can be challenged. Another contextual element is the considered period that includes the economic and financial crisis that began in the year 2008.

To remove some of the drawbacks of this study future research should consider longer periods of time and the utilization of auxiliary analytical indicators for competitiveness measurement. The following studies may also verify the reverse hypothesis of this study, namely how the company's financial performance affects its future competitiveness.

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Corporate Governance Practices That Positively Influence Company's Financial Performance

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Abstract

This study aims at comparing the efficiency of the main corporate governance practices utilized presently for stimulating the financial performance of listed companies. After analyzing the literature, including theoretical arguments and empirical research results, the study concludes that the dominant and most analyzed prerogatives of a financial performing company are: a reduced dimension of the board, a high proportion of outsider directors, a high ownership concentration, a shareholding management and an optimal indebtedness degree. Results also recommend an integrated approach to governance practices when analyzing their impact on financial performance.

Key words: corporate governance, financial performance, board of directors

J.E.L. classification: G30, G34

1. Introduction

In literature there are many empirical studies that measure the correlation between different corporate governance practices, systems or codes and company performance (e.g. [4], [3] and [5]). This correlation is often analyzed in theoretical and practical works and most results indicate a positive influence of corporate governance practices on financial performance. In spite of these results reality permanently brings new challenges and there are plenty examples of companies with a well-established corporate governance systems that failed. Therefore new questions appear about the effectiveness of these governance systems.

Corporate governance is the result of efforts made by company owners (shareholders) to ensure that managers and other individuals within the company defend their interests in all the actions they perform. The typical modern publicly owned company has a dispersed ownership that doesn't hold executive positions. Thus shareholders that own a negligible part of company shares are not interested in monitoring management, because this action is too expensive. Therefore a risk exists, that company leaders might not aim at maximizing the company's financial performance, but rather to increase its size and their personal earnings.

2. Theories on corporate governance practices and their impact on financial performance

Corporate governance practices are implemented to protect the interests of shareholders. The latter aim at obtaining a higher profit from their investment, which entails a high financial performance of the company they hold. Correlating the two statements we can say that the role of corporate governance is to achieve high financial performance in companies that have implemented this kind of control system. This article will try to analyze the extent to which various specific practices of governance affect financial performance.

Before proceeding to analyze corporate governance practices it is required a short presentation of the mechanisms and devices used for control. They can be divided into two categories: *internal and external*.

Internal control mechanisms are specific for each company and they are usually built and implemented depending on owners' desire. Their basic elements are: the board of directors, the internal control and audit

department and politics regarding management remuneration and the balance of power.

The main responsibilities of the *board of directors* are: the appointment, dismissal and remuneration establishment of management, supervision of managers, evaluating and approving decisions and strategic plans proposed by management, and others. Board structure is decided by shareholders. Members can be both individuals working in the company (insiders) and specialists from outside the company (outsiders).

Audit and Control Departments, including control procedures, implemented by the board, management or the audit committee, are designed to certify if the various compartments of the company meet their objectives, comply with legal regulations and that the information contained in the financial documents they prepare is true and correct.

Power separation practices refer to the fact that the decisional and the executive prerogatives in making payments and collections belong to different individuals.

Policy on remuneration refers to management and other employees salaries that can be based on personal and team results (to the extent that such activity permits). Such leaders will strive to achieve outstanding results to be compensated, thus defending the interests of investors and other parties and their personal interests at the same time. This type of reward has a beneficial effect, to attract and retain performing managers and employees. Considering its effectiveness, this method is widely used today, and managers usually receive incentives in cash and company shares. Thus they are stimulated to accomplish company's main long-term objective, first proposed by Jensen [10]: the maximization of company's market value.

External corporate governance mechanisms that foster an effective management belong to company's external environment and differ from one country to another. They are beyond the control of shareholders, being stronger in developed countries with powerful capital markets. Among the external entities that influence governance practices we mention: competitors, creditors (banks), securities commissions, capital markets, managers, media etc. The so called manager markets

and stock exchanges put pressure from both inside and outside the company to improve performance. These markets continually evaluate listed companies and remind managers and other company insiders that they need to be productive, because they are in constant competition with other companies in the industry [8]. Capital markets, through the requirements they have on the implementation of certain standards for performance and reporting, provide continuous monitoring on listed companies.

In literature there are many practices intended to maximize company's financial performance. For example Lawrence D. Brown and Marcus L. Caylor verified in a recent study [3] the relationship between a number of 51 external governance provisions and company's operational performance. This study will only analyze the most important internal ones. The best known and most verified specific governance characteristics that influence company performance are: shareholding by individuals within the company (especially leaders), board structure, board size, ownership concentration and financial debt.

Insider ownership has, theoretically speaking, a positive influence on company performance. Given the fact that their own savings are invested in the company, managers and employees are motivated to pursue a more successful business to increase company's market value, and at the same time the value of their portfolio. On the other hand they will be interested in achieving high financial performance, to qualify, along with the other shareholders for profit distribution in the form of dividends, bonus shares or other benefits of this kind. Through this practice agency problems are reduced because management and other insiders become shareholders are at the same time, thus having common interests with other shareholders.

Ownership concentration is another practice that has a positive effect on company's financial performance. This refers to the proportion in which the company is owned by a number of significant shareholders. High concentration of ownership tends to create more pressure on managers to maximize company value [17]. Thus if ownership concentration increases, one can usually observed an immediate

increase in the price of the company shares. In such situations significant shareholders that hold together a significant percentage of equity can organize easier to penalize management errors. Once a certain percentage is exceeded (50%) the further increase of concentration no longer has the same effect. Another case in which such pressure is put on the management is the change of main shareholders in case of sold companies.

Board of directors' size is apparently an unimportant feature. However, there is a first simple argument in favor of a board with fewer members on the grounds that it meets and makes decisions easier [18]. According to the same author as the board is augmented, individual members have less influence. So if a member disagrees with decisions taken by the chief executive officer, he is encouraged to argue his point of view and his opinion has more weight in a smaller board. According to some authors the optimal number of board members is maximum ten [18].

Board structure may influence the manner in which management defends the interests of shareholders because it monitors the way company is managed and take important strategic decisions, following their implementation by management. In fact, the most important issue is that the number of board members who are not company's employees (outsiders) must exceed the number of insider directors. Insider board members are subordinated to the chief executive officer and therefore they are in a conflict of interest and could be influenced to agree with some of their superiors' actions that aren't in the interest of shareholders or other stakeholders. Board members not involved in company management have greater freedom of expression and can not be constrained in any way to make decisions inconsistent with the interests of the company. Under this consideration in Great Britain there are regulations that require at least two thirds of the board members to be outsiders.

Company's indebtedness to lenders (banks) is theoretically an incentive to improve financial performance [11]. Just like major shareholders, major lenders (usually represented by banks) are concerned about their clients' performance. Thus they permanently monitor costumers in order to be

sure that they will recover their investment and the additional interests. By borrowing, managers show their willingness to be controlled by another group of stakeholders represented by banks. Problems arise, however, during periods in which the company has a poor financial performance. In those critical periods creditors claim the repayment of loans just like in periods of prosperity and this can result in a conflict between the two parties. Therefore, company boards often contain a representative of the lending bank especially in countries like Japan and Germany, where banks play an important role in local corporate funding.

3. Empirical studies on corporate governance practices and company financial performance

Each of the numerous theories that argue the influence of corporate governance practices on company performance is verified by a large number of empirical studies. Yet research results are mixed. So, one can encounter situations where several studies that examine the same corporate governance practice, obtained different results. This might be due to the specific characteristics of each study (the companies sample, the variety of methods, periods taken into account, etc.). Yet in verifying the effectiveness of corporate governance one does not question the usefulness of some of its characteristic structures such as the board of directors, audit and control departments, remuneration and power separation policies, but only some of their characteristics (composition, size, functions, etc.).

Indicators chosen to measure the financial performance of companies depend on authors' opinions about their importance and the data available for calculation. Generally the following indicators are used: Return on Assets, Return on Equity, Return on Investment, Return on Sales or Profit Margin, Tobin's Q, Price per Earning Ratio and others. Regarding the five characteristics theoretically presented above numerous empiric verifications have been done among which we will briefly present the results of several.

Companies in which the persons involved in management are equity holders are not necessarily more efficient than others. There are specific studies with conflicting results on this issue. Some shows that performance is positively correlated with management shareholdings [15]. McConnell and Servaes [14], after their research, revealed a curved-linear correlation between this feature and company performance. Other researchers after further studies, state that there is no significant relationship between the two variables. Other researchers have also revealed a non-linear correlation.

Empirical studies that analyze the influence of ownership concentration on company performance also have surprising results. Some research shows that the rotation of senior executives from companies with worse performance that have a more concentrated ownership is greater than in those with dispersed ownership [6]. Other studies on the same subject have identified a significant link between the two characteristics [16]. Moreover some research results show even a negative correlation between the degree of concentration of ownership and company performance [1].

Correlation between board of directors' size and the financial performance of the company they monitor is analyzed in several studies. The results obtained by some authors confirm that companies with fewer board members have better financial performance than others, finding a negative correlation between the two variables ([4] and [18]). The authors of a recent study [5], after evaluating the correlation between Tobin's Q and board size, concluded that there is no general rule on this link and that the size of the board depends on company complexity. Thus a small board is performing in the case of a small and simple business, and in the case of complex companies a greater number of members positively affect performance, because the presence of more specialists is beneficial.

The influence of board of directors' structure on company performance is extensively tested in literature but the results do not have a unitary character. A part of the studies concluded that there is a significant correlation between the proportion of outside directors (outsiders) and company's financial performance [12]. But other studies [2] didn't

identify a significant link between the two variables. Although results vary, they are not contradictory in the sense that there aren't studies that identify a negative correlation in this matter.

The fifth characteristic of corporate governance chosen for this study has fairly large presence in literature and practice, especially in studies that refer to countries where the German governance model prevails. According to several researches company creditors, mainly represented by banks, exercise a positive influence on company performance, through their monitoring actions. Therefore there is a significant positive relation between indebtedness and performance indicators where the company does not make excessive investments by credit [14]. Other studies did not identify a significant link between the two variables [1].

4. The integrated impact of governance practices on company performance

Corporate governance practices operate simultaneously. Thus they can substitute for each other. For example a company may have few board members that are outsiders and still have a high financial performance if those members are in the same time shareholders. Therefore the practice referring to the presence of outsider directors in the board is replaced by the practice sustaining that share holding managers perform better. An integrated analysis of all governance characteristics is therefore recommended to assess global governance effect on performance. To develop such study, some researchers used integrated corporate governance indexes calculated by specialized institutions for a large number of companies and even at country level. For example Durnev and Kim [7] identified a positive correlation between a corporate governance index built by Credit Lyonnais Securities Asia - equity broker and financial services group, and companies' growth opportunities and performance. Similar results were obtained by Klapper and Love [13] using governance indexes by same institution and Gompers et al. [9] using an index they designed. These researches once again confirm the usefulness of good corporate governance practices and the sound

perception among shareholders on their implementation.

Internal corporate governance practices make the difference between companies. On the other hand external corporate governance regulations affect all companies that belong to a country or companies that are listed at the same stock exchange. Similar companies with same performance, but belonging to different countries or listed on different capital markets may have different market values and performances. Therefore a combination between internal and external corporate governance practices leads to best company performance.

5. Conclusions and future research

The most important and widely analyzed corporate governance practices are bounded to board of directors' size and structure, ownership concentration, insider ownership and company indebtedness degree. After analyzing the considered literature the study concludes that generally, a relatively small board of directors, correlated to company size and complexity and a high proportion of outsider directors positively influences performance.

Financial performance is also enhanced by a shareholding management that adopts an optimal leverage. Moreover, a concentrated ownership stimulates the performance of management and of the company as a whole.

Yet results obtained in analyzing the individual influence of each corporate governance practice on company performance are varied. The main reason for these differences is that there are plenty of practices and others types of factors, which influence company's financial performance. Therefore the individual analysis of a single practice in comparison with company's overall performance is not relevant enough to confirm the effectiveness of that practice. Thus it is necessary to investigate the correlation between a set of specific features of governance and company performance. This can be done by using corporate governance indexes constructed by specialized monitoring institutions or proposed by different authors.

The bigger the number of corporate governance practices considered, the higher index accuracy obtained. Most studies

conclude that the performance and valuation of listed companies are higher for companies that apply internal governance practices and adapt to external mandatory or recommended governance provisions.

Considering the fact that corporate governance in Romania is in an early stage of development, companies listed at Bucharest Stock Exchange (BSE) are not very preoccupied of implementing such practices. Yet, some companies, mostly multinationals' subsidiaries, have made notable improvements in the field of corporate governance. Given the fact that such study has not been done yet we recommend the achievement of an empirical analysis of corporate governance practices' influence on the financial performance of BSE companies.

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Credit Risk and the Change in Fair Value

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Abstract

Users of financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence a user's assessment of the financial position and financial performance of an entity or the amount, timing, and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgments about risk and return. Entities should describe the nature and extent of risks arising from financial instruments.

Key words: financial instruments, risks, financial performance

J.E.L. classification: M41

The International Accounting Standards referring to the financial assets and debts have been drafted out of the desire to reflect in accountability some of the most spectacular evolutions that have taken place on the global financial markets during the last decades. By the agency of these norms, the accountability practice has been brought up to day in order to reflect undeniable economic and financial realities, like the very frequent use of the products of the financial market with the goal to obtain the necessary resources to develop the activity, make investments or protect the business against the different risks of a financial nature.

In the perspective of a necessary and expected development of the Romanian capital market the Romanian companies will appeal more and more to the financial instruments. As a consequence, their accountabilisation and presentation and the description of the information concerning the individual or consolidated accounts and the analysis of the impact of using it on the

performances and financial position of the entities become very actual subjects for the Romanian professional accountants, for whom the aspects described in the paper proposed to be elaborated get more and more utility.

Accounting hedge operations of a fair value against risks aims to protect the assets, liabilities, unrecognized firm commitments or part of the risk against the amendment because the fair value of interest rate fluctuations, exchange rates or prices of goods.

An operation to cover the fair value will be charged as the followings:

- gain or loss resulted from revaluation of hedging instruments at fair value or the value of its currency accounting assessed in accordance with IAS 21 for a tool to hedge against risks nederivat will be recognized immediately in the profit and loss.

- gain or loss related to a covered item that can be attributed to the risk cover will be adjusted at the value of the item covered and will be recognized in the profit and loss. This principle applies if an item is covered in other conditions evaluated at cost. Recognition in profit and loss of earnings or loss attributable to the risk covered is covered if the item is available for sale financial asset.

For a fair value hedge of the exposure of a portion of a portfolio of financial assets or financial liabilities at the risk of interest rate, method of counting presented above can be achieved by presenting earnings or losses that may be presented to the covered item risk:

- in a single element - the active line, for those periods in which the revaluation of the item covered against risk is an asset, either

- in a single element - separate line in debt, for those periods in which the revaluation of the item covered against risk is a duty.

Separate line-items referred to in previous paragraphs will be presented along with financial assets or financial liabilities. Values included in these elements - line will be removed from the balance sheet when the assets or liabilities that are related are derecognized.

Only if certain risks that can be attributed to an item covered against risks are covered against risk, recognized changes in the fair value of assets covered against risks that are not related to the risk is already covered in the profit and loss when the entity entitled to receive payment is established.

An entity will discontinue hedge accounting prospectively specified above if:

- hedge against the risk expires or is sold, completed or exercised;
- coverage no longer meets the criteria to use hedge accounting or
- revoke the appointment by the entity.

When an unrecognized firm commitment is designated as a covered against risk, the amendment in the aggregate fair value of the firm commitment that is attributable to the risk covered is recognized as active duty or in the corresponding gain or loss recognized in the profit and loss. Changes in the fair value of hedging instruments against the risk are also recognized in the profit and loss.

If an entity enters into a firm commitment to acquire an asset or to assume a debt that is a covered against risk in a fair value hedging against risks, the initial value of the asset or debt arising from that entity and a firm commitment is honored adjusted to include changing the aggregate fair value of the firm commitment that is attributable to the covered risk was recognized in the balance sheet.

In category microcover operations included those hedging links through which it aims to cover the risks of individual items.

Covering against the interest rate risk is performed for items such as:

- loans and receivables generated by the entity or assets available for sale, bearing fixed rates;
- debt bearing fixed rates and are not held for trading.

Some examples of relationships of the fair value of hedging against such risk are presented in Table 1.1.

Table 1.1. Covering against the interest rate risk

The covered element	The covering instrument	The covered risk
Decreased rate	Interest rate swap that pays a floating rate and receives a fixed.	Variability of the value of a fixed-rate debt.
Growth rate	Interest rate swap that pays a fixed rate and receives a floating.	Variability asset value of a fixed rate.
Decreased rate	Buying a futures contract or a forward contract to purchase, with the active support of a fixed-rate debt.	Variability of the value of a fixed-rate debt.
Growth rate	Selling a futures contract or a forward contract of sale, with the support aciv a debt with a fixed rate.	Variability asset value of a fixed rate.
Growth rate	Buying a "cap".	Change the value of a fixed-rate assets resulting from fluctuations in interest rates over the limit set in the "head".
Decreased rate	Buying a "floor".	Change the value of a fixed-rate debt resulting from interest rate fluctuations under the level set to "floor".

Source: KPMG, IAS – *Financial Instruments Accounting*, KPMG International, September 2000, p. 128.

Suppose that a company bonds on 01.01.2006 with maturity over 3 years, at nominal value of 50000 USD, with an interest rate of 7%, payable annually. The company would prefer to pay a variable rate. To do this, it contracts an interest-rate swaps with notional value of 50000 USD , which pays LIBOR and receives a fixed rate of 7%. Evolution of the LIBOR contract period is as

follows: 7% in the first year, 5% in the second year and 9% last year. Derivative coincides with the maturity of the loan obligator. Initial fair value of swap is zero, which is why contract not generate any accounting entries.

Management entity to designate a relationship derived from a fair value hedge against interest rate risk. Operation is considered very effective. Issuance of bonds is recorded as following:

Accounts at banks from issuing loans = Bond 50000

Net flows of Treasury related derivatives during the three periods are calculated in Table 1.2.

Table 1.2.

Year	Variable interest rate (LIBOR)	Fixed interest rate	Cash flows estimated at exit	Cash flows estimated in entering	Net flows of Treasury
	7%	7%	(3.500)	3.500	0
	5%	7%	(2.500)	3.500	1000
	9%	7%	(4.500)	3.500	(1000)

In year 1, determine the fair value of swap by updating the estimated net flows of Treasury year 2 using LIBOR (5%).

$1000 / (1 + 0.05) + 1000 / (1 + 0.05) (1 + 0.05) = 1859$ USD

Therefore, change the fair value of derivatives has not been a gain of U.S. \$ 1859.

Swap = Unachieved gain from covering operations 1859

Change fair value of debt, calculated by updating the flow coming in the form of a loss recorded in the results (50000 USD - 51859 USD).

$3500 / (1 + 0.05) + 53500 / (1 + 0.05) (1 + 0.05) = 51859$ USD

3500 where the flow is the annual interest due, and the 53500 USD and is considering the loan repayment period to end.

Article accounting is appropriate:

Unrealized loss of loans=Operations cover the issue of bonds 1859

Interest paid in the first financial year for bonds issued are as follows:

Interest expenses = Bank accounts 500

The following year, the entity recorded a net settlement of swap in which the receiving 1000 USD, which they distributed among the

related interest income from financial debt previously recognized (1859 USD x 5%) and the claim itself. Registration will be related accounts:

**Accounts at banks = % 1000
Income 93 Swap(financial debt) 907**

Also, the flows were estimated at - 1000 USD for three of the century through the interest rate of 9% [$1,000 / (1 + 0.09) = (917)$] is an conversion of swap of debt financial debt and a loss of unrealized fair value changes. Article accounting is appropriate:

**Unrealized loss of = % 1869
Swap operations coverage (financial debt) 917
Swap (financial debt) 952**

Interest expense recorded by the entity issuing the bonds is U.S. \$ 51859 x 5% = 2593 USD. Therefore, payment cash flows of U.S. \$ 3500 generates the following accounting:

**%=Accounts at banks 3500
Interest expense 2593
Loans with issued bonds 907**

Present value of debt in the second year is $53500 / (1 + 0.09) = 49083$. It is noted that the debt is reduced from 51859 to 49083, which generates a gain unfulfilled.

Loans from the issue= Bond operations of unfulfilled gain coverage 859

In the last year of the contract, the entity record swap settlement and payment of 1000 USD expense to distribute the interest on financial debt represented swap (917 x 9%) and debt balance.

**% = Accounts at banks 1000
Interest expenses 83
Swap (financial debt) 917**

Interest expense on the debt this year is 49083 USD x 9% = 4417 USD. Accounting for relevant are:

**Interest expense=% 4417
Accounts at bank 3500
Loans of programs bond 917**

At the end of the debt is repaid.

Borrowing programs=Accounts at banks 50000

In all three periods of the relationship of coverage, efficiency is 100%, any change to the fair value of the loan is perfectly offset by the hedging derivative instrument. For this reason, changes in market interest rate do not affect any duty not its results.

Hedge accounting recognizes the offsetting effects on the symmetric profit or net loss for the fair value changes of hedging instrument and related events that are covered.

When a company booked a financial instrument as an instrument for hedging risks associated with anticipated future transactions, then the company will present the:

- description of anticipated transactions, including the time period until the emergence of risk is assessed;
- description of the instruments for hedging risks;
- value of any gains or losses deferred or unrecognized and when the expected recognition as income or expense.

An enterprise should present all gains or losses occurred in the financial risk to cover anticipated future transactions, whether those gains or losses have occurred or not in the financial statements.

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Financial Instruments. Nature and Extent of Risks

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Abstract

Disclosure is an effective mechanism to expose financial risk management practices to market discipline. Disclosure should be sufficiently comprehensive to meet the needs of users within the constraints of what can reasonably be required. Improved transparency through better disclosure may reduce the chances of a systemic financial crisis or the effects of contagion because creditors and other market participants will be better able to distinguish between the financial circumstances that face different institutions or countries.

Key words: financial risk, financial position, accounting standards

J.E.L. classification: M41

During this last decade, the accountability of the financial assets and debts has experienced a real revolution as a result of the fact that the accountability norms regarding the acknowledgement and evaluation of the financial instruments. The provisions of the mentioned standards, elaborated with the declared aim to bring the accountability practices at the level of the most recent evolutions that have taken place on the global financial markets have significantly changed the way of accountability of the financial assets and debts and of the instruments of the own capitals, of the derivatives or of the operations of risks covering, as being a direct reflect of the nature of the transactions developed in the modern economy.

The complexity of the new rules contained by the norms generated animated debates and challenged the practitioners involved in preparing and drafting the

financial balances, for whom applying the requests referring to: the acknowledgement of all the derivatives of the balance, the evaluation of many of the financial assets and debts at their real value, the criteria that must be observed to annul the acknowledgement or the use of the special accountability treatment applicable to the protection operations against the financial risks etc. was, in most of the cases, an absolute novelty.

Covering the fair value against currency risk. Unlike operations cover other types of risks, the coverage in a relationship of this kind may originate among nederivate. This is explained by the fact that, in general, changes in exchange rates are reflected for financial assets and liabilities in the profit and loss.

Exceptions are non-monetary items (such as shares) denominated in foreign currency and classified in the category of assets available for sale to fair value changes recorded in equity. In this case, the exchange differences are recognized in profit or loss. Although IAS 39 does not prohibit the designation of such elements as tools for hedging currency risk, the relationship is unlikely to be effective.

Due to the requirements of IAS 21 to assess all elements of the monetary exchange rate at the close of the financial year and to record changes in the profit and loss accounting operations risk coverage is not needed. Non-monetary items (assets or financial liabilities) record exchanged differences relating to equity, where the transfer results in the cancellation only in the recognition of such items. These rules have the consequence of using a less extended accounting operation of a fair value hedge against currency risk.

The most frequently used instrument for hedging currency risk is the *forward contract*. If holding an asset denominated in a

declining exchange rate is covered by a contract of sale of foreign currency on time. In the possession of a debt denominated in foreign currency, increasing the risk of exchange rate shall be covered by a forward contract to purchase a currency at a future date but at a price determined today.

Cover the fair value against the risk of price of goods is made especially for assets valued at fair value, if possible price reduction. Ensure protection through a forward contract for the sale of a product / financial title or by purchasing a put option on a commodity or a title.

For example, a company which has the object of refining metals and their wholesale sales, wants to protect stocks of zinc held. To do this, it falls on 01.07.2008, in a forward contract (which has no intention of reimbursements by the delivery of metal) to sell at a zinc price. On 30.09.2008, the hedge relationship is still very effective. The fair value of the stock of zinc decreases with 25000 USD, while the derivatives increased by 25000 USD .

On 01.07.2008 there are no accounting entries because the fair value of derivative is zero. On 30.09.2008 is accounted:

- amend the fair value of the stock of zinc:
Unrealized loss of zinc stocks= Operations coverage 25000
- amend the fair value of forward contract:
Financial asset has not=Gain of 25000 (forward contract) operations coverage

At the end of the financial year, was identified that part of the hedge relationship is effective, but overall efficiency is maintained in the standard (80-125%), why not waive the application of particular accounting treatment. The fair value of the stock of zinc fell by 25000 USD, and the derivative with 22000 USD. Accounting for relevant are:

- amend the fair value of the stock of zinc
Unrealized loss of zinc stocks= Operations coverage 25000
- amend the fair value of forward contract:
Financial asset has not = A gain of operations coverage 22500

Firm commitments are another important issue of accounting transactions for hedging risks. Under IAS 39, they are irrevocable agreements of exchanging a specified

quantity of resources at a price set at a time or more determined future date. These commitments creates the risk of exposure to change in the fair value. However, IAS 39, the original version, to protect their operations applicable accounting rules for hedging cash flows. But a new version of the standard amends this provision, which harmonize with U.S. accounting rules. Thus, coverage is a strong commitment to the operation of the risk of fair value changes. If the commitment is denominated in foreign currency, the entity may choose to cover according to the rules relating to fair value and the cash flows.

When an importer shall issue a purchase order, requiring payment in foreign currency seller, it exposes the risks of currency and not the time of the acquisition. This period, up to the actual transaction is called *anticipatory period of transaction*.

Accounting treatment of firm commitments covered instruments designated as provided for in IAS 39 is as follows:

- subsequent amendments cumulative fair value attributable to the risk of commitment is protected admit, on the one hand, as an asset or debt in the balance sheet and, on the other hand, the losses or gains in the results. Changes in the fair value of hedging instrument are recorded in all the profit and loss;
 - initial value of the asset or debt resulting from the strong performance is adjusted to include the cumulative amendments previously recognized in the balance sheet.
- Next, we present an example of covering a firm commitment denominated in foreign currencies, fair value through method. On 2 October 2006, an American company has ordered the purchase of equipment from a French manufacturer for the amount of 1000000 Euro, delivered over 3 months (30 January 2007). Date coincides with the settlement. To protect against currency risk, the company enters into a forward contract of 1 Euro = 1.23 USD. To establish the effectiveness of the relationship using the "dollar offset". Evolution rates during the coating operation is shown in Table 1.1.

Table 1.1.

	02.10.2006	31.12.2006	30.01.2007
Spot rate	1 Euro = 1,20 USD	1 Euro = 1,25 USD	1 Euro = 1,20 USD
Forward rate	1 Euro = 1,23 USD	1 Euro = 1,26 USD	1 Euro = 1,23 USD
Home	0,03 USD	0,01 USD	-
Change:			
- Spot rate	0,05 USD	+0,05 USD	=0,10 USD
- Forward rate	0,03 USD	+0,04 USD	=0,07 USD
- Premium	0,02 USD	+0,01 USD	=0,03 USD

The accounting records are :

- on October 2, when contracts are derived, there is no record because the its fair value is zero;
- December 31:

-the associated lossis recognized of firm value due to the adjustment of the fair as a result of fluctuations forward rate [(1.26 - 1.23) x 1000000]:

Unrealized loss from operations = Firm engagement of coverage 30000

Related derivative gain (0.03 x 1000000):

Financial asset (forward contract)= Unachieved gaining 30000

- 30 January:

- Loss of commitment attached firmly established on the basis of forward rate [(1.30 - 1.26) x 1000000]:

Unrealized loss from operations=Firm engagement of coverage 40000

- Gain related forward contract (0.04 x 1000000):

Financial asset (forward contract)=Unachieved gaining 40000

- Purchase of equipment at the rate of 1.23 set in the forward contract:

% =Accounts at banks 1300000

Equipment 1230000

Firm engagement 70000

Net settlement of derivative:

Accounts at banks=Financial Assets 70000

If the item covered against risk is a financial asset or financial debt, it may be an item covered against the risks to the risks associated with only a portion of the cash flows and its fair value - such as one or more flows Treasury selected the contract or a portion thereof, or a percentage of fair value - provided that effectiveness can be assessed.

Thus, a portion of identifiable and can be evaluated separately from the exposure rate to produce an active interest which may be classified as risk covered (such as interest rate risk or without a standard rate of interest of the total exposure rate of a financial instrument covered against risk).

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Production of Organic Beekeeping – an Area of Interest of Romanian Export

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Abstract

Regarding the culture of bees and bee products, our country has a long tradition, representing an occupation since ancient times. Currently, under globalization, where all products must be more competitive, organic beekeeping acquires new traits, its main objective being to obtain the best quality of bee products and to meet European standards, thus encouraging the consumption of "healthy" products.

Key words: ecologic, tradition, export, trade
J.E.L. classification: Q50, Z13, Q17, F1

Organic beekeeping is dynamic sector in Romania, and registered producers in organic farming system, starting with 2000, have certificates for organic beekeeping. The main objective of beekeeping is to obtain pure bee products of the highest quality without using chemicals. The quality of honey and bee products certified in organic agriculture depends largely of its treatment over the hives of bees, environmental quality, and the extraction, processing and storage conditions of bee products.

Features of beekeeping on areas, according to organic production, are closely related to rules and principles of organic beekeeping. For the location of the hives must:

- to ensure that the bees have enough natural sources of nectar, sweet secretions, pollen, and access to water;
- to ensure that within a radius of 3 km around the source of pollen and nectar crops are organic and / or spontaneous vegetation, or organic crops are treated only with low environmental impact methods;

- to keep hives at a sufficient distance from the sources that can lead to contamination of bee products or deterioration in the health of bees.
- in addition, at the beginning of each year, the beekeeper is required to provide for the certification by inspection bodies the map the location of the hives. If these areas are identified, the beekeeper is required to provide for certification by the inspection bodies all necessary documents and justifications, including the analysis showing that the areas accessible to his colonies of bees meet legal requirements. For inspection and certification bodies may be defined areas where no one can practice organic beekeeping.

Marketing of honey and bee products is achieved by two means: through trade associations and directly by producers who have, also, machining processing facilities. The work field of the associations focuses on the acquisition honey from honey producers, processing and marketing honey and bee products, both in domestic and other markets. Thus, an essential aspect is the initiative of the associations to organize in each year, training for members of producer associations, by which they are prepared for standard meeting of committees of the EU beekeeping.

Recently, as a result of modernization projects, associations have been equipped with modern lines, and honey processing equipment has led to a diversification of product range and packaging. Since quality is an important factor in the organic agriculture system and accurate information to consumers is the basic principle in this system, some associations have their own laboratories for analysis, where quality control of the material is performed by collecting samples when they enter the

facility and on finished product samples. Certified organic honey and bee products are present in both the domestic and the intra-and extra-EU markets (France, Germany, Hungary, Japan). It should be noted that over 60% of Romanian ecological honey is exported.

What we have seen so far is that there is no national association to handle the sale of honey to the European market or other markets. Exports are generally managed by each association that deals with domestic trade. Thus, in 2008, exports of organic honey was made by the following associations: S.C. Apicola S.R.L. Bacău, S.C. Apidava S.R.L., Asociația apicultorilor ecologiști din România -"Fila Ronnin Apis" Gorj, Apiprodex Târgu Mureș, S.C. Tremot Dobre și Fiii, registered in the database as exporters. An important aspect is that the most important company in Romania on line trade organic honey is SC Filiomera Brasov, which collects and sells honey and bee products only internally. To sell and label the product as organic is required an organic beekeeping operator who must be registered in the system of inspection and certification (registration numbers with local authorities and the control system of a body appointed by the Ministry of Agriculture and Rural Development operation in Romania). Beekeeper task is to transition from conventional to organic systems with specific environmental equipment, once the contract is signed with the inspection and certification body.

A recent study on factors influencing organic honey and bee products identified six factors:

- Change of concentration. Processing always attracts new opportunities and will lead to frequent changes in business strategy. Usually, treatment focuses on smaller markets, but due to constant change and new markets, a processor can decide to switch to an entirely new market.
- Enterprise of risk. Processing typically involves a high risk and this will influence the business line and hence the marketing production.
- Motivation. The processing of the production is addressed directly to the consumer and thus provides a great path for business marketing, development of

new types of products and finding new customers.

- Power and influence. Persons responsible for a processing unit, those with decision-making power, will greatly influence the marketing of the product.
- Strategic directions. Managers are assigned on specific tasks (technical or operational management), tactics which are of current importance, not long-term importance, such as renegotiation of prices with a customer.
- General. Usually, managers of processing units are involved in all company activities, including trading.

An effective way of highlighting the strengths, weaknesses, opportunities and threats highlighted in the beekeeping sector is the SWOT analysis:

Strengths:

- existence of national and community legislation
- existence of a control system recognized by EU;
- a dynamic of beekeeping industry;
- granting specific subventions;
- competitive advantage

Weaknesses:

- poor coordination and lack of unification of the main participants in the organic beekeeping;
- insufficient action to promote environmental benefits of bee products;
- lack of specific information / training programs for manufacturers regarding the capacity of management;
- insufficient development of processing capacity, packaging and sorting stations to meet the requirements of foreign markets;
- underdeveloped services (specific inputs: beehives, bee colonies, frames, etc.)
- beekeeping sector underrepresented in the market (domestic and abroad)
- lack of investment in marketing, advertising and promotion;
- poor representation of ecological apiculture programs of specific research.

Opportunities:

- Favorable natural conditions for beekeeping
- Cooperation with similar organizations (IFOAM, FAO, PHARE, etc.)
- Beekeeping sector gains confidence of the consumers of organic products;

- A growing foreign market;
- Cooperation with mass media;
- Traditional farming methods based on clean, unchanged local species;
- State subsidies

Threats:

- Eco-scandals;
- Current confusions between "natural products" and "healthy products";
- Low level of available credit in the financial market;
- Incorrect labeling, with "fakes" coming on the market;
- Extension of GMOs;
- Natural events and climate events;
- Low population awareness regarding organic agricultural environment;
- Increasing the quantity of imported products on the Romanian market.

For developing organic beekeeping and to increase competitiveness of organic products in the purpose of targeting organic products for export, have been identified the following priorities:

- increase and maintenance of value added on production of organic honey and bee products in the value chain, as long as possible and directing production towards external markets;
- promoting organic honey and bee products in markets niches where there are not yet covered;
- strengthening our position in current markets and identify new export markets;
- applying EU and national law in the organic beekeeping in order to strengthen the control system, either by additional monitoring measures by the competent authority for high quality products for export;
- national coverage of the market with organic honey and bee products designed to meet consumer demands;

- development of industry-specific research in order to provide technological solutions to beekeeping operators;
- professional development for producers, processors, importers and exporters;
- creating associations specialized in the sale of honey and bee products.

Romania remains a leader in the supply of organic honey, with integrated certification and with a steadily increasing market penetration, the issuance of the export strategy of the Romanian organic honey taking place in the context of globalizing world market and a market tendency of consumption against the "healthy" products.

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The Informational Limits of the Profit and Loss Account in Accurately Portraying the Company's Performances

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Abstract

For a long time the users of financial statements were limited to consulting the profit and loss account in order to find out information regarding the result sheet, considered the most significant measure of a company's performance. On the same trajectory there lies the theory of Economics, noting that the main objective of the economic activity is that of maximizing profits.

Key words: accounting policies, relevance, reliability, fidelity.

J.E.L. classification: G3; G32; G34

Given the fact that companies can choose, within certain limits, their own accounting policies, the results reflect their goals and not the reality. In this situation, is the outcome credible and relevant? The objectives of accounting policies vary by size of enterprise and economic environment in which it operates. As an example we may mention the following: decreasing published losses, reducing taxable profit, current income increasing or decreasing, increasing or decreasing the profit to be distributed, arranging temporary accounting results in order to reduce the perceived risk of financial environment.

Accounting policies are defined in the dictionary of accounting of Oxford University Press, as "specific accounting bases constantly used by an organization in financial statements; these bases are considered and determined by the organization to be most appropriate to fairly present its financial results and operations." [3].

In the view of IAS 8 "Net profit or net loss of the period - fundamental errors and changes in accounting policies", the

accounting policies are "specific fundamental principles, conventions, rules and practices adopted by an enterprise in the preparation and presentation of the financial information".

Choosing and applying accounting policies are responsibilities of the company's management, so that the financial statements comply with all applicable requirements of each International Accounting Standard and of each individual interpretation of the Permanent Interpretations Committee.

In the absence of specific requirements the management "must adopt policies to ensure the provision of information by financial statements, information which is to be:

- a) relevant to the decision-making needs of the users, and
- b) reliable in the sense that:
 - o it faithfully represents the results and the financial position of the enterprise;
 - o it reflects the economic substance of the events and transactions and not merely the legal form;
 - o it is neutral, that is unbiased;
 - o it is cautious, and
 - o it is complete in all material respects."

If there is no specific International Accounting Standard and an interpretation from the Permanent Committee for Interpretation, the company management appeals to professional reasoning in order to "develop an accounting policy that provides the most useful information to users of financial statements of the enterprise. In pursuit of this professional reasoning, the management takes into consideration:

- a) the requirements and recommendations of the International Accounting Standard relating to similar and related issues;

b) the definitions, recognition and measurement criteria for assets, liabilities, revenues and expenses under the IASB main framework, and

c) the rulings of other organisms entitled to establish the Standards and Practices accepted in the industry practices only if they are "consistent with the letters a) and b) of this paragraph".

The accounting policies are therefore a consequence of the choice made by managers and aims at: choosing (or modifying) assessment methods, choosing (or modifying) methods of presentation of the summary document, setting the pattern and degree of aggregation of information published in the accounts of synthesis in general and in the annex, in particular, establishing the information which is to be published in the management report, establishing the date of communication of financial information, voluntary publication of optional summary documents (e.g., Financing framework), choosing (or modifying) the auditor; alignment (partial or total) to the international accounting referential or to the acknowledged international accounting referential; abandonment of certain accounting principles.

In our opinion, the freedom of choosing the accounting policies, possessed by the company manager who wants to reach the given target, would "urge" the accountant to make a selective choice, either of reduction of income or of increase of income. For example, two similar companies that, for evaluating stocks, use the FIFO (first in - first out) and respectively the LIFO (last in - first out) methods will have, assuming the other elements are equal, different sizes of the results. The first will get a higher result, while the second will get a lower result. Managers have different 'targets', depending on the size of the enterprise and on the leverage of the enterprise.

In large companies, publicly traded, the manager's objective is to meet the information needs of the shareholders. If the business is controlled by managers, the objective will be that of increasing the output. Companies controlled by shareholders will try to accomplish income "smoothing". But the findings should not be made absolute.

In large companies, managers will choose the accounting policies that will lead to diminishing the outcome, because for large businesses, political pressures are greater than for small ones. Among the researchers who have confirmed this hypothesis the following can be mentioned: Daley and Vigeland (1983) for analysis of the capitalization / lack of capitalization of the development costs and Zmijewski and Hagerman (1981) for the analysis of the methods for stock assessment. Indebtedness of the enterprise influences the choice of accounting policies by managers. The 1990 study made by Dumontier, Labelle and Raffournier concluded that French companies with high indebtedness are also the companies using accounting policies that lead to increased income.

The accounting literature has a variety of works, where acknowledged researchers studied the method of choosing the accounting methods by companies; the positive theory of accounting has given rise to the following assumptions:

1. Businesses where the pay for the accounting managers is tied to the outcome prefer accounting methods which have the effect of increasing income (profit);

2. Managerial type companies where managers have fewer shares prefer accounting methods which result in the company's profit growth. Ownership-type companies in which managers have an important share of the capital, the preferred accounting methods are those that have the effect of reducing the outcome;

3. Companies whose dividend distribution rate is approaching the limit (maximum) fixed by contract prefer accounting methods that increase the outcome;

4. Companies whose indebtedness ratio is close to the limit fixed by a contract prefer accounting methods which reduce the apparent level of indebtedness;

5. Companies for which the rate of recovery of interest costs is approaching the limit set by contract prefer accounting methods resulting in the increase of the outcome;

6. Businesses whose working capital is approaching the limit set by a contract prefer accounting methods that increase working capital;

7. Large companies prefer accounting methods that result in decreases of the outcome;

8. High-risk companies prefer the accounting methods which diminish the outcome;

9. Companies that hold a significant share of the market or are in sectors characterized by high concentration of production and capital prefer accounting methods which lower their outcome.

10. 'Regulated' companies prefer the accounting method that reduces the outcome.

Besides accounting practices, decisions of management also play a role, when the main aim of these decisions is that of presenting a different image of the outcome, but without changing the company's situation. The elastic nature of the outcome limits the informational value of the profit and loss account, which can sometimes become tricky. A profitable business is not necessarily a company that has liquidities. Behind its profitability it may hide serious cash problems.

The profit and loss account provides information regarding the financial flows recorded by the company at the end of the financial year in the form of profit and loss. From this explanation it could be inferred that, by means of the profit account cash flows are generated. The answer is yes, under the conditions of a cash accounting system, and no, if an accrual accounting type is practiced.

Cash accounting requires recognition of revenue upon receipt and of expenditure upon payment. Therefore, the profit and loss account will show receipts and payments generating cash flows. According to the accrual accounting, revenue is recognized when obtained, and expenses when incurred, notwithstanding the time of their receipt or payment.

The IASB Framework provides for the development (of the financial statements) of the profit and loss account according to the accrual accounting and therefore releasing cash flows through this document cannot be achieved otherwise but by processing the information it contains, namely the transformation of revenue and expenditure into receipts and payments. Financial statements prepared on an accrual account basis respond to the needs of information of

the users by giving them information, "not only about past transactions that generated the receipts and payments but also about the future payment obligations and about the resources regarding future receipts and payments".

In the context of the expansion of transnational companies, financial information users are interested in the company's performance determined not based on the result sheet but on the economic outcome. This latter indicator cannot be revealed by the profit and loss account, because it has a much broader structure than the result sheet, including items not passing through the profit and loss account.

Financial information users are interested in information which the profit and loss account cannot provide. To satisfy their information needs, decision makers must rely on new sources of information. Therefore, the accounting profession is called upon to create new tools to eliminate information boundaries of financial statements. The statement of changes in equity and the cash flow statement are "new products" of accounting.

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Income and Expenditure – Factors Influencing the Company's Financial Performance

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Abstract

It is difficult to choose the relevant piece of information out of the abundance of information provided by management accounting, having an impact on the company's performance. As we know, the information regarding costs constitutes the link between managerial and financial accounting. However, we choose the costs of quality. These are recognized directly or indirectly by the final results. Regardless of the manner in which they operate, the costs of quality represent an inducer of the company's performance.

Key words: cost of quality, costs of conformity, costs of internal faults, costs of external faults.

J.E.L. classification: G3; G32; G34

For any of us, quality means that a product is better than another, because of its characteristics. In an economic system, quality represents an operating environment where a product or service, delivered by the company to its customers, is in line with the requirements.

The necessity for a tool used to financially assess the measures taken by companies in the quality assurance field has become increasingly evident since the early 40s. This tool, called "costs of quality", acquired, in a relatively short period of time, a large applicability in practice, becoming one of the widely debated issues in the speciality literature. The first company to have introduced a form of management based on the costs

of quality was General Electric, back in 1946. This system was presented in 1953, during the 7th Congress of the

American Society for Quality Control. On this occasion, Lesser has defined the costs of quality as representing "the costs due to scrap, shake-outs, inspections, tests, deficiencies noted by the buyer, due to quality insurance, including quality control training programs, audit of the product quality, control and static analysis". Although there were other approaches to the structure of the costs of quality, the economic practice preferred the one established by General Electric. This methodology, developed by Masser in the year 1957 and integrated in a cost system called "Quality Cost Analysis", defines three quality cost categories: prevention, assessment and breakdown, meaning "nonconformity with the specification.

Addressing the same issue, Feigenbaum (1969) considers it appropriate to distinguish between the costs of internal failure and the costs of external failure, and proposed using the following cost categories: prevention, evaluation and control, internal failure, external failure. Based on the principle of "quality doesn't cost", Crosby (1979) proposes two categories of "prices": the price of conformity and that of nonconformity.

Approaches regarding the cost of quality do not stop there, rather, reunited, they lead to the idea according to which quality costs are "costs specifically associated with the achievement or failure to achieve of a certain level of quality for goods or services".

Global competition has led manufacturing and service providing companies to focus on delivering quality goods and services, lest they lose market shares and may even cease operations. A number of studies show that in general, the costs involved in correcting and preventing lack of quality and those for preventing and assessing it represent on average 25% of the turnover of the manufacturing companies and 5-15% of their

production costs. For service providing companies, experts consider that the value of these costs is much higher.

Therefore, the quality costs represent an important tool for valuing quality, a potential source of maximization of the company's profit. They are used by more and more companies as a tool to optimize the processes and activities relevant to quality. Quality-related costs consist of costs of conformity and costs of nonconformity.

Compliance costs concern the costs incurred to produce a certain good or to deliver a certain service. These include the costs of prevention and evaluation. The costs of prevention are the expression of the efforts to prevent the occurrence of faults. In this category we can include costs involving: defining products and processes, preparing documents related to quality management and quality system (plans, quality manual), quality improvement program, awareness, motivation and training of staff in the quality control area, evaluating the suppliers, benchmarking the company's quality with that of the competing companies, quality audit and other activities. Evaluation costs are the costs of tests, inspections and examinations meant to determine whether the requirements are met.

Vachetta formulated a more suggestive definition of evaluation costs, considering that they are "all costs incurred for a defective product to be prevented from reaching its internal or external customer". Such costs are determined by: purchased materials inspection and testing, laboratory tests, inspections and tests on the manufacturing flow, the salaries of staff performing these activities, materials and products which were destroyed on the occasion of the tests.

Nonconformity costs are costs incurred in view of correcting defects of a certain good or of a certain service. These costs include internal faults and external faults costs. Internal faults effectual costs are the costs incurred in view of correcting all nonconformities identified before the product or the service has been delivered to the customer. These costs are determined by: scrap, remedies, reconditionings and repairs, repeated tests, analysis of faults meant to determine their causes, loss of time (cease of production caused by material

noncompliance which hadn't been discovered upon the reception). External costs are costs resulting from correcting non-conformities discovered after the products have been delivered to the customers. Included in this category of costs are those determined by: customer complaints (costs of staff dealing with resolving these claims, tests which need to be performed, surveys), returned goods (costs generated by transport, storage of returned products), insurance premiums to cover liability of the company for the product, compensation for damages, penalties for late delivery.

Quality costs are manifested throughout the product life cycle, from the design phase, through the implementation and delivery phases and ending with its use, and non-quality costs increase as the product passes from one phase to another. Determination of quality costs meets obstacles, for several reasons.

We present a few of them: a series of quality-related costs are not quantifiable, therefore, can only be estimated and often this estimate is subjective; there is a significant lag between the time of occurrence and the moment when the gaps have been identified (a flaw, discovered by the customer, may have come from the phase of reception of the raw materials or from the design phase); there is an important gap that can occur between the moment of the preventive action and the moment where the effects of these actions on quality-related costs can be highlighted (launching an awareness program for the staff in the field of quality control can show its effects after a few months).

Because of these drawbacks, it is necessary for quality costs analysis and interpretation to be made on a long term basis rather than on a short term basis. Quality-related costs are determined based on existing information in the company, or on information coming from the customers. For a meaningful analysis of the costs of quality, it is necessary that the information collected should meet the reporting period, be properly identified and used either in the entire company, or in its sectors. For example we have to exclude the estimates made by extrapolation, taking into account information existing within a period of reference or in an area considered significant,

or other methods, which are valid for cases where those requirements are not applicable to certain costs .

Assessing of the effects of quality costs on the company's financial performance is relatively difficult. In the speciality literature, these costs are considered costs of the product. In our opinion, some of these costs, as are those of conformity, are only product costs.

The other component, non-compliance costs, represent only the costs for the given period; their influence on company performance can be viewed from two perspectives:

The first is that, being costs related to the period, they are recognized directly by the final result which it increases or decreases.

The second refers to the company-client relationship. Costs of non-compliance affects the satisfaction level of customers who would prefer other companies

Thus, the company's market share decreases, and thus so does the turnover. These two factors with direct and indirect impact on performance, transform the costs of quality into a powerful weapon owned by the company when fighting the performance, and at the same time they warn the company that, always, quality costs.

Conclusion

Quality costs represent an important tool for assessing quality, a potential source for maximising the company's profit.

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Models of Credit Risk Measurement

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Abstract

Credit risk is defined as that risk of financial loss caused by failure by the counterparty.

According to statistics, for financial institutions, credit risk is much important than market risk, reduced diversification of the credit risk is the main cause of bank failures. Just recently, the banking industry began to measure credit risk in the context of a portfolio along with the development of risk management started with models value at risk (VAR). Once measured, credit risk can be diversified as any other financial risk.

The main purpose of the paper is to present the most important methods of credit risk measurement used in the banking industry: Credit Metrics, developed by J.P. Morgan, Portfolio Manager developed by KMV company, Credit Risk+ developed by Credit Suisse First Boston and Credit Portfolio View developed by the consultancy company McKinsey.

Key words: credit risk, models, management, strategy;

J.E.L. classification: G11, G32, G24;

1. Introduction

Because the Basel agreement regards the credit risk individually and not in a portfolio context, financial institutions have built their own credit risk models that take into account the time profile of exposure, rates of entry into realistic default and the correlations between them. Also may be taken into account the compensation and other ways of altering the exposure. The main advantage of these models is that they take into account the effects achieved through portfolio diversification.

The first model used for credit risk management has been the calculation of the risk adjusted return on capital (RAROC) developed in the early 80s by bank Bankers Trust. Currently, the main models on the market are *CreditMetrics* (developed by investment bank JP Morgan), *PortfolioManager* (of the Moody's KMV company), *CreditRisk +* (developed by investment bank Credit Suisse First Boston) and *CreditPortfolioView* (of the McKinsey consultancy company).

These models differ in the following characteristics:

- Defining risk. Credit risk models can be defined as default entry, or more generally by any change in the market value of an asset due to change in perception towards the possibility of entry in default of its issuer;
- Risk determinants. Credit risk can be modeled as being determined by changes in asset values, by macroeconomic fundamental factors or based on a statistical model;
- Correlations. Correlations between the bankruptcy risk for various counterparties could result from joint development of financial assets that have similar exposures or from macroeconomic developments;
- Recovery rates. They may be random or constant;
- Solution. This can be analytical or based on simulations.

2. CreditMetrics Model

CreditMetrics is a model used to assess portfolio risk caused by changes in value (market) loans due to changes in the borrower's financial situation (bankruptcy, improvement or worsening of the rating).

Addressing credit risk at portfolio level, the benefits of this model are:

- allows the systematic assessment of concentration risk (the additional portfolio risk resulting from increased exposure towards a certain borrower or a group of

borrowers whose activities are related - for example working in the same geographical area or the same industry);

- allows the effects assessment due to portfolio diversification.

CreditMetrics estimates the portfolio credit risk due to credit events - measure the volatility of future value (at the end of the horizon had in mind) of the portfolio caused by the debtor creditworthiness changes (bankruptcy, changes of the rating). In addition, the model allows the capture of certain components of market risk for instruments such as swaps and forwards, instruments for which induced volatility by changes into customer creditworthiness is enhanced by the financial institution exposure to the debtor.

The credit risk generator factors taken into account by the *CreditMetrics* model are:

- Credit rating;
- The degree of preference over other creditors of the lender in case of entry in default of the debtor (the priority level). It determines the recovery rate applicable to the credit instruments.
- The spread of credit (and in hence a credit risk-free interest rate), on which is revalued the present value of credit instruments.
- Correlations between migration/bankruptcy (for holdings of credit instruments) - determined from historical data (ratings, exchange rates) or estimated based on models.

Analytical estimation of distribution value of a portfolio of more bonds

Taking into account a portfolio of n assets, noting the value of these assets at end of the horizon envisaged with V_1, V_2, \dots, V_n and averages of these values with $\mu_1, \mu_2, \dots, \mu_n$, the variations of these values are $\Gamma^2(V_1), \Gamma^2(V_2), \dots, \Gamma^2(V_n)$.

At the end of the forecasting period, the portfolio value is $V_1 + V_2 + \dots + V_n$ and its average value is $\mu_p = \mu_1 + \mu_2 + \dots + \mu_n$.

The standard deviation of portfolio Γ_p is calculated using the relationship:

$$\Gamma_p^2 = \sum_{i=1}^n \Gamma^2(V_i) + 2 \times \sum_{i=1}^{n-1} \sum_{j=i+1}^n COV(V_i, V_j) \quad (1)$$

3. Portfolio Manager Model

The idea of applying options theory to evaluate loans and bonds is found in the literature since 1974, starting with the article published by Robert Merton and further developed by Galai and Masulis (1976).

Considering a firm that finances the acquisition of assets (risky), V , using the capital constituted by shareholders, E , and issuing a zero-coupon bond, with face value (including accrued interest) F and maturity T , whose market value is B . The loan taken by the firm is subject to credit risk - ie risk that at time T , the company's assets, VT , will be lower than the (nominal) loan value, F .

The credit risk exists as long as the bankruptcy probability, $P(VT < F)$ is greater than 0. Therefore, at time t_0 , $B_0 < F \times e^{-rt}$, ie the bond's yield, y_T , is greater than the risk-free interest rate, r , and the spread due to credit risk (*default spread*), spread which compensates the bond holders for the taken risk is $n = y_T - r$.

If there is no friction (on the market), transaction fees and incurred costs in the firm bankruptcy, then the present value (market value) of firm asset is the sum between capital value and loan: $V_0 = E_0 + B_0$.

Therefore credit risk is a function of the firm's financial structure:

- degree of leverage, $LR = \frac{F \times e^{-rT}}{V_0}$;
- volatility of return on assets company, Γ_V ;
- firm debt maturity T .

The idea from which started Merton (1974), is that if, at time T , $V_T < F$ then the company is, at least in theory, in bankruptcy, and value, market, capital is 0. If, at the same time $V_T > F$, then the company will pay its debt and its capital value will be $V_T - F$. As a result, the firm's capital at time T is:

$$E_T = \max(V_T - F, 0).$$

So, the capital of a company, E_t , can be considered a call option with the underlying market value of company assets, the exercise price V and the nominal value of company debt, F .

Ie, $E_t = f(V_t, F, \Gamma_V, r, T-t)$, where V_t and Γ_V are undetectable variables.

Applying the formula of Black-Scholes option valuation (1973), it follows:

$$E_0 = V_0 \cdot N(d_1) - F \cdot e^{-rT} \cdot N(d_2) \quad (2)$$

where:

$$d_1 = \frac{\ln \frac{V_0}{F} + \left(r + \frac{\sigma_V^2}{2} \right) \cdot T}{\sigma_V \sqrt{T}}$$

$$d_2 = d_1 - \sigma_V \cdot T. \quad (3)$$

Loan Value (market) is $V_0 - E_0$.

Risk-neutral probability that company to enter bankruptcy is $N(-d_2)$, but it is necessary to calculate V_0 and Γ_V , which are undetectable variables. But if the company is traded, can be observed the capital value, E_0 and, applying Ito's Leme, the equity volatility can be estimated, Γ_E :

$$\sigma_E \cdot E_0 = \frac{\partial E}{\partial V} \cdot \sigma_V \cdot V_0 \quad (4)$$

$$\text{or } \sigma_E \cdot E_0 = N(d_1) \cdot \sigma_V \cdot V_0 \quad (5)$$

Building a system of two simultaneous equations based on this relationship and the option price equation, it can be solved to obtain values of V_0 and Γ_V .

According to Black-Scholes model (1973), option price P is given by:

$$P_0 = -N(-d_1) \cdot V_0 + F \cdot e^{-rT} \cdot N(-d_2) \quad (6)$$

where:

$$d_1 = \frac{\ln \frac{V_0}{F} + \left(r + \frac{\sigma_V^2}{2} \right) \cdot T}{\sigma_V \sqrt{T}} = \frac{\ln \frac{V_0}{F \cdot e^{-rT}} + \frac{1}{2} \cdot \sigma_V^2 \cdot T}{\sigma_V \sqrt{T}}$$

$$d_2 = d_1 - \sigma_V \cdot T.$$

(7)

As a result, the cost to cover credit risk depends on the risk of company assets, Γ_V , firm debt maturity, risk-free rate, and the indebtedness of the company.

The *Yield of the company's debt* may be determined as follows:

$$y_T = -\frac{\ln \frac{B_0}{F}}{T} = -\frac{\ln \frac{F \cdot e^{-rT} - P_0}{F}}{T} \quad (8)$$

And the *spread of credit*, π_T , Defined as $\pi_T = y_T - r$, taking into account the equation of the put option price, P , is:

$$\pi_T = y_T - r = -\frac{1}{T} \ln \left(N(d_2) + \frac{V_0}{F \cdot e^{-rT}} \cdot N(-d_1) \right)$$

(9) So it is a function of leverage, asset volatility and firm debt maturity.

The spread of credit can be calculated as a function of indebtedness, of asset volatility and debt maturity.

4. CreditRisk + model

CreditRisk+ model, developed in 1997 by Credit Suisse First Boston, has an actuarial approach and discusses the process of bankruptcy, including the recovery rate of duty as exogenous, which means that the likelihood of the bankruptcy provided by the model are based on statistical historical dates.

CreditRisk+ model, assumes that the probability distribution for the number of bankruptcies for any length of time is a Poisson distribution. Based on these assumptions the model produces the distribution of loss for a portfolio of bonds or loans using the individual characteristics of each borrower and the correlation between instruments in the portfolio.

Model hypothesis are:

- For a loan, the bankruptcy probability in a certain period, e.g. one year, is as in any other year.

- For a high number of borrowers, the number of bankruptcies in a period is independent of the number of borrowers falling into bankruptcy in any other period.

Given these assumptions, the probability distribution of the number of bankruptcies in a given period follows a Poisson distribution. Poisson distribution has the advantage that can be specified using a single parameter - the media.

Under these conditions,

$$\text{Pr ob}(n - \text{bankruptcies}) = \frac{\bar{n}^n \times e^{-\bar{n}}}{n!} \quad (10),$$

for $n=0,1,2,\dots$

where n represents the average number of bankruptcies per year $\bar{n} = \sum_A P_A$.

The annual number of bankruptcies, n is a stochastic variable with the average \bar{n} and standard deviation $\sqrt{\bar{n}}$.

In order to determine the frequency of events of bankruptcy, it has introduced a new hypothesis: the average number of bankruptcies is itself a stochastic variable with the average \bar{n} and the standard deviation Γ_n^- .

To embed and severity of loss if the debtor goes into bankruptcy, each debtor exposure is adjusted to the expected recovery rate for calculating loss in case of bankruptcy of the debtor (LGD).

Thus, the expected loss (EL) for the debtor A is: $EL_A = LGD_A \times P_A$. (11)

In the derivation of a diversified portfolio loss distribution, losses (adjusted exposure by recovery rates) are divided into bands and the level of exposure in each band is approximated by a single number. Each band is considered a portfolio of independent loans/bonds.

Credit Suisse proposes some extensions of this model:

- Extending the model with one period to a multi-period model;
- Introduction of factors that influence the variability of production rates of bankruptcy, factors related to the activity sector of the debtor company. Thus, each factor, k , is represented by a random variable X_k , which represents the number of bankruptcies in the sector k and is considered to have a gamma distribution. Then, the average rate of bankruptcy for each debtor is considered to be a linear function of factors X_k . Moreover, these factors are considered independent.

In both cases, the *CreditRisk+* model suggests an analytical solution for the distribution of portfolio losses from loans/bonds.

This model has the advantage that it is easy to implement, calculating needs are limited and marginal impact on credit risk (introduced by a bond) is easily incorporated. Also needs of data are limited for each instrument being necessary only the bankruptcy probability and the exposure.

The main limitations of the model are that the methodology assumes that there is no relationship between credit risk and market risk (interest rates are assumed to be deterministic). In addition, the model ignores the risk of migration, each issuer exposure is

considered constant and not sensitive to possible future changes of the debtor's credit risk or interest rate changes.

Also, similar with *CreditMetrics* and *KMV models*, *CreditRisk+* model can not satisfactorily assess the credit risk of non-linear products such as options and currency swaps.

5. CreditPortfolioView Model

McKinsey consulting company has proposed an econometric model which measures the risk of bankruptcy (*default*), the probability of bankruptcy (*default*) depending on macroeconomic variables, some of them corresponding to the financial variables used as *proxy* for economic status: the exchange rate and interest rate, the growth rate of the economy, unemployment, government spending, and savings rate. This model corresponds to empirical evidence that credit cycles and business cycles are cointegrate. In addition, this model has the advantage of data availability.

Assumptions of this model are:

- diversification helps reduce the uncertainty of losses;
- there is uncertainty - systematic risk - in terms of losses, even for more diversified portfolios;
- systematic risk of the portfolio is determined in particular by the macroeconomic situation - in periods of recession and deteriorating credit ratings and default entries increase.

In developing this model were considered counterparts with speculative ratings (below BBB) which are more sensitive to credit cycles and macroeconomic data.

In this model probabilities are considered likely to be generated by a logistic function and depending on the country index with a speculative level of ratings, which in turn is determined by using multifactorial analysis of contemporary macroeconomic variables or with lag.

The probability of entry into bankruptcy for a debtor with speculative ratings in the sector / country j for period t is given by:

$$P_{j,t} = \frac{1}{1 + e^{-y_{j,t}}} \quad (12)$$

where $Y_{i,t}$ is an index

$$Y_{j,t} = \beta_j^0 + [\beta_j^1 \quad \beta_j^2 \quad \dots \quad \beta_j^m] \begin{bmatrix} X_{j,t}^1 \\ X_{j,t}^2 \\ \dots \\ X_{j,t}^m \end{bmatrix} + v_{j,t} \quad (13)$$

where:

β_j is the vector of coefficients (sensitivity) for the sector / country j that applies to the vector of values j , of m or macroeconomic variables, $X_{j,t}$;

$v_{i,t}$ is the error term, which is independent of $X_{i,t}$ and identically and normally distributed.

Macroeconomic variables are specified for each country, and when there is enough available data, the vector j_j can be calibrated. In addition, in the proposed implementation of McKinsey, one starts from the assumption that each of these independent variables follows an autoregressive process of order two (AR (2)) so that the process X_{jt} has memory:

$$X_{j,t}^i = \gamma_{j,0}^i + [\gamma_{j,t-1}^i \quad \gamma_{j,t-2}^i] \begin{bmatrix} X_{j,t-1}^i \\ X_{j,t-2}^i \end{bmatrix} + \varepsilon_{j,t}^i \quad (14)$$

where:

$X_{j,t}^i$ is the macroeconomic variable value i , for segment j . at time t , the vector of coefficients γ_i^j is the sensitivity to earlier information;

$\varepsilon_{j,t}^i$ is assumed to be identical with $\varepsilon_{j,t}^i \sim N(0, \Gamma_i)$ and ε is the vector of error terms for each of those i AR (2) equations in the segment j .

Above equations define the system which determines the evolution together of the bankruptcy rates for the countries / sectors with speculative ratings and related macroeconomic variables, system that must be calibrated.

In particular, for all the innovation vector,

$$E_t = \begin{bmatrix} v_t \\ \varepsilon_t \end{bmatrix} \sim N(0, \Sigma) \quad (15)$$

with

$$\Sigma \equiv \begin{bmatrix} \Sigma_v & \Sigma_{v,\varepsilon} \\ \Sigma_{v,\varepsilon} & \Sigma_\varepsilon \end{bmatrix} \quad (16)$$

where:

E it is a vector $(j + i) \times 1$ of the whole innovation system of equations;

Σ is the matrix $(j + i) \times (j + i)$ covariance for the errors of forecasting macroeconomic variables (v) and shock of entry into the sector-specific default (ε);

$\Sigma_{v,\varepsilon}$ is the matrix of correlation between forecast errors of variables macroeconomic (v) and shock of entry into default specific to each sector(ε).

Thereafter the calibration process, using Choleski decomposition of the matrix Σ ,

$\Sigma=AA'$ allows to stimulate the joint distribution of the bankruptcy probabilities for all segments.

Calculation of conditional transition matrix. Once entry rates in default are calculated for each country / sector of the economy, can cause Marcov single transition matrix for each of the countries / sectors.

Using stimulation the conditional transition matrix is reproduced several times to generate multivariate probability distribution of migration and default entry for any rating and any time horizon. From this distribution can be calculated any measure of *CreditVAR*.

6. Conclusions

The investment process has multiple facets: it may entail to invest money in bonds, joint shares, properties or any other assets, it may involve speculative actions on an increasing market or short sales on a market in decline, it may entail the choice of actions by growth "or" value", the choice of bonds, options and other securities financial, it can lead to accumulation of funds or dissipation of resources.

Diversity and competition are the main attributes of this effervescent area. In this labyrinth, an important place is occupied by the portfolio management, both in theoretical aspect, as well as practical aspects. Individual investors fund managers and institutional investors should decide on the objectives to be sought, and depending on this, to choose between possible alternative investments. As part of the risk control mechanism, the decision must be taken in the base of the selection of multiple assets to be able to build a portfolio which to balance the two fundamental elements: risk and earnings.

Behavioral finance is a study that sought to explain the inefficiency of the market by using psychological theories. Observing that people often make mistakes and allegations preposterous when it comes to their affairs the economical theory began to investigate deeply the psychological concept for explaining irrationality in people's thinking, based on elements such as overstatement, over-reaction caused by the influence of factors of aversion against loss, mental calculation and risk tolerance.

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The Evolution of the European Car Industry in the Context of the Economic Crisis

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Abstract

The economic recession has had a huge negative impact on the car industry. The decline in car sales affects not only manufacturers themselves but also the considerable number of small and medium-sized businesses that depend directly on the car industry as suppliers and retailers. Thousands of jobs are consequently at stake.

The car industry is a key sector of the European economy contributing to employment, innovation and competitiveness in Europe. The industry must strive to continue developing the skills of its workforces. The focus should be on investment in innovative and green technologies. Renewal of the car fleet should also be encouraged to boost demand for new, safer and environmentally friendlier vehicles.

The paper aims to present the evolution of the European car industry before and in time of the economic crisis, and to present some tendencies for after the crisis.

Key words: car industry, crisis, development, perspectives;

J.E.L. classification: L62, O14;

1. Introduction

The European car industry is a very volatile industry with many peaks and falls. In fact, the EU is the world's largest producer of motor vehicles, so essentially it is central to Europe's prosperity. As such, the European car industry is an employer of a huge skilled workforce. It also represents Europe's largest investor in research and development and makes a major contribution to the EU's Gross Domestic Product (GDP), the European Commission states.

The European car industry has been deeply affected by the recession, so much so that governments throughout Europe and the world have passed stimulus packages to help the industry.

Because automotive is among the most important of European industries-perhaps the most important-many governments have passed stimulus packages to help stabilize their auto markets during the recession. The most popular stimulus is the so-called scrappage incentive that gives buyers of new cars a discount if they trade in old cars that generate more air pollution than new, cleaner vehicles. A May 2009 report from the BBC states that the global car industry was in crisis due to the recession, and how many companies had needed government help to survive.

The automotive industry is central to Europe's prosperity. The EU is the world's largest producer of motor vehicles, producing over 18 million vehicles a year and almost a third of the world's passenger cars. It is a huge employer of skilled workforce, directly employing over 2 million people but responsible for some 12 million jobs. It is a key driver of knowledge and innovation, investing more than € 20 billion a year in R&D, making it Europe's largest private investor in R&D. With an annual turnover of €780 billion and a value added of over €140 billion, it makes a major contribution to the EU's GDP. It exports far more than it imports, with a surplus of over €60 billion on overall exports of €25 billion. In addition, the sector plays a central part in tackling many of the key economic, social and environmental challenges faced by Europe today, such as sustainable mobility and safety.

Automotive manufacturing is closely linked with many other sectors. Electronics, mechanical and electrical engineering, information technology, steel, chemicals,

plastics, metals and rubber are all key suppliers. 20% of the EU's steel and 36% of its aluminium production goes into automotive production.

2. The evolution of the passenger car registrations

New passenger car registrations in W. Europe reached 14.5 million units in **2005**. This represented a modest drop of -0.2% relative to 2004. If we consider "total Europe" figures (i.e. enlarged EU + EFTA countries), 15.2 million new cars were registered, a fall of -0.7% relative to 2004. The slowdown of new passenger car registrations observed in 2005 was influenced by generally weak macroeconomic conditions in the EU, high energy prices and the deceleration of the British and Spanish automobile markets. New car registrations fell by 26% relative to 2004. The main factors accounting for this drop remain the unfavourable car taxation policies, the abolition of import tariff on used cars and the increase in new cars' prices.

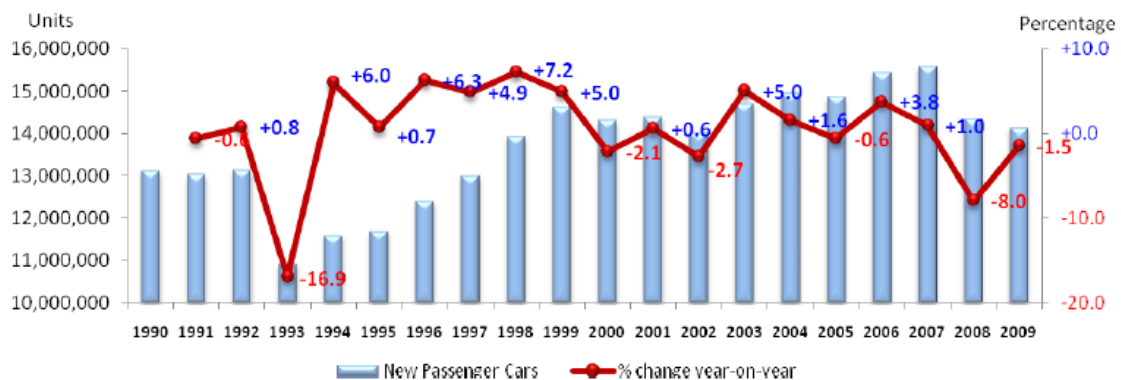
In **2006** a total of 15,391,511 new passenger cars were registered in Europe (EU23 + EFTA) in 2006, representing a slight improvement (+0.9%) with regard to previous year. In December 2006, total new passenger car registrations in Europe (EU23

+ EFTA) remained flat as compared with the previous year and reached 1,074,369 units.

Buyer uncertainty, fed by fuel price fluctuations and rising interest rates, were – in addition to the lack of new models – the most frequently evoked factors affecting these markets in 2006. As regards the remaining EU15 countries, six of them posted growths ranging from +1% in Finland to +48.1% in the Netherlands, whereas the other four declined (Austria -0.1%, Sweden -4.5%, Denmark -7.4% and Portugal -13%).

Nearly 16 million new cars were registered in Europe (EU27+EFTA) in **2007**, or 1.1% more than the year before. Soaring oil prices, changes in taxes, shrinking credit availability and purchasing power restrained buyers' confidence and the demand for new cars in some of the Western European countries (+0.2%). In the new EU member states, where car density is still much lower and many households have been able to afford buying a new car only recently, a steady growth was recorded throughout the year (+13.9%).

Figure no. 1 New Passenger Car Registrations in the EU, 1990-2009



Source: European Union Economic Report, ACEA, Brussels, 2010

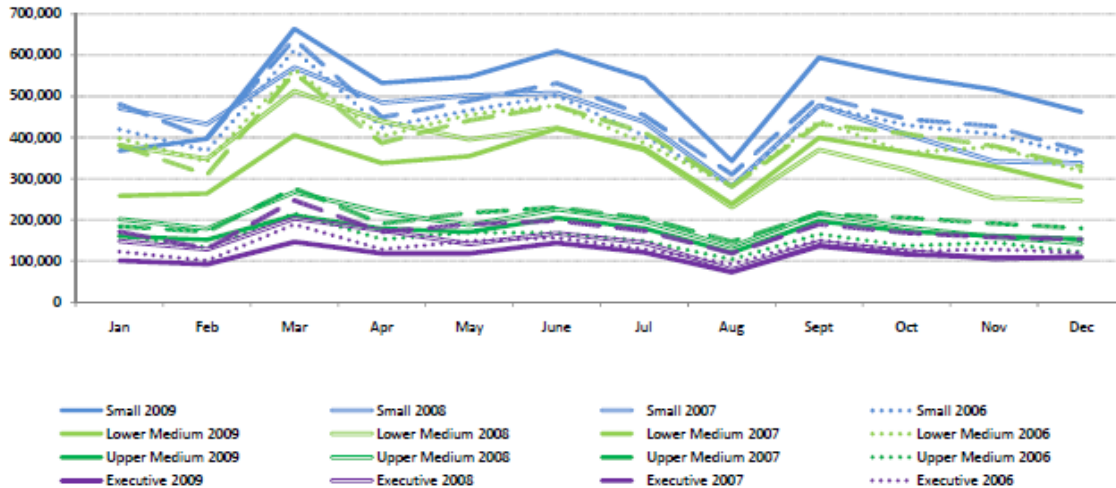
European new passenger car registrations fell by 7.8% to 14,712,158 units in **2008**, recording the sharpest decline since 1993. New car demand dropped by 8.4% in Western-Europe, with the downturn most

prominent in the last quarter (-19.3% compared to the fourth quarter of 2007).

Only four countries posted growth: Finland (+11.2%), Portugal (+5.7%), Belgium (+2.1%) and Switzerland (+1.0%). While fiscal measures helped sustain growth

in Finland and Portugal, the Belgian and Swiss sales levels seem to have better resisted the financial and economic crises prevailing throughout Europe.

Figure no.2 New Passenger Car Registration by Segment in Europe 2006-2009



Source: European Union Economic Report, ACEA, Brussels, 2010

In the new EU Member States, 2008 numbers leveled the results of 2007 (-0.7%). In absolute numbers, Poland remained the major market, consolidating its position with a 9.4% increase. The Czech Republic (+8.4%) also recorded a plus, but Romania (-8.7%) and Hungary (-9.2%) contracted.

Over the whole year **2009**, EU passenger car demand was 1.3% lower than in 2008, and 9.3% lower than before the crisis in 2007. Following a marked decline in the second half of 2008 and first half of 2009, EU new car registrations picked up in the second half of last year, reflecting the cautious upturn in the overall European economy as well as the impact of fleet renewal schemes implemented in 13 EU Member States. In total, 14.1 million new cars were registered in the EU in 2009. Besides Slovakia (+6.7%) and the Czech Republic (+12.5%), only Austria (+8.8%), France (+10.7%), and Germany (+23.2%) posted growth compared to 2008, with results lifted by scrapping incentives. Results were cushioned for similar reasons in Italy (-0.2%), the UK (-6.4%) and Spain (-17.9%).

3. The evolution of the New Commercial Vehicle Registrations

• New LCV Registrations

New LCV registrations Europe reached 1.980.422 units in **2005**, representing an increase of +3.1% relative to 2004. With the exception of Italy (-2.4%) and the UK (-2.0%), all the main markets contributed positively to this result: Spain (+15.9%), Germany (+3.0%) and France (+2.8%). In the other markets, significant growths in new LCV registrations were recorded in particular for Denmark (+24.2%), Ireland (+22.3%) and Sweden (+11.5%). In contrast, the Netherlands reported a marked fall (-24.3%) in new LCV registrations.

Over 2 million new Light Commercial Vehicles (LCV) were registered in **2006** in Western Europe, rising +4.1% above last year's result. Fourth quarter acceleration in registrations (+10%) was linked to the 1.1.2007 deadline for new vans to comply with Euro IV emission standards.

In **2007**, the demand for new commercial vehicles in Europe was overall 6.8% higher than last year. The European market ended the year with 7.1% more vans, 5.1% more trucks and 4.4% more buses & coaches registered. The steady upward trend recorded throughout the year thanks to a healthy and

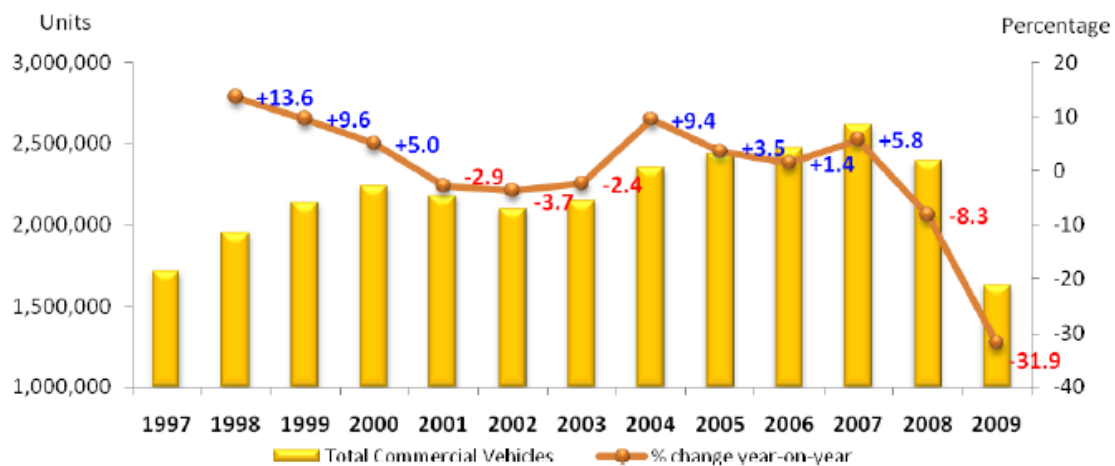
dynamic European and foreign demand in the sector weakened somewhat in December.

In **2008**, demand for new commercial vehicles decreased by 9.0% across Europe reflecting the impact of the economic crisis in the second half of the year and marking the sharpest downturn in demand since 1993. After a slight increase in the first quarter of 2008 (+1.3%), new registrations backtracked in the second quarter (-2.7%) and dropped more dramatically in the third (-12.0%) and fourth (-24.0%). In 2008, the segment of light commercial vehicles was the most severely hit by the crisis (-10.4%) in spite of the 5.1% growth posted in the new EU Member States.

Overall results were pulled down by the performance recorded in Western Europe (-12.0%). Of the biggest markets, France (-0.3%) and Germany (+0.8%) proved to be relatively stable, while Italy (-8.7%), the UK (-14.9%) and Spain (-39.7%) faced a more heavy drop. In the new EU Member States, the Czech Republic (-3.3%) and Poland (8.9%) remained the largest markets.

In **2009**, new commercial vehicle registrations in the EU declined by 32.6% compared to 2008, affecting all segments and all countries. In total, 1,650,840 vehicles were registered throughout the year.

Figure no.3 New Commercial Vehicle Registrations in the EU 1997-2009



Source: European Union Economic Report, ACEA, Brussels, 2010

• New CV Registrations

Europe new CV registrations above 3.5t reached a total of 358.890 units in **2005**, a rise of +5.8% relative to 2004.

Although new truck registrations plummeted by -16% in Europe in December **2006** (28,382 units), the market remained on a positive trend as regards yearly result (+4%). Monthly registration figures were distorted throughout the year by deadline effects of new legislation coming into force. In **2007**, new truck registrations in Europe continued to boom throughout the year (+5.1%), mainly helped by growth on the German (+5.5%), Spanish (+10.2%) and new EU member state markets (+38.9%).

Over the **2008** year, new truck registrations fell by 4.0% in Europe, mainly because of the 21.1% decrease in the new EU Member States. In **2009**, new van

registrations totaled 1,375,856 units, or 30.5% less than in 2008. The decrease was 27.9% in Western Europe and 49.7% in the new EU Member States, ranging from -18.8% in France to -77.7% in Latvia.

• New Bus & Coach Registrations

The market for new Buses and Coaches in Europe also plunged in December **2006** (-37%), reaching 2,369 new B&C in total. In **2007**, the substantial December growth in new bus & coach registrations in Western Europe (+41.4%) and in the new member states (+74.1%) helped to improve the cumulative result in Europe (+3.1%).

Despite a 7.5% decrease in December, the segment of buses and coaches was the only one to expand in **2008** (+12.1%). Growth was posted both in Western Europe (+6.6%) and in the new EU Member States (+58.7%).

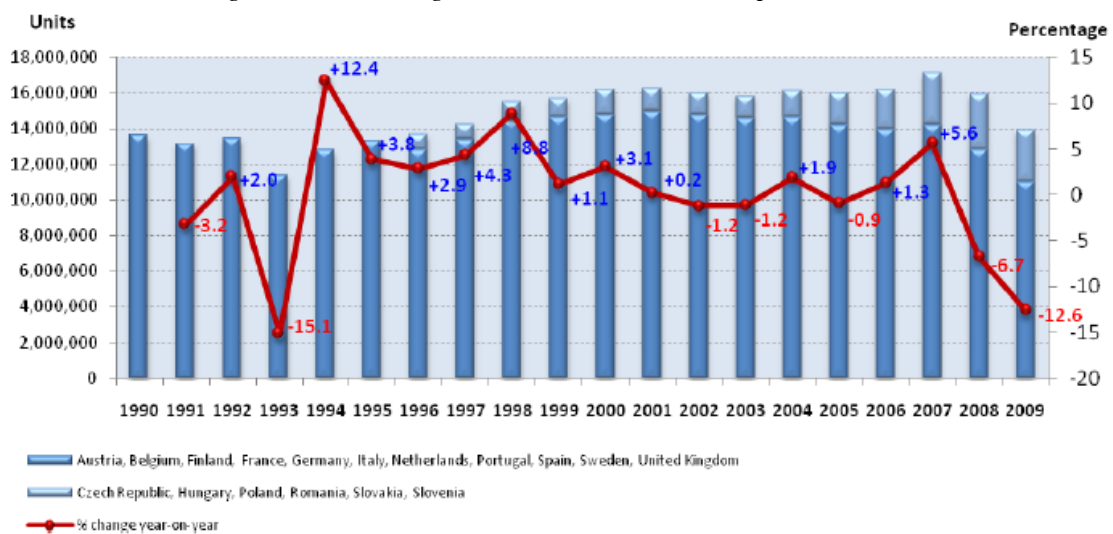
New registrations of buses and coaches were down 9.6% in **2009**, amounting to 37,533 units in the EU.

4. New Motor Vehicle Production in Europe

Automobile production in Europe, showed a fairly weak pattern in **2005**. In total, 17.9 million vehicles (PC, LCV, CV, Buses & Coaches) were produced, a -1.1% drop relative to last year. This fall was due essentially to the slowdown of passenger cars

production which experienced a decrease of -1.8% relative to 2004. In contrast, the production of commercial vehicles continued to increase, although at a slower pace than in 2004. After some dynamic growth in the first three months of **2006** (+6%) and a decline in the second quarter (-2%) as compared with the same period in 2005, the production of motor vehicles stagnated in the third and fourth quarter. In total, 18,6 million vehicles were produced in 2006 in Europe, 1% more than previous year.

Figure no.4 Passenger Car Production in Europe 1990-2009



Source: European Union Economic Report, ACEA, Brussels, 2010

Nearly 19.7 million motor vehicles were produced in Europe in **2007**, 5.3% more than in the previous year. In **2008**, over 18.4 million motor vehicles (passenger cars, trucks, vans and buses) were produced in Europe, which is 7% less compared to 2007 when 19.7 million vehicles were manufactured. As automakers further adapted stocks and output levels to the economic situation, total vehicle production in **2009** fell by 17% compared to 2008 and 23% compared to the pre-crisis level of 2007, amounting to 15.2 million units.

5. The European Car Industry after the end of the crisis

Three quarters into 2010, a total of 12.6 million motor vehicles were produced in the EU, which is 15% more than over the same period last year. Compared to the pre-crisis

level of the first three quarters of 2008, total production was down 14%. New passenger car production in the EU grew in the first half year before contracting by 5% in the third quarter, in correlation with the drop observed in new registrations. Three quarters into the year, production of cars was up 13% compared to the same period last year, but down 11% compared to the first three quarters of 2008. Production of vans increased throughout the first three quarters of this year. However, compared to the levels of 2008, output levels were still down 29%. Truck production continued to decrease in the first quarter of this year, before rebounding in the second and third but still remaining well below the level before the crisis (-53%). Germany remained the largest manufacturing country, both for motor vehicles and passenger cars, the production of which expanded by 15% and 14%

respectively. While 36.4% of new cars were produced in Germany, Spain, as well as France, accounted for 12.9%, followed by the UK (8.3%), the Czech Republic (7.1%), Poland (5.7%), Italy (3.9%) and Slovakia (3.6%).

6. Conclusions

The automotive industry crisis of 2008–2010 was a part of a global financial downturn. The crisis affected European and Asian automobile manufacturers, but it was primarily felt in the American automobile manufacturing industry. The downturn also affected Canada by virtue of the Automotive Products Trade Agreement.

The automotive industry was weakened by a substantial increase in the prices of automotive fuels linked to the 2003-2008 energy crisis which discouraged purchases of sport utility vehicles (SUVs) and pickup trucks which have low fuel economy. The popularity and relatively high profit margins of these vehicles had encouraged the American "Big Three" automakers, General Motors, Ford, and Chrysler to make them their primary focus. With fewer fuel-efficient models to offer to consumers, sales began to slide. By 2008, the situation had turned critical as the credit crunch placed pressure on the prices of raw materials.

Car companies from Asia, Europe, North America, and elsewhere have implemented creative marketing strategies to entice reluctant consumers as most experienced double-digit percentage declines in sales. Major manufacturers, including the Big Three and Toyota offered substantial discounts across their lineups. The Big Three faced criticism for their lineups, which were seen to be irresponsible in light of rising fuel prices. North American consumers turned to smaller, cheaper, more fuel-efficient imported from Japan and Europe. However, many of the vehicles perceived to be foreign were actually "transplants," foreign cars manufactured or assembled in the United States, at lower cost than true imports.

Looking ahead, and beyond issues of straightforward capacity, car manufacturers face a number of challenges that will likely require significant restructuring to realign production capacity with changing patterns of demand, including coping with:

- Higher prices of automotive fuels driven by increasing demand for oil and policy interventions to reduce CO2 emissions. This will likely accelerate the trend towards smaller more fuel-efficient cars which command lower profit margins. Furthermore, the bulk of demand in the rapidly growing Chinese market is for smaller cars.

- A changing geographical pattern of demand. Most trend sales growth will be in the BRIC countries and other emerging markets while mature OECD markets will remain relatively stagnant.

- Ongoing globalisation, which will likely influence minimum efficient scale economies and the configuration of companies worldwide.

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Alvin Toffler's Acceptance about the Society on the Millenniums Threshold and Its Determinant Factors

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Abstract

In the present paper we analyse, from an epistemological standpoint, the phases of economic and social development in Alvin Toffler's perspective. In his works, he analyses economy and society at three distinct levels, which he calls "waves".

In Toffler's view, humankind passed through two such phases (waves) and presently it is prepared to enter the third one, the knowledge one.

The way from the first to the current (third) wave was long and difficult, marked by deep changes in all domains as well as at a mental level. From an agrarian society, whose primary objective was subsistence, characterizing the first wave, we have now reached the stage of a society where knowledge comes to the forefront, the third wave, after having transited the industrial one, which has characterized the second wave.

The risks associated to the second wave (the wave of industrialization) are certain causes of the shift of paradigm and of the more and more important emphasis on knowledge. If in the industrial society technology dominated both the economic and the social levels, in the knowledge society man will dominate technology and will have the control of the major directions of progress.

Key words: knowledge society, industrial society, development, growth, development waves

J.E.L. classification: A14, B29, O11

1. Introduction

From its early beginnings to now, humankind has covered, in its evolution, a long way and has suffered significant physical and mental modifications, which,

altogether, represented the basis of the current progress and the platform of the future one. There have been several crucial moments in history: the agrarian revolution, the industrial revolution and the revolution of knowledge. All of these propelled the humanity on higher steps of economic and social development.

In his works, Alvin Toffler analysed this evolution and anticipated the future one. From his point of view, we are now standing on a third evolution level, which he calls the third wave (in the present paper, we will use the terms wave, civilization and society to describe the stages that humankind has covered from its early beginning up to now with a similar meaning).. Each of these three waves has its own characteristics. From the primitive, mainly agrarian society, we passed to the industrial period, dominated by technology and are now in the third wave, dominated by knowledge. Toffler thinks that at the end of the 20th century, the first wave, characterizing the agrarian society, abated, while the second wave, of the industrial society, which revolutionised everybody's life, keeps on going, still powerful (there are underdeveloped and developing countries who still fight to develop their agriculture and industry, and which are separated from the developed countries by huge gaps of development and economic and social growth.); meanwhile, a third wave, more important than the previous ones, set out. Many countries simultaneously feel the impact of two or even three completely different waves of change, moving along with different speeds and pushed by different degrees of force [Toffler Alvin, 1983, p. 49]. Each new type of society emerges at the moment when, in their dynamics, the waves of history cohere and whole civilizations collide [Toffler Alvin, 1995, p. 31].

Each wave or stage that the society covered involved, in Toffler's view, a redefinition of God, of justice, of love, of power, of beauty; it roused new ideas, attitudes and analogies; it undermined and replaced old opinions about time, space, matter and causality, the conception about the world.

We will present here the three waves of social evolution from Alvin Toffler's perspective and through his eyes, from the first social forms to that kind of civilization where knowledge rules.

2. The Society in the second half of the twentieth century or *the second wave society*

In Alvin Toffler's acceptance the society has developed in stages or „waves”, from the agrarian waves to present. The agrarian society has developed from the beginnings to the daylight of industrialization. The second half of the twentieth century is named by Toffler „the industrial wave” and the beginning of the third millennium brings new challenges and opens the prospects for a new type of society.

Over the decades, agriculture beat a retreat, while industry, under the form of manufacturing, at the beginning, progressed. The first sector withdrew, while the second moved forward. Although there is no exact delimitation, Toffler considers that the moment of passage from the agrarian to the industrial society is the year 1712, when the steam engine appeared. The emergence and utilization of electrical power allowed for a huge step to be made forward at all levels: the economic, the social and the cultural one. The population was somehow forced to leave its lands in order to provide labour to the more and more numerous manufactures. The passage from the agrarian to the industrial society was a conflicting one: strikes, uprisings, insurrections. Yet, the industrial society was quickly enrooted. Over the second wave, the wave of the industrial society, the distinctive sign was the sign of technique and industry.

The first wave of change, due to the agrarian revolution, was not depleted when the first industrial revolution started, in Europe (17th century), and grounded the

industrial society. The industrialization generalized fast. According to Toffler, two waves of change occurred concomitantly, separately and with different speeds. One with a lower speed, the other with higher speed. The emergence of the railways and of streets opened the access to the inside of communities and states.

The industrial society was auspicious to investments and to the great corporations, and people adapted themselves to that. The family became, according to Toffler, nuclear, that is limited (mother, father and three children at the most), and people are now attending, in their big majority, factory-like schools, where the focus is placed on punctuality, submission, repetitive (mechanical) work. The mass education system makes nothing else but prepares the labour for the great corporations. Children go to school earlier and earlier, and the schooling gets longer and longer. Each phase in a human's life is dominated by a key-institution.

The social and economic evolution that took place in the industrial society allowed the existence of some intercorrelated dimensions: the technosphere, which produced and distributed wealth, the sociosphere, which created the specific social networks, and the infosphere, which provided and allowed the spreading of information, so that the whole system should work properly. The technosphere, the sociosphere and the infosphere represent the architectonics of the industrial society.

If the civilization of the first wave predominantly lived outside the market, the civilization of the second wave obtains necessities by exchanges, this being dependent on the market.

A characteristic feature of the second wave economy is standardization. The standardization process has initially manifested itself as far as products were concerned, but subsequently it concerned methods, procedures, labour, education, money, prices and life. The “bon à tout faire” man was replaced by the narrowly specialized employee, very good in his own field and able to carry on repetitive activities.

Centralization is another characteristic of the industrialized society. The decentralized economy of the first wave needed, in time, centralization, as the mass production had to

be sold on larger and larger markets, and the international exchanges need rigorous organization and not isolation. The national markets became components of the global market. Cultures that had lived, for thousands of years, independently from the economic point of view, producing their necessary food, were absorbed, whether they wanted it or not, into the world commercial system and obliged to participate in the trade or disappear [Toffler Alvin, 1983, p. 138]. The population's standard of life became dependent on the economies of other countries, very remote ones from a geographical point of view, lying on different continents.

The mass production, mass consumption, mass education, mass media, they all gave birth to the industrial society.

The industrial society, due to the progress it registered, created hope for the diminishing of poverty, of hunger, of diseases, for peace, for a better life expectancy and a higher standard of life.

In the euphoria of progress and of gains, within the industrial society, decisions were made whose medium and long run consequences were neglected. The idea that nature was meant to be exploited offered a welcome rational explanation for myopia and egoism [Toffler Alvin, 1983, p. 145], especially that the idea that history irreversibly goes on towards a better life and a higher standard of life for the whole humanity was a dominant idea. Reality however opposes this idea: "never before has a civilization created the necessary means to literally destroy a whole planet, not a city. Never before has been threatened with poisoning whole oceans, have species disappeared from the earth because of the people's greed and inattention..., and has the thermal pollution threatened the planet's climate" [Toffler Alvin, 1983, p. 173].

At the moment when a major part of the population understood the situation that the planet reached because of the overexploitation, as well as the risks that humanity is exposed to, the intensity of the second wave started to diminish and make place to the third wave, dominated by knowledge.

Many would think, starting from a natural logic and from the technological dynamism, that the industrial society will be

followed by a supraindustrial one, but, to everyone's stupefaction, the third wave has another dominant characteristic, namely knowledge, by which humanity will be able to make a "quantum leap forward". Knowledge, which has undergone some impressive dynamics all over the industrial society, unbalanced, by its outcomes, the natural man-environment equilibrium, which now it has to recover, during the third wave, that of the knowledge society.

The industrial society or civilization, a product of the second wave of major changes, approximately spans the period 1650-1950. Over two centuries (1750-1950) it dominated the planet, but at the end of the 20th century, the development of communications (computers, aircrafts, robotics, space conquest, etc.) it has left room enough for a new type of civilization and society, that is for a third wave.

3. The Society at the beginning of the third millennium or the *third wave society* (the *knowledge society*)

The knowledge society (or the third wave) has its epicentre in the USA of the 1955s, being started by some innovations and revolutionary actions.

Land, labour and capital represented the main factors of production in the industrial society. Knowledge (information, images, symbols, culture, ideologies and values) represents the primary factor of production in the knowledge society, becoming the main modality to obtain wealth.

The society of knowledge brings forth changes in what family, economy, the way of living, of working, of loving are concerned and, above all, it brings forth a modified consciousness.

Toffler, anticipating, characterized the third wave as a totally new civilization that we are building and which will lead, sooner or later, to social upheavals and restructuring, ampler than ever.

The knowledge society is called by Toffler a society of prosumption, as it is a very technical and at the same time anti-industrial society, founded on sources of diversified recoverable energy, on modern methods of production and on corporations that are totally different from the current ones, on new behaviours, on the elimination

of standardization, so that a suture will occur between producer and consumer.

The role of technologies in the knowledge society has changed. They should create labour opportunities, avoid environment pollution and degradation, produce especially for the personal or local benefit and less for the world one, avoid waste, allow each secondary product of one branch to become the raw material for another branch. The result of this will be the humanization of technical progress, a major characteristic feature of the knowledge society. In the third wave, attention will be rather focalized on humans and less on profit.

Changes will be radical due to the massive flux of information, which will be accessible to everyone, unlike the case of the traditional society, where changes were taking place slowly and information was received from few sources. The knowledge society opens a new era of the demassified media. Knowledge will collapse those who will not be able to or will refuse to assimilate it, but will make competent those who will capitalize it; it will strengthen personality, it will change manners of acting and living. The man's intelligence, imagination and intuition will be much more important than machines in the immediately following decades [Toffler Alvin, 1983, p. 238].

Mass production will be replaced by the limited production, personified according to the clients' tastes. The third wave will comprise both an unpolluting technosphere, which will allow a rational consumption of raw materials and resources, and an infosphere that is based upon a big volume of information and a sociosphere centred on varied family structures, where the traditional family will lose ground, the number of individuals that are not involved in some couple relation will increase and the family centred on adults – that is without or with no more than two children – will dominate. Family, in the knowledge society will be built, according to Toffler, on feelings, on human qualities, and not on financial situation and intellectual power [Toffler Alvin, 1983, p. 276].

Family is not the only one that gets divided and diversified; information too, as well as production and market. The last one is divided into minimarkets, which grow more and more numerous, and are

continually changing. In this type of market will work demassified corporations, responsible for both the production they make and for the effects of their activities on environment and consumers.

The knowledge society, it seems, will be, as far as its development shows us, similar with the agrarian society in many respects, such as: decentralized production, recoverable energetic sources, deurbanization, work from home, high level of prosumption. A careful analysis shows that knowledge society has more similitude with the agrarian society than with the industrial one.

Knowledge, the dominant characteristic of the current stage, offers new possibilities to the poor countries and populations, provided that research and new technologies should be oriented in their direction.

Knowledge again will change trajectory in the education field. The educational system specific to the industrial society is blamed everywhere. In both the rich and the poor countries (that have lately borrowed the educational models from the industrialized countries, which turned out to be ineffective) the re-examination of conceptions and concepts about education is required. First of all, because in the knowledge society the main, inexhaustible and continually dynamical resource is information. The people who will assimilate it in a responsible thorough manner will be productive and effective, while those who will do it in a superficial way will be the laggards of the new system.

Therefore, the world is made of three sectors: the sector of the first wave provides the agrarian and mineral resources, the sector of the second wave provides cheap labour and achieves the mass production, while the sector of the third wave, continually expanding, goes up on the dominant position, basing upon new ways of creating and exploiting knowledge (Toffler Alvin, 1995, p. 36).

If the agrarian society spans thousands of years and the industrial only 300 hundred years, the knowledge one, says Toffler, will pass through history and reach its completion point in a few decades, in order to make room for the society of consciousness, anticipated by Mihai Drăgănescu

[Drăgănescu Mihai, pp.1-2], probably the society of the fourth wave.

4. Conclusions

The deepest economic and strategic society of all times is, as Toffler says in *War and Anti-War. Survival at the Dawn of the 21st Century*, the imminent division of the world into three different civilizations potentially colliding: one attached to the land, a product of the agrarian society, one originating in the first scientific discoveries, attached to techniques and technology, and one obviously attached to knowledge.

The knowledge society will gradually impose new archetypes. Technique will not be the one that establishes the objectives any more, but the people who use knowledge in order to stop the process of irreversible deterioration of the environment.

The knowledge society does not involve the emergence of a completely new economy and society, but it will merge the characteristic features of the agrarian and industrial societies, that is the characteristics of three contrasting societies: one symbolized by the plough, one by the assembly line and one by the computer.

Currently, humanity faces a turning point, that Toffler regards as a "quantum leap" towards a totally different civilisation. The changes of the third wave will be deep and will eventually open the way to a consciousness society, as *Mihai Drăgănescu* calls it in his book "Culture and the knowledge society", a much subtler and maybe anti-economic one.

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Main Determinants of Living Standard in Modern Society

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Abstract

In this paper we want to present, in a succinct and in a theoretically way, the possible relation between economic liberalization, human development and standard of living in the present society based, more than ever, on knowledge.

It is known that economic liberalization is one of the phenomenon that manifest themselves in increasingly active manner in recent decades so, nobody can denies its benefits especially on human development - economic and social main objective of all states, regional and global formations.

Actually, the progress in human development translates into improved population standard of living. A better life, a decent standard of living for the greater share of people is the real proof of the effectiveness of economic and social processes including liberalization, economic growth and development and the motivation for future efforts to be made in this direction.

Our theoretical approach will be made on the basis of some specific indicators characteristic to the analyzed processes, indicators compiled and made available by various international organizations in the field. These statistical figures will enable a comparison between the situation of some representative countries, including Romania.

Key words: living standard, modern society, knowledge society, development, growth, liberalization.

J.E.L. classification: I10, I30, J17, N10, N30, O11

1. Introduction

The dominant feature of the current economic system is, undoubtedly, globalization. The process was caused and maintained by the economic liberalization, whose actions have gradually grown more dynamic. The very multiple advantages of liberalization led many of the countries to render this process a purpose in itself, starting from the premise that a high degree of liberalization opens the way to progress, human development and implicitly to a better standard of living.

The socio-economic evolution has been, since the beginnings, sinuous but ascendant, on the whole. Yet, poverty could not be eradicated. In the third millennium, dominated by information and knowledge, the low standard of living remains one of the greatest problems of the whole humanity.

Ensuring a high standard of living for as many people as possible is one of the major objectives to reach at the world level. In the **United Nations**, a series of objectives were established, known as the *Millennium Goals*, which aim at eradicating or diminishing failings of the global economy and society and which are to be fulfilled by 2015. The targets that the **United Nations** established can only be achieved through the correlated efforts of all the world states, of both the developed and the developing ones.

The approaching of the year 2015, a year to take stock, when we will see to what extent the Millennium Goals were achieved, urges us to analyse in the present paper the concept of standard of living in the light of economic liberalization and of human development, Romania's case included.

2. Liberalization - Human Development - Standard of Life Relation

Liberalization can be defined as a process by which bi- or multilateral framework measures are taken, meant to eliminate or reduce the barriers to free circulation of goods, investments, capitals and persons.

The beneficent outcomes of liberalization do not represent conclusions of theoretical analyses, but of realities proved in different countries and regions, so that the idea of economic opening was accepted at an increasingly wider scale, including in autarchic states like China.

We cannot deny that in a knowledge-based period, like the one our society is now going through, when everything converges from and towards knowledge, the economic liberalization causes the acceleration of technical renewal, and productivity grows faster than production on the whole.

The importance of the process of economic liberalization resulted, among others, from the fact that it supposed the emergence of:

- new markets, connected at the global level, continuously operating due to new technologies, especially the informational and communicational ones;
- new activities, as part of international organizations like WTO (World Trade Organization) or UN (United Nations), with acknowledged authority upon the national states and the transnational societies, many of them endowed with an economic power sometimes bigger than that of numerous developing countries;
- new rules, that is multilateral agreement concerning both the economic and the social sphere, sometimes more powerful than many local policies.

The benefits of liberalization are obvious; from among them, we mention:

- a better distribution of resources;
- higher rates of productivity and profitability;
- an always faster propagation of innovations and of the results of scientific research;
- easier access to production and sale markets;

- advantages for the local consumers by buying at low prices from third markets and capitalizing the surplus internal production on foreign markets;
- the possibility to extend production and therefore to get advantages from the economies of scale;
- the creation of employment opportunities and resorption of unemployment;
- the augmentation of national and individual incomes and of the GDP;
- the making up of the balance of trade and of payments;
- the strengthening of the competitive force of the national organizations and the stabilization of prices;
- opportunities for the economic and human development.

The last objective is also the one that defines the importance of the process, the effects upon the population, as a result of the contribution to the economic and human development, so the relationship economic liberalization-development becomes one of conditionality.

The final objective of any action is *human development*, a process that generates economic, social, quantitative and, particularly qualitative changes, which causes the national economy to cumulatively and durably raise its real global product and to offer population a higher standard of living [Haller A.P., 2008, p. 7].

Leszek Balcerowicz defines *development* as a process that involves quantitative, qualitative and structural changes, with a positive impact on economy and on the population's standard of living, and which follows a continuously rising trajectory [Balcerowicz L., 2001, p.23].

The efforts of development are made at the level of each country apart, as well as at the world level. In the *General Assembly of the United Nations* in September 2000, known as the *Millennium Summit*, was analysed the condition of human development in the diversity of its aspects and was adopted a set of eight goals with their stages and deadlines. Aspects of alarming intensity and seriousness were found in some countries and areas of the world.

The Millennium Development Goals are: end poverty and hunger, universal education,

gender equality, child health, maternal health, combat HIV/AIDS, environmental sustainability, global partnership. Achieving so bold objectives involves, as we have already mentioned, economic and social cooperation between states, and the easiest form is liberalization.

Human development, a both qualitative and quantitative phenomenon, is very hard to assess. Yet, since the 1990s, *The Human Development Index – HDI* started to be calculated under *Amartya Sen's* careful supervision, a 1998 Nobel laureate in economics. This index offers the total image of the way in which people live, being calculated on the basis of three indices: life expectancy at birth; the population's education, calculated, in its turn, on the basis of two other indices (schooling and degree of literacy); the standard of living indicated by the level of incomes and of the GDP per capita at purchasing power parity.

As already mentioned, the improvement of the quality of life is the final wish for each action and decision. The standard of living depends on multiple factors, some of them with a direct action, other with indirect action. We therefore speak about: the rising of the life expectancy, the protection of the environment, access to drinking water, access to health assistance, access to education, increasing of incomes per capita, especially in the developing and underdeveloped countries of the world. In spite of the progress humanity makes now, in a period characterized by knowledge and by the interdependence between states, poverty is still one of the humanity's great problems, including the states with a very high human development.

The improvement of the standard of living involves efforts in all directions for the Millennium goals to be achieved. Although, according to *The United Nation Human Development Report 2008*, almost one billion people on the planet do not have access to drinking water, about 2.4 billions do not have access to health assistance, 11 millions children aged under 5 die annually (equalling over 30,000 deceases a day), about 1.2 billions people live with less than one dollar a day, and 2.8 billions live with less than 2 dollars a day, there are some encouraging tendencies: a child born in 2002 might live about eight years more than a

child born in 1970; the percentage of families in the rural environment having access to drinking water is over 5 times higher than in the 1970s.

The outcomes of the fact that the standard of living, over time, rises are to be recognized in the rising of the average life span. If during the Upper Palaeolithic the average life span was 23.66 years, in Antiquity about 20-30 years, in 2008 it reached the level of 70 years, an aspect that proves that real progress has been registered from the point of view of the standard of living.

Table 1
Average Life Expectancy Over Time

Period	Average Life Expectancy
<i>Superior Paleolithic</i>	33
<i>Neolithic</i>	20
<i>Bronze Age</i>	18
<i>Ancient Greece</i>	20-30
<i>Ancient Rome</i>	20-30
<i>Middle Ages</i>	20-30
<i>Beginning of the XX Century</i>	30-40
<i>Beginning of the XXI Century</i>	70

Sursa: Kaplan, H., *A Theory of Human Life*, pp. 156-185; www.wikipedia.org

3. The evolution of the life span in Romania – a consequence of the improvement of the standard of life

Romania is the EU member state with one of the lowest life expectancies and standards of living. Although it is part of the second group of human development, that of the countries with high human development, the standard of living in Romania is still a low one.

From the point of view of the life span, Romania has a low life expectancy comparing to most of the member states. In women's case, the life expectancy is 75, and men's one is 68.2.

The major causes of the low life expectancy in Romania are:

- deficient health system;
- precarious hygiene, particularly in the rural environment;
- inadequate, calorically poor food;
- daily stress.

All causes are related to a low level of the people's standard of living and to the incapacity of the health system to fund treatment, especially in the case of the chronic diseases. For instance, Romania is on the first position in the heart disease death statistics, on the sixth place in the lung disease death statistics and on the third position in the high blood pressure death statistics, on the fourth position in the liver disease death statistics, on the eighth position in the colon cancer death statistics, on the ninth position in the stomach cancer death statistics, on the eleventh position in the breast cancer death statistics, on the twelfth position in the suicidal death statistics, on the thirteenth position in the road accident death statistics, on the seventeenth position in the diabetes death statistics, on the forty-seventh position in the birth traumatism death statistics. Of the 86 death causing diseases taken into consideration in order to make up the world statistics, Romania is placed, as showed above, on top positions as a result of the analyses of mortality at a world level, for 189 of the world states. We have to mention that the data are taken from the site <http://worldlifeexpectancy.com>, where different specific indices are offered to illustrate life expectancy and death causes at the world level and at the level of each country apart.

The standard of living and implicitly the life expectancy are influenced by numerous factors that we will refer to along our paper. Yet, we have to consider that, as *Amartya Sen* said, the standard of living and the life span depend, among other things, on the nature of life as well, and people understand life differently, according to education, culture and personal experiences. [Sen A., 1985, p.33].

From the point of view of the life span, Romania is on the eighty-seventh position among the 189 states for which estimations are made, starting from a wide range of economic indices. In the table below we present Romania's situation from the standpoint of the life expectancy comparing to other states, without displaying all the indices involved in the estimations of the life expectancy.

Table 2
Representative indicators for the calculation of life expectancy - 2008 -

	Romania	Bulgaria	China	Germany	Japan	USA	Norway
Population:	221.9421	7.204687	13.38612068	8.2320738	12.7078679	307.212123	4.660359
0-14 (%)	15.5	15.8	19.8	13.7	13.5	20.2	18.5
15-64 (%)	69.7	68.5	72.1	66.1	64.5	67.0	66.2
65+ (%)	14.7	17.7	8.1	20.3	22.2	12.8	15.2
Birth Rate %	10.53	9.51	14.0	8.18	7.64	13.82	10.99
Mortality Rate %	11.88	14.31	7.06	10.90	9.54	8.38	9.29
Infant Mortality Rate %	22.90	17.87	20.25	3.99	2.79	6.26	3.58
Population Growth Rate %	-0.15	-0.79	0.66	-0.05	-0.19	0.98	0.34
Literacy rate %	97.3	98.2	90.9	99.0	99.0	99	100
GDP per capita / USA dollars.	12.200	12.900	6000	34.800	34.200	47.000	55.200

Source: <http://worldlifeexpectancy.com>

The country with the highest rate of young population is USA (20.2%), while Japan is the country with the highest rate of aged population (22.2%). The highest birth rate is in USA (13.85%), which also registers the lowest death rate, with a positive rate of natural increase. In the case of this country one can notice that it registers a level of literacy of 100%, with no illiterate individual, with the highest level of GDP per capita and an infantile death rate of 3.58%.

Romania is the country with the highest infantile mortality rate of the seven states analysed (22.9%), with a negative rate of natural increase and demographic decrease. Out of the total population, 2.7% is illiterate, and the rate of GDP per capita, of \$12,200, places Romania, according to table 3, on the sixty-ninth position in the world.

Table 3
Place in world Rankings - 2008 -

	Romania	Bulgaria	China	Germany	Japan	USA	Norway
Population:	50	96	1	16	10	3	113
0-14	171	186	143	187	191	142	125
15-64	31	45	10	82	105	66	80
65+	33	9	64	3	2	41	29
Birth Rate	158	177	136	190	191	139	153
Mortality Rate	39	22	113	46	67	93	74
Infant Mortality Rate	91	110	101	180	189	138	184
Population Growth Rate	176	191	129	171	179	114	147
Literacy Rate	39	50	93	41	41	41	5
GDP per capita / US A.dollars.	69	66	105	24	26	7	4
World Rank	87	83	78	21	1	30	14

Source: <http://worldlifeexpectancy.com>

From the point of view of the life expectancy, Romania is on the eighty-seventh position in the world statistics. The country with the highest life expectancy is Japan, while Norway is on the fourteenth place, Germany on the twenty-first, USA on the thirtieth, and China on the seventy-eighth. Bulgaria, although it has a high rate of aged population (17.7%) and a negative rate of natural increase, has a GDP per capita of

\$12,900, coming on the eighty-third position from the point of view of life expectancy, higher than Romania.

From the *HDI (Human Development Index)* perspective, the seven states that were analysed come from three different groups: Norway, Japan, USA, Germany are states with very high degree of human development, Bulgaria and Romania are states with high degree of human development, China is a country with average human development.

Table 4

*IDU on components
2007*

	Life Expectancy at Birth (years)	Adult Literacy Rate (% aged 15 and above)	Combined Gross Enrollment Ratio in Education (%)	GDP per capita (PPP US Dollars)	Life Expectancy Index	Education Index
Norway	80,5	-	98,6	53 433	0,925	0,989
Japan	82,7	-	98,6	33 632	0,961	0,949
USA	79,1	-	92,4	45 592	0,902	0,968
Germany	79,8	-	88,1	34 401	0,913	0,954
Bulgaria	73,1	98,3	82,4	11 222	0,802	0,930
Romania	72,5	97,6	79,2	12 369	0,792	0,913
China	72,9	93,3	68,7	5 383	0,799	0,851

Source: Klugman J. et. al., *Human Development Report 2009*, 171-174

Note: the statistics are slightly different depending on their source

Human development is a continuously rising and very slow process. The economic growth, its major determinant, cannot be totally recovered in development. A country can register very high rates of economic growth and not make progress in development, just like it can register negative rates of economic growth and not decline from the point of view of development, due to the exclusively quantitative contribution of the process of economic growth. Only when the quantitative growth is accompanied by the qualitative one, we obtain a progress of HDI.

From table 4, we understand that life expectancy is correlated with human development. The population of the countries from the group with very high human development live, on the average, more than the population of the countries that are part of the groups with lower human development. For instance, a Norwegian lives on the average 80.5 years, a Japanese 82.7 years, while a Romanian's life expectancy is 72.5 years, 6 months less than a Bulgarian and four months less than a Chinese. The access to education, to health assistance, to drinking

water and the rise of the population's income are necessary conditions for the increasing of the life expectancy and of the standard of living.

A general tendency towards life expectancy rising is accompanied by that of HDI rising, as we can see in table 5.

Table 5

*IDU Trends
- 1980-2007 -*

	Life Expectancy at Birth (years)	Adult Literacy Rate (% aged 15 and above)	Combined Gross Enrollment Ratio in Education (%)	GDP per capita (PPP US Dollars)	Life Expectancy Index	Education Index
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China	72,9	93,3	68,7	5 383	0,799	0,851

Source: Klugman J. et. al., *Human Development Report 2009*, 167-168

Romania has a HDI of 0.837, calculated on the basis of the indices corresponding to the year 2007, which includes it in the second group, that of the countries with high human development and on the sixty-third position in the world, lower than Bulgaria, which occupies the sixty-first position. Romania has in 2007 a HDI that is smaller than Germany's one in 1980. The economic crisis characterizing the current period will modify the HDI in a negative direction in the case of some countries, among which we will probably find Romania too. The decrease of the population's incomes and the increase of the poverty will contribute to the decrease of HDI. This tendency will be more obvious in the case of the developing countries, much more vulnerable in front of the socio-economic upheavals.

Table 6

*Life Expectancy Trends (years)
- 1980-2008 -*

	1980	1990	2000	2005	2008
Norway	75,7	76,5	78,6	80,2	80,7
Japan	76,1	78,8	81,1	81,9	82,6
USA	73,7	75,2	77,0	77,7	78,4
Germany	72,6	75,2	77,9	79,3	80,1
Bulgaria	71,2	71,6	71,7	72,4	73,3
Romania	69,1	69,5	71,1	72,1	73,4
China	66,0	68,1	69,6	72,6	73,1

Source: <http://data.worldbank.org>

The data the *World Bank* provided with regard to the life expectancy show that in 2008, a Romanian lived, on the average, 73.4 years, one month more than a Bulgarian and

three months more than a Chinese. Comparing to the statistics for 2007, registered by *Human Development Report* (table 4), one can notice an improvement in the life expectancy of the seven analysed states, both the developed and the developing ones, on the background of the sustained economic growth and of the improvement of the standard of living. As we have already mentioned, the economic crisis will probably change the general image starting with 2009, when its outcomes will become visible in the case of all of the world states.

Life expectancy is an index that characterizes the level of economic and social development of a country. At the beginning of the last century, in Romania the life expectancy was only 36.4 years, reflecting a very high level of the mortality rate [Ghețău V., 1978, pp. 142-152]. In the first decades of the 20th century, the life expectancy increased with 5.6 years, that is less than 0.2 per year, half of the rise registered by the other European states in the same period [Ghețău V., 1978, 143]. After World War II, modifications appeared: the rising of the standard of living, the population's access to health assistance, a rise of the educational level of the population, so that in 1961, the life average expectancy reached 66 years, and in 1975 – 69 years, about 5 years under the level of the developed countries. In the period 1900-1975, in Romania, the life expectancy rose with 33 years, so that in 2008 it reached the average of 73.4 years; a real progress, which however remained under the level of the countries with high human development.

4. Conclusions

Between economic liberalization, human development and standard of living there is an obvious relationship of interconditionality. Liberalization leads to economic growth and human development, and the latter allows the improvement of the standard of living, that is of the life quality and average span.

Over time, at the level of the whole humanity, obvious progress was registered; the evolution of the indices of human development and of life expectancy proves it. But one can notice that life expectancy is higher in the states that are included in the category with very high human development.

The life span depends on the standard of living, that is on how well people live, on incomes, on the access to health assistance, to decent conditions of life, but also on the degree of culture and education. The rise of income alone can influence the standard of living, but if the other factors that influence it stay unchanged, it cannot guarantee a better or a longer life. The essentials for a decent standard of life includes a home, access to health and education assistance, access to food, entertainment and safety products. Unfortunately, a high rate of the world population does not enjoy a minimal standard of living. At the beginning of the third millennium, in a period when development firstly relies upon knowledge, but which is also affected by an important economic crisis, poverty – quite significant in some regions – urges the world states to try, together, to fight it, acting first of all on the complex of factors that determine the economic and human development, among which liberalization as well, so that the great majority of the people could enjoy a higher and higher standard of living and life span.

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Community Budget Financial Instrument of EU

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Abstract

The general budget of the European Union is the instrument which set out and authorises the total amount of revenue and expenditures deemed necessary for the European Union and European Atomic Energy Community for each year. According to this can be observed every year EU policy priorities and guidelines. Its evolution over time reflects the successive transformations of European construction.

EU budget differs fundamentally from national budgets of EU Member because, first of all, public institutions are in the responsibility of Member States and are funded from national budgets, and on the other hand, costs of government institutions (European Commission, Parliament, Council, Court of Justice) are reduced..

Key words: Community budget, Community funds, own resources, gross national income, EU expenditures.

J.E.L classification F36, G18, H27, H61

1. Introduction

The budget is an important component of finance contributing to the economic policy objectives in accordance with the directions set by government policy for each individual year. By budget ensure the achievement of balance between collective needs and the means with which to cover.

Financial Regulation of the European Community defined budget as the act that provides and authorizes in advance each year, expenditure and income communities.

From the legal point of view, budget structure focuses all public revenues and expenditures for a strictly limited period of time, usually during this period no more than one calendar year.

From an economic perspective, budget reflected those macroeconomic correlations determined by evolution and level of gross national income.

The budget are developed public financial resources who take the form of a financial plan, the structure of which includes income and expenditure relating to a period of time to fulfill certain tasks and objectives set by public entities subject to that budget.

The Community budget results from a long process of harmonizing the interests of Member States.

2. General considerations on the Community budget

Functioning of the European Union requires a series of own financial resources provided by the member states necessary for the purpose for which it was created and its objectives. They are set in a legal framework by a decision of the Union Council of Ministers, ratified by the legislative authorities of each Member State.

Established by the Treaty of Rome (Treaty of the European Economic Community space-EEC, 1957) which clearly affirmed the principle of financial solidarity, Community budget was originally be decreased in size, its main expenditure is for the common agricultural policy (CAP). Funding of this budget is figured, at the beginnings of European construction, from two own resources: drawings (taxes) on imports of agricultural products from the outside community and customs duties (taxes) on imports of products manufactured outside the Community space, and the amounts obtained were sufficient to meet the necessities of common funding.

In the late 70-ies the first disagreement between EEC members have appeared, regarding the distribution of the common budget, caused by three factors: 1) the liberalization of the international trade under

GATT, which led to the reduction of customs duties; 2) the emergence of surplus in European agricultural production and, default, reduction of imports of agricultural products, therefore reduction in the drawings to the Community budget; 3) the first enlargement of the EEC, with the accession of Denmark, Ireland and Great Britain the last one having then a modest agriculture but being a major importer of agricultural products from the Commonwealth's (mainly in Australia and New Zealand) which figured that from tax and drawings British agricultural imports were higher than those of other European partners, but without the United Kingdom enjoy the same level of allowance from the Community budget.

In order to supplement the resources attracted, in the same period were created two other sources of European financing: drawings from the VAT and input of the national GDP of each Member State (GDP).

In recent years, calculating the national contributions to the EU budget is reported to GNI (gross national income).

The maximum ceiling of the total resources of the European budget was established in 1988 ("Delors Package I"), to limit its rise, being set at 1.27% of GDP, which corresponds to a 1.25% of GNI.

The financial reforms initiated by J. Delors were: method of determining the total ceiling of own resources, for all categories, as a percentage of EU GNI and not by the VAT, as before;

Since 1998, the Union's annual budget is determined in accordance with a medium term financial plan, which defines the limits of the annual EU spending.

3. The principles underlying the Community budget

European Community budget respects the general rules applicable in Member States, aimed at ensuring transparency in the revenue and expenditure decisions and clarity in the monitoring and control of budget implementation for the protection of EU financial interests.

The application of the budget law and the procedure of development, approval, execution and completion of the Community budget is generated by certain principles, enshrined in the Financial Regulation of the

European community. The budget is established and implemented in compliance with the principles of unity, budgetary accuracy, annuality, equilibrium, unit of account, universality, specification, sound financial management and transparency. The budget approved by the EC has also provided a separate chapter on advertising in the Official Journal of the EU budget.

a) The principle of annuality. Assume budgetary operations to be carried out during the budget year that lies between 1 January and 31 December. The income who must be earned in the current financial year and have not been charged in that year's revenue to the budget next year. Exceptions may exist. For example, if the legal basis for certain expenses has been adopted towards the end of the year and expense could not be committed and payments made by the end of the current financial year it is possible to approve the transfer of such expenditure in the budget for next year. Note that, several EU projects and actions is carried out over more than one calendar year. EU use on medium-term, the instrument "financial perspectiv".

In order to connect the multi-year projects and activities to the budget, which refers to a particular financial year, in EU practice are used two concepts about spending: "limit the employment of expenditure" and "limit payments."

The first represent the size of all obligations arising from a project with a performance period greater than one year, which is being developed for the financial year budget.

Payment limit is the amount budgeted for the project.

b) The principle of unity and the principle of budgetary accuracy requires that all EU budget revenue and expenditure to be contained in one document. From these principles are mentioned two exceptions:

- financial arrangements for certain activities in common foreign policy and security. In these cases, certain revenue (aid, grants etc.) are used directly for such activities without being included in the budget;

- european agencies (EU decentralized bodies) have their own budgets that are supplied with transfers from the EU budget.

Like annuality principle, in contemporary literature of public finances is assessed that the principle of budgetary unity is based on two types of incentives some financial and other policy.

c) The principle of universality of the budget. In practice two rules are complied with EU budget:

(1) not affecting revenues, ie once that is paid to the EU budget, these revenues depersonalizes being used in their entirety to fund all costs;

(2) unwrought budget presentation, that the inclusion of revenue and expenditure in gross amounts, without any gaps.

In applying this principle, there are exceptions. Certain revenues are directly affected funding for research programs, and some countries make donations specifically to fund specific policies, such as humanitarian aid.

d) The principle of budgetary balance. In the EU, revenues are equal to or greater costs, the EU is not allowed to borrow to finance expenditure under the EU budget. Therefore the normal situation for implementation of the budget is the surplus of income over expenditure, which is required in the budget over the next year.

As such, in the EU budget it is not reflected the lending operations of the European Community or EU institutions are authorized by the treaty to make them (for example, loans granted to individual Member States and candidate countries to support the balance of payments).

This feature in applying the principle of budgetary balance in the case of EU is the most important difference from the budgets of the Member States where deficits are common.

e) The principle of budgetary specification requires the inclusion of revenues in the EU budget by categories established by origin, in relation to the specific sources and of expenditure by purpose, according to budget classification. In this purport confusion are eliminated in the budget decision and its execution. Budget classification used by the EU includes sections, titles, chapters and paragraphs.

f) In accordance with the principles of unit of account, the budget is drawn up and implemented in euros and the accounts shall be presented in euros.

g) The principle of sound financial management is defined by reference to the principles of economy, efficiency and effectiveness.

4. Community institutions responsible with the budget process at EU level

By its nature, EU is a community based on solidarity among its members. Its founding treaty commit themselves to strengthen the unity of their economies and ensure their harmonious development by reducing disparities between various regions and the backwardness of the less favored regions. Redistribution is such a clearly defined objective.

In principle, the Council and Parliament decide, together, each year, the European budget.

To avoid budget crisis similar to the years 1988, 1993 and 1999, the Council and Parliament works henceforth, starting from the Commission proposal in a multiannual financial framework (MFF), who is bearing the name of "financial perspective".

This framework, covering several budget years, sets a total budget and a ceiling for expenditure in each area.

Therefore, each annual budget must comply with the limits in the financial perspective.

However, the agreement has left a margin of flexibility for unexpected situations—mainly in the financing of foreign policy. European Commission as the EU's executive, is responsible for implementing a large part of the budget, and with drafting a budget proposal each year. Under the Treaty of Lisbon, long-term EU budget plan is mandatory. Financial perspective is necessary for the adoption of European Parliament approval. Under the Treaty of Lisbon, the European Parliament has equal powers with the Council in determining the EU budget. In addition, the Lisbon Treaty simplifies the budgetary procedure and enter binding financial perspective.

Under the Treaty of Lisbon, Parliament decide, together with the Council on all expenditure. In 2011 was canceled difference between the "Mandatory" expenditure (agriculture and international agreements) and "soft expenditure." The decision procedure in two readings was replaced by a

single reading (in Parliament and the Council).

The European Commission is responsible for implementation of the budget throughout the budget year. Funds must be spent during the year for which they were intended. In certain circumstances, they may be delayed next year.

The Commission may make proposals for amending budget, amendments enter into force when they are adopted by the President of European Parliament.

The Commission is politically responsible for budget implementation, but over 80% of funds are managed, in fact, at national level, this presenting to the Council and Parliament the report on budget execution, with the accounts for the previous financial year.

Parliament is the only institution that can grant or deny a discharge for the implementation of the Community budget on the annual report published by the Court of Auditors and the Council recommendations.

While amending budgets are managed by the Committee on budgets, budgetary control Committee is pursuing implementation of the budget. Discharge procedure begins with the submission by the Court of Auditors of the annual report to members of the Committee on budgetary control. Commission seeks implementation of the budget by hearing the various commissioners charged with the policies which benefit from a significant budget. Budgetary Control Committee then prepares a discharge report to be voted in plenary.

Budgetary Control Committee organize, as a result of budget execution public, hearings with various European Commissioners who are responsible for specific policy areas that with significant budgetary implications.

5. Implementation of the Community budget

The budget presents appropriations and resources by purpose (activity-based budgeting) with a view to enhancing transparency in the management of the budget with references to the objectives of sound financial management and in particular efficiency and effectiveness.

The EU has its own system of income, EU budget covering four categories of income:

- traditional revenues;
- part of value added tax (VAT) in the Member States;
- share of gross national income (GNI) of the Member States;
- other income

Traditional own revenues are collected by Member States due to EU policies- Customs Union and Common Agricultural Policy (customs duties levied on imports, agricultural levies).

EU VAT revenue is part of value added tax levied by Member States, calculated by applying a percentage of base tax (for VAT).

Share of GNI of the Member States is a variable income which is established by the EU budget each year. This revenue is collected from Member States only if their other income (traditional revenues and income from VAT) are not sufficient to cover expenses. The magnitude of this income can not be greater than the difference between: the maximum of all the EU's own revenues, approved by the European Council, as a percentage of aggregate GDP of Member States, and other own revenues (traditional income and revenue from VAT).

The main income included in the group "other income" are: interest and penalties for late payment obligations to the EU budget; penalties paid by companies for breach of common rules (for example, in competition); taxes on salaries of employees of EU institutions; income from different administrative operations of the EU institutions; surpluses from previous financial years.

Budgetary revenue totals 126527133762 euro. The uniform rate of call for VAT resource is 0,30% (except for Austria, Germany, Netherlands and Sweden for which the rate of call has been fixed at 0,225%, 0,15% and 0,10% for the last two of them) whilst that for GNI resources is 0,7538%. Traditional own resources (customs duties and sugar levies) account for 13,26% of the financing of the budget for 2011. The VAT resource account for 10,90% and GNI resource for 74,72%. Other revenues for this financial year is estimated at 1421368232.

The expenditures authorized by the budget for 2011 totals 141909398849 euro in commitment appropriations and 126527133762 in payment appropriations, representing a growth rate of 0,25% and 2,90

5 respectively by comparison with the 2010 budget.

Budget spending are structured and arranged into six sections: European

Parliament-I, Council-II, Commission-III, Court of Justice-IV, Court of Auditors-V, The Economic and Social Committee and Committee of Regions-VI.

Table 1 Revenues from the Community budget

	2011	2010	2009
Own resources	125105765530	119269988721	110373020433,48
Surpluses, balances and adjustments	-	2253591199	330078341,24
Revenue accruing person working with the intitutions and other Union bodies	180425515	1180234606	1025436452,62
Revenue accruing from the administrative operationof the institutions	57294000	68894000	334525272,13
Contributions and refundsin connection with EU/Community agreements and programmes	30000000	30000000	4559416721,52
Interest on late payments and fines	123000000	123000000	932990431,87
Borrowing and leading operation	438717	-	3678263,68
Miscellaneous revenue	30210000	30210000	66423842,85
Total	126527133762	112955918526	117625569759,42

Source: Eurostat

Table 2 Expenditures from the Community budget

	2011	2010
Sustainable growth	53279897424	47647241763
Preservation and management of natural resources	56378918184	58135640809
Citizenship, freedom, security and justice	1459246345	1477871910
EU as a global player	7237527520	7787695183
Administration	8171544289	7907468861
Total	126527133762	122955918526

Source: Eurostat

Operational appropriations managed by the European Commission have the following destinations:

1. agricultural financing under the EAGGF, guarantee section;

2. financing structural funds: European Regional Development Fund (ERDF), European Social Fund (ESF), EAGGF Guidance Section, the Cohesion Fund, Financial Instrument for Fisheries Guidance (FIFG);

3. cover the costs of education (Socrates), training (Leonardo), broadcasting (media program), culture, communication, social relations, public health;

4. to cover expenses allocated for energy ;

5. to cover expenses allocated to improve the functioning of the internal market;

6. funding research and technological development programs;

7. financing costs related to various economic and financial cooperation measures with third countries;

8. to cover expenses resulting from actions in foreign policy and security policy;

EU Structural Funds are managed by the European Commission and are intended to help finance structural measures at Community level, in order to promote the regions with delays in development, conversion of areas affected by industrial decline, tackling long term unemployment, employability of young people and promoting rural development.

The European Parliament approved the European Union budget for the period 2007-2013 to 864, 4 billion euro.

6. Romania's contribution to EU budget

Last year Romania was able to absorb only 800 million euros of EU funds. In total, in four years, in our country entered on this path only 2.18 billion euros, approximately 7% of the total allocations of our country since 2013.

On the other hand, Romania has paid to the EU budget 4.53 billion euro, equivalent to about 45% of the amount that Romania should contribute between 2007 and 2013.

In short, Romania's net contribution to EU budget was 2.35 billion euros. The amount is not insignificant if we think that is greater than the annual deficit to be covered by the pension budget.

For the period 2007-2013, for Romania has been allocated 19.67 billion euros, of which 19.21 billion euros for the Convergence objective, and 460 million euros for the European territorial cooperation objective, according to the Strategy Partnership with World Bank.

National Co-financing for these amounts is estimated to 5.53 billion euros, which raises the value of cohesion policy funding for seven years to 25.2 billion euros.

2011 is considered an important year for European economic recovery, and the Community budget is the basic instrument for this goal. The European Members tried to find a balance between the need for EU funding and the need for rebalancing actions through innovation and research, supporting poor regions and the presence of EU diplomacy in the world.

Total budget for Romania is set to 28-30 billion Euro, distributed on the following areas of interest:

-Agriculture and Rural Development-over 11 billion euro;

-Structural Instruments-over 17 billion euro (minimum co-financing -85% for ERDF for eligible expenditures and 80% for CF financing ineligible expenditures).

14 areas can attract and can be financed from EU structural and cohesion funds:

- Research and technological development;
- Informatization of society;
- Transport;
- Energy;
- Environmental protection and risk prevention;

- Tourism;
- Culture;
- Urban and rural regeneration;
- Support for companies and entrepreneurs;
- Access to stable employment;
- Social inclusion for disadvantaged people;
- Human capital development;
- Investment in social infrastructure, including health and education;
- Promoting partnership.

Financial perspectives for the period 2007-2013 is divided into five chapters:

1. sustainable Growth: this section includes structural funds, research and education, with a budget of 382 billion for seven years;

2. conservation and management of natural resources: it's about common agricultural policy and environmental policy, with a budget of 371 billion;

3. citizenship, freedom, security and justice: 10.7 billion euros are intended for activities related to justice and home affairs. This amount will cover programs that encourage European citizenship, town twinning and European dimension of media and culture;

4. European Union as a global actor: 49.5 billion euros will be allocated shares in favor of developing countries, promoting human rights, common foreign and security policy and support for the development of neighboring countries;

5. administration will receive 49.8 billion euros, or 5.75% of the total budget.

7. Conclusions

Tensions in the European Union related to budget projection 2013-2020 are at high rate and this one was shown by the previous budget negotiations for 2007-2013, when France and Great Britain, major beneficiaries of EU funding, duel in arguments, because neither wants to give up their own facilities.

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Study Regarding FDI Flows and International Competitiveness in European Union Countries

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Abstract

The purpose of the paper is to analyze foreign direct investment flows and international competitiveness in European Union countries. The result of the analyze shows that is a direct correlation between foreign direct investment flows (FDI flows quantify by UNCTAD) and international competitiveness (measured by World Economic Forum through global competitiveness index – GCI). In 2010 most of the European Union countries improved their score on international competitiveness even if the FDI flows has declined from a year earlier, including Romania.

Key words: FDI flows, international competitiveness, European Union countries, Romania

J.E.L. classification: F21, O10, O52

1. Introduction

The economic and financial crisis of nowadays have affected the FDI flows, booth FDI inflows and FDI outflows. In many countries, in 2009, the FDI flows have decreased considerably. Mach more, some economies have confronted with a lowest level of FDI flows from the last 10 years. Also, international competitiveness of economies has suffered in the last 2 years because the governments have concerned to face of to the domestic issues in order to reduce budget deficit, to obtain macroeconomic stability and economic growth.

2. FDI flows – brief description

FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, the higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. Thus, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy [1]. FDI is a form of international capital flows. It may play an important role in the general allocation of world capital across countries [2].

Many developing countries have been eager to attract foreign direct investment. This is hardly surprising given the potential benefits of FDI because they are not as volatile as other types of flows. FDI can boost technological and managerial transfer in order to increase competitiveness of a host country and economic growth [3].

In the literature are identifying a various types of FDI flows [4] like:

○ *Market-seeking FDI.* Small size severely limits investment in production destined for the local market. On the other hand, low competitive pressures in many industries can result in relatively high market shares for foreign or domestic investors, somewhat mitigating the impact of the small size of the market.

○ *Efficiency-seeking FDI.* This type of investment requires host countries to offer advantages such as low-cost production or specialized expertise, as well as low-cost trade, as the output of efficiency seeking investment is mainly sold to other MNEs affiliates or the parent firm.

○ *Resource-seeking FDI.* This type of investment is driven by the local availability of natural resources and low-cost labor.

○ *Strategic asset-seeking FDI*. This type of FDI is driven by access to created assets such as special skills and technology.

According to World Investment Report 2010 global FDI flows began to bottom out in the latter half of 2009. This was followed by a modest recovery in the first half of 2010, sparking some cautious optimism for FDI prospects in the short term. In the longer term, from 2011 to 2012, the recovery in FDI flows is set to gather momentum.

3. Defining international competitiveness

What a theory of international competitiveness must do is to establish the links between the growth and balance-of-payments position of an open economy and factors influencing this process [5]. But that was available in the 90.

Today the notion of competitiveness has become a prominent concept in the assessment of countries, regions and locations. The competitive advantage of nations and the competitiveness of locations have become important topics in economic policy [6].

According to Krugman the concept of competitiveness is "elusive or meaningless when applied to national economies; for economies with little international trade, competitiveness is a specifically maintained to be a funny way of saying productivity" [7]. Other author consider that international competitiveness is said to occur whenever the economic welfare of a nation is advanced through an increase in the flow of trade or through an alteration in the conditions of trade starting from a presumed initial equilibrium [8]. From Siggel (2006) point of view countries may compete for market share or for foreign investment, but the attribute of stability, good government and profitable investment opportunities, are better summarized as a favorable business climate than competitiveness [9].

European Commission in European Competitiveness Report emphasize the fact that competitiveness "is understood to mean high and rising standard of living in a nation with the lowest possible level of involuntary unemployment, on a sustainable basis" [10].

In the literature are a various institutions/organizations that defining and measure the international competitiveness such as: World Economic Forum [11], Institute of Management Development [12], European Commission [13] and other.

In this paper we use Global Competitiveness Index proposed by WEF in order to analyzed FDI flows in correlation with international competitiveness.

4. Data analysis

With the entry into force of the Lisbon treaty on 1 December 2009, the European Union acquired the exclusive competence of foreign direct investment under the Union's common commercial policy [14].

For data analysis we used as sources Global competitiveness Report 2010-2011 and World Investment Report 2010.

In the table below are show the values for FDI inflows, FDI outflows and GCI in every obtained by every country of European Union.

In 2009, European Union FDI inflows were 361949 millions dollars while FDI outflows were 388527 millions dollars. Result a difference about 26578 millions dollars in favor of FDI outflows which means that the European Union countries have made more foreign direct investment than have received. Some countries had values with "-" at FDI inflows like Hungary (5575), Slovakia (50), and Slovenia (67). All other 24 had value with "+"; France had the biggest level of FDI inflows (59628).

In parallel, some countries had value with "-" at FDI outflows like Latvia (23), Bulgaria (136), Hungary (6886), and Belgium (15064). All other 24 had value with "+"; France had the biggest level of FDI outflows (147161).

The average of FDI inflows in European Union countries was 13405.22 millions dollars. For de FDI outflows the average was 14389.89.

Even if Romania had a lower level of FDI inflows ranks on position 14 in top European Union countries. In terms of FDI outflows Romania had a very low level having position 21 in rank from 27 countries.

Table 1. FDI inflows, FDI outflows and GCI for European Union countries

Economy	FDI inflows	FDI outflows	GCI
Austria	7051	3766	5.09
Belgium	33782	-15064	5.07
Bulgaria	4467	-136	4.13
Cyprus	5797	5110	4.5
Czech Republic	2725	1340	4.57
Denmark	7800	15797	5.32
Estonia	1680	1542	4.61
Finland	2551	2895	5.37
France	59628	147161	5.13
Germany	35606	62705	5.39
Greece	3355	1838	3.99
Hungary	-5575	-6886	4.33
Ireland	24971	20750	4.74
Italy	30538	43918	4.37
Latvia	72	-23	4.14
Lithuania	348	217	4.38
Luxemburg	27273	14957	5.05
Malta	895	111	4.34
Netherlands	26949	17780	5.33
Poland	11395	2852	4.51
Portugal	2871	1294	4.38
Romania	6329	218	4.16
Slovakia	-50	432	4.25
Slovenia	-67	868	4.42
Spain	15030	16335	4.49
Sweden	10851	30287	5.56
United Kingdom	45676	18463	5.25
European Union	361949	388527	126.87
Average	13405.52	14389.89	4.70

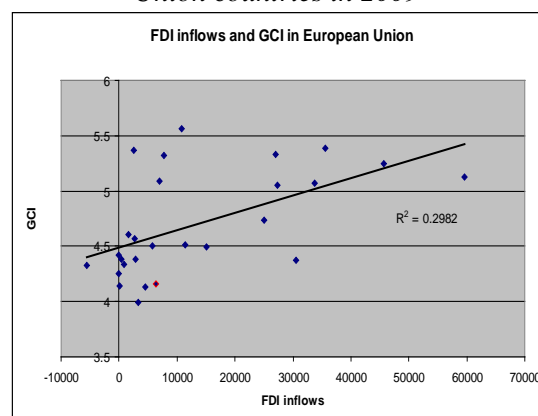
Source: UNCTAD and WEF

The global economic crisis has hit a number of European countries particularly hard, leading to rising unemployment, plunging demand, and, in some cases, concerns about the sustainability of sovereign debt. However, overall Europe continues to feature prominently among the most competitive regions in the world. As described above, six European countries are among the top 10, and twelve are among the top 20, as follows: Switzerland (1st), Sweden (2nd), Germany (5th), Finland (7th), the Netherlands (8th), Denmark (9th), the United Kingdom (12th), Norway (14th), France (15th), Austria (18th), Belgium (19th), and

Luxembourg (20th) [15]. Romania ranks in position 67 with 3 places lower than previous year, but with a better score of 4.16.

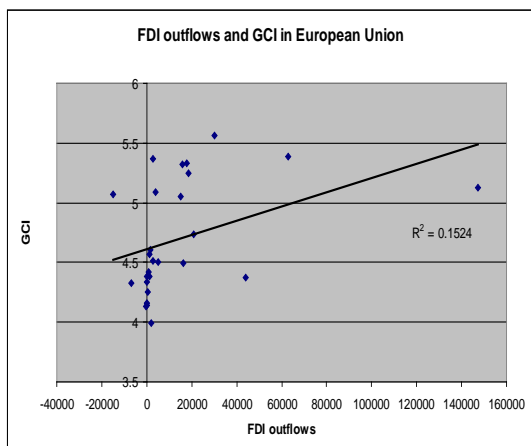
The priorities of the Europe 2020 strategy should contribute to European competitiveness by eliminating further barriers to the European Single Market, encouraging investment in better skills, and supporting innovation. But the data highlight the fact that many countries still need to take measures to improve basic competitive requirements, such as their institutional setting and infrastructure levels; they must also improve their market efficiency, technological readiness, and level of skills. It will take the combined effort of all European and national authorities to improve the economic potential of the European Union so that it remains a prominent player in the 21st century [16].

Figure 1. FDI inflows and GCI in European Union countries in 2009



As it can be observe from the Figure 1, between FDI inflows and GCI it is a direct correlation but not a strong one. This means that international competitiveness of European Union countries is not very strong influenced by the FDI inflows, especially in western countries of European Union. That can be also demonstrated by the R² value that is 0.2962.

Figure 2. FDI outflows and GCI in European Union countries in 2009



As it can be observe from the Figure 2, between FDI outflows and GCI it is a direct correlation but not a strong one. This means that international competitiveness of European Union countries is not very strong influenced by the FDI outflows, especially in western countries of European Union. That can be also demonstrated by the R^2 value that is 0.1524.

5. Conclusion

FDI flows are very important for international competitiveness and economic growth. For European Union countries the importance of FDI flows occurs in two directions: developed countries are concerned to expand FDI outflows in order to increase their international competitiveness; developing countries are concerned to attract FDI inflows in order to increase their international competitiveness taking into consideration the fact that through FDI inflows they have access to technologies and managerial knowledge.

Given the Lisbon Strategy from 2010 for Europe 2020, which establishes three priorities such as: smart growth, sustainable growth, and inclusive growth it may be possible that developing couniteires to catch-up the developed countries in order to achieve the main objective of the strategy: Europe the most competitive and dynamic knowledge-based economy in the world.

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The Core-Periphery Pattern. Methods to Measure the Peripherality

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Abstract

The subject considered (e.g. dividing a country into a developed center and a periphery underdeveloped) was the subject of early researches in regional development. This paper aims to present the studies from the literature undertaken in the domain of a center-periphery structure. In the first part of the paper are brought into discussion some clarification on the term "peripherality". The paper continues with a brief presentation of the core-periphery pattern developed by Krugman and reviewing the improvements to the pattern. Also, this paper brought into discussion the main methods to measure the peripherality. As a conclusion it is emphasized the usefulness of an economical approach for peripherality that can lead to the development of a composite index for measuring the peripherality.

Key words: peripherality, core-periphery, core-periphery pattern, indicators for measuring the peripherality.

J.E.L. classification: R11, R12, O18, F15.

1. Meanings of the term "peripherality"

Since the nineteenth century, various theories of development presented in the literature, have offered different definitions and explanations of "peripherality". According to classical theories of polarization of Hirschman's (1958) and Myrdal (1959), peripherality is nothing but an "economic delay" caused by "vortex effect", determined by urban agglomeration. Friedman apud. Panebianco (1972) explains "the peripherality" based on "the effects of

modernization": central regions are more flexible, learn faster and they have, economically speaking, more success [1]. For Krugman (1991), peripherality is the result of lack of economies of scale and high transport costs [2]. A different view on this term/ terms is found in the studies of Vanolo A., author who places the phrase "core-periphery" among geographical metaphors, with phrases such as: North-South, Third World etc. The term "core-periphery" (with global scope) refers to the unequal distribution of power in the economy, society and politics, emphasizing the dominance/ dependence relations between different regions of the world [3].

2. The core-periphery pattern

The effect of economic integration on industrial location has become a political issue of considerable interest because of the type of integrative agreements like EU and NAFTA. Consequently, "geography and trade" or "new economic geography" has become the main trade theory research. Krugman's paper, "Increasing Returns and Economic Geography" is considered the basis of the theory of economic geography. In the work cited, Krugman developed a simple model that shows how a country can differentiate into a "center" industrialized and a "periphery" agricultural.

Thus, the pattern proposed by Krugman considers three central parameters [2]:

- transportation costs,
- economies of scale and
- the share of manufacturing in national income.

In the center-periphery pattern the labor is immobile but industrial workers can move geographically. Thus, Krugman, trying to

justify "why" and "when" the production of goods is concentrated in some regions (leaving the others underdeveloped) show two phenomena [2]:

- the demand connection: when workers shift to another working place, then the demand of employment increases; an increased demand triggers many other companies, which, at their turn attract many other workers.
- the offer connection: being about several companies, they shall reduce the price level (price index) at the destination, which implies increased actual incomes; they attract an increased number of employees, which, at their turn draw few other companies.

Krugman apud. Pușcaci & Pușcaci consider that these cumulative conditioning processes may determine an industrial powerful concentration, although there is a dispersal force opposing to the process. As a part of the labor force, the agrarians sector is presupposed to immobile from the geographical point of view and there shall always be a fix demand in each region. Along with the commercial costs the immobile demand provides geographical spread of the labor force. The results depend by the relative intensity of the concentration and disperse forces [4].

3. Center - periphery pattern improvements

Taking as its starting point the center-periphery pattern proposed by Krugman, researches in this area is intensifying. Venables (1996) and Krugman & Venables (1995) developed "the vertical pattern", model that differs from the center-periphery pattern in that it considers the work geographically immobile, but mobile between sectors. This time, the phenomena are as follows [5]:

- vertical connections: agglomeration means in this case a complete specialization in the industry. The concentration forces derive from companies based on other companies' intermediary inputs.
- demand connection: the greater the number of companies within a certain

emplacement is, the bigger is the product market for a potential company entering that emplacement.

- offer connection: the greater the number of companies offering intermediary input, the lower the production costs are for a company entering the emplacement.

Krugman apud. Pușcaci & Pușcaci consider that the circular interaction implied in companies' emplacing decisions may determine significant amendments in the industrial landscape. These concentration forces are balancing with the dispersal force, the same way as in the centre-periphery pattern. As the vertical pattern has to offer geographical fix jobs, it may be considered as being more applicable to an international context [4].

Based on the model developed by Krugman, authors such as Lanasp L.F., Sanz F., Mossay P., Hojman D.A., Szeidl A., Brulhart M., were concerned with steady-state model [6]. Labor mobility as a factor with influence in the center-periphery relationship, can determine the concentration of economic activity in a single region, if two conditions are met [6]:

- the taste for variety of products and the remuneration to be large enough and
- transport costs are low enough.

Therefore justify Mossay P. the spatial configuration of center-periphery equilibrium. The same author developed the model by configuring a "symmetrically balanced" according to which economic activity is distributed equally among regions. Thus, the balance short-term (instantaneous) is determined implicitly by the current labor distribution across all regions [7].

A different view (even that of Krugman - which proposes a general equilibrium) can be seen in the works of authors such as Lanasp L.F. & Sanz F. These researchers give up the premise of constant transport costs considering them as variable and it correlates with the size of the manufacturing sector in that region. In addition, it tries to control the interaction between the two elements that influence the location decisions of economic agents: congestion costs (which increase with the size of the region in question) and infrastructure.

The main result of this approach is that it has obtained various asymmetric equilibrium, and this aspect was not taken into account in the original model [8].

Hojman D.A. & Szeidl A. proposes a pattern approach as networks. The new pattern provides two common points between social and economic networks [9]:

- a center-periphery structure and
- a positive correlation between revenue and network center.

Baldwin R. E. & Forsild R. are those who founded the theory of dependency between center and periphery, theory which has as justification increasing, in time, the economic disparities between the developed and less developed countries: center was developed by drawing resources from the periphery, leaving developing countries without resources [10].

Pelkmans (2001) focuses its research on the effects of agglomeration and dispersion. In the analysis undertaken Pelkmans consider two regions: a central region richer and a poorer peripheral region [11]. According to research conducted by Baldwin et. al. apud. Hojman & Szeidl, the central region is positively related to higher academic performance. On the other hand, Lin V. apud. Hojman & Szeidl maintains positive association with finding a better paid job and Powel C. et. al. apud. Hojman & Szeidl argues a positive association with firm performance [12].

Returning to Pelkmans, the macroeconomic model proposed by him includes [11]:

- the crowding index: a measure of merger activity - calculated as the ratio between the number of firms in the central region richer and the total number of firms.
- index of inequality: measured as the ratio between income per capita from the central region of the richest and poorest peripheral region.
- the geographical effect (centripetal force): the relationship between the degree of agglomeration and regional disparities of income level is positive (the regional disparities are greater, the firms have an incentive to locate in the central region richer, thanks to market higher sales).

- the relationship of growth: the agglomeration of activities generates technological externalities, reducing the cost of innovation; innovation rate will be higher and will generate a higher growth rate (at national level).
- the effect of competition (centrifugal force): a strong competition leads to a reduction in profits in the central region richer; so there is a negative relationship between inequality index and the index of agglomeration.

Krugman, in an article published in 1998, explains the phenomena of concentration by means of the two forces [13]:

- centripetal force → factors: the effects of market size, labor market size;
- centrifugal force → factors: immobile factors, rents.

Pfluger M. & Sudekum J. add a new factor to centrifugal force: the housing deficit [14].

Some of the literature considers the peripherality an inverse function of accessibility: the availability is higher; the region in question is less peripheral. Thus, there were studies that fall into the category of determinants factors of the periphericity, the transport infrastructure. Authors such as Martinez-Zarzoso I. & Marquez-Ramos L., Ramcharan R. attach a great importance to quality of transport infrastructure [15], [16]. The same reasoning is found in the studies of Takahashi T., this time on the transport technologies [17]. Unlike them, Panebianco S. draws attention to a phenomenon of diminishing the importance of transport infrastructure due to factors such as [1]:

- a high percentage of high-value goods for which transport costs are less relevant;
- given the increasing role of telecommunications, which start to partially replace the physical transportation;
- a growing importance given to factors related to quality of life and culture.

The literature is particularly interested in the role played by foreign direct investment in a center-periphery system. Presented mostly in the form of empirical studies, the works of some authors like Tavares A. T., Kottaridi C., Filippaios F., Papanastassiou M., Barriost S., Dimelis S., Louri H., Stroblt E., shows a concentration of foreign direct

investments in areas considered central, not peripheral [18], [19], [20], [21].

Lately, some studies in the literature are complementary to core-periphery model, trying to determine the role played by innovation and research development.

Baldwin R. E. & Forsild R., focusing on the stability of the model showed that growth shares are a strong centripetal force, and information flows are a strong centrifugal force [10]. J. Kranich introduces a new variable that influence a center-periphery structure: international research mobility [22]. Copus A., Skuras D. and Tsegenidi K. consider the differences between the rate of innovation in central and peripheral regions a result of non-observable factors which are a mix between "behavior and environment" (once, in advance, were split into two factors: observable and unobservable) [23].

As a result of a rapid technological developments and structural changes in the international economy (particularly in the tertiary sector) the peripherality content appears to be changing. The economic success of the regions is influenced to a lesser extent by geographical location and a greater extent by a number of "aspatial" factors [24], [25]:

- information and communication technology infrastructure;
- human capital (percentage of skilled labor);
- cooperation between local firms (horizontal networks) and cooperation with other companies outside the region, but active in the same sector (vertical networks);
- human capital;
- institutional network (cooperation between different partners);
- local and global links (e.g. skills, education, local entrepreneur's adaptability, human capital).

Since the transition to knowledge-based economy brings new opportunities for the region, analysis of the literature focuses on new factors. Ottaviano G. & Forslid R., Crozet M. and Itoh R. are part of the authors who took into account the human capital and labor migration [26], [27].

Fujita M. and Thisse J. F. propose a new model of endogenous growth where the growth rate, measured by changes in the

number of product types, generates changes in the spatial distribution of skilled workers. Thus, the authors attach a particular importance to the spatial distribution of the innovation sector across regions because moving from dispersion to agglomeration, the rate of innovation tends to increase (conditions in which growth triggered by the agglomeration effect is strong enough, the periphery will take advantage of this situation) [28].

Following this reasoning, authors such as Socol C. & Socol A. proposed a series of policies aimed to reduce disparities between center and periphery [29]:

- improving infrastructure (reducing transportation and transaction costs);
- providing funding for industrial reconversion in the peripheral regions;
- policies to promote innovation through research grants for development, educational infrastructure, capital markets.

In the analysis of center-periphery structures, information and communication technology sector plays an important role. Authors such as Irvine W., Anderson A. R., Malecki E. J. and McQuaid R. W. turned their studies to develop the model in this perspective [30], [31], [32].

Castro S. B. S., Correia-da-Silva J. and Mossay P. had developed the pattern of Krugman taking into account a number of three regions. The authors concluded that the model with two regions favors the dispersion, while the model with three regions favors the concentration of economic activity [33].

4. Measuring peripherality

The researches in the area have stopped on the methods for measuring the peripherality through some indicators.

Copus A. K. divides the indicators for measuring the peripherality into two groups [34]:

- the first group includes the indicators that estimates the "economic potential" or "market potential". In this case, it is assumed that the potential for economic activity for any location is a function both of its proximity to other economic centers as well as the economic dimension. The analogy with the law of gravity is explained by

the fact that the influence of each center on the economic potential of a location is assumed to be directly proportional to the volume of economic activity and inversely proportional to the distance separating them.

- the second group includes indicators such as "travel time / costs" and "accessibility." This group of indicators has been developed greatly in recent years and there's even a "soft" that estimates the peripherality.

Spiekermann K. and Neubauer J. provide a summary of accessibility indicators as shown in Table 1.

Table no. 1 - Models of accessibility

Author	Generic type of indicator	Factors	Type of transport	Space
Keeble et al. (1982; 1988)	Potential	Road distance	Road	EU9 EU12
Lutter et al. (1992, 1993)	Daily transport costs	Transport time	Road, rail, air intermodal	EU12
Spiekermann and Wegener (1994, 1996)	The daily potential	Transport time	Rail	pan-Europe
Chatelus and Ulied (1995)	Daily transport costs	Transport costs	Road, rail, air intermodal	EU15, Norway, Switzerland
Gutierrez and Urbano (1995, 1996)	Transport costs	Transport time	Road, rail	EU12
Copus (1997, 1999)	Potential	Transport time	Road	EU15, Candidate Countries, Norway, Switzerland
Schürmann and Talaat (2000)	Potential	Transport time	Road	EU15, Candidate Countries

Source: adapting Spiekermann K. & Neubauer J. - *European Accessibility and Peripherality: Concepts, Models and Indicators*, Nordregio Working Paper, 2002

The most common index is the "European Peripherality Index" proposed by Schürmann C. & Talaat A. [35]. To note that in the context of a center-periphery structure may be taken into account a number of indicators and composite index designed to measure the disparities between regions.

5. Conclusion

In the literature there are a number of criticisms directed to the core-periphery pattern (authors like: Currie M. & Kubin I., Martin R. & Sunley P. etc). The main criticism is based on the fact that the model is becoming less and less applicable to the advanced economies, but remains valid as long as there are disparities between regions [36]. In his model, Krugman shows how a country can distinguish in a "center" industrialized and a "periphery" agricultural. The researches that followed led to the development of the model proposed by Krugman and the calculation of some indices for measuring the peripherality. Being developed by the research branch of geography, most indexes are calculated based on the "travel time/ costs" and "accessibility". Therefore, prove to be useful an economical approach for peripherality that can lead to the development of a composite index for measuring the peripherality.

6. Acknowledgment

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Mergers & Acquisitions Market in 2010

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Abstract

How well did the market of Mergers& Acquisitions in 2010? Who were the main players on the market? What were the key-figures of last year? What were the main sectors where most of mergers& acquisitions took place? The transactions issued were comparable with those from previous years? How is the European market of mergers& acquisitions influenced by the transactions from the global market?

This article is a summary of all the important figures that characterize the movements, actions, players, sound-names that made a difference on the mergers& acquisition market during previous year.

Key words: contracting market, IPO (initial public offering), deal, transaction

J.E.L. classification: G34

1. Introduction

The mergers and acquisitions market has melted in 2010. The Romanian market of mergers and acquisitions (M&A) shrank dramatically in 2010 compared with 2009, reveals a market report carried by the Capital Partners. The total volume of finalised transactions last year amounted 302 million euros, down by 71% compared to 2009, when the market was in amount of 1.045 billion euros, according to the investment bank Capital Partners. In terms of number of transactions, were concluded 72 agreements, down with 10% compared to 2009, when 80 deals were concluded. "I hope that 2011 will at least stabilize the situation, in terms of stopping the decline. The Romanian M&A market has contracted so much in these two years that if this trend continues, in 2011, the market would be almost insignificant in a regional context, let alone globally" said for

Wall-Street.ro, Mr. Doru Lionachescu, partner of Capital Partners, Investment House.

2. Worldwide, the M&A market rebounded in 2010

2.400 billion dollars - last year's global total amount of mergers and acquisitions. This represents 22.9% more than in 2009, marking the best evolution after 2008, according to annual statistics provided by Thomson Reuter's research. Emerging markets have generated a third of the market share, amounting to 806.3 billion U.S. dollars, with 76% more than previous year. The four most important transactions of last year topped 20 billion dollars each. The largest deal was the acquisition of Carso Global Telecom by the America Movil SAB, valued at 27 billion dollars. Second place in the ranking is occupied by the transaction by which GDF Suez Energy International was bought by International Power PLC for \$ 25 billion. CenturyLink Inc. paid \$ 22,100,000,000 for Qwest Communications and Weather Investments bought VimpelCom for 20.6 billion dollars, ranking 4th in this top. Goldman Sachs has regained its first place in the top consulting companies of M&A, according to Thomson Reuters, ahead of the Morgan Stanley ranked third followed by JP Morgan Chase. Capital markets activity shrank by 2% to 854.2 billion U.S. dollars, registering an accelerated pace last quarter, Thomson Reuters also said.

On the IPO segment were also recorded top levels. In this sector were highlighted GM's and AIA Group initial public offerings, with 23, respectively 20.5 billion U.S. dollars. In the fourth quarter IPOs totalled 122.2 billion U.S. dollars globally and totalled over 2010, 269.4 billion U.S. dollars, twice more than in 2009. The highest value of IPOs was attracted to companies that have

initiated a public offering in China, the 471 IPOs have generated 104.4 billion dollars, the amount exceeds U.S. and Europe combined.

3. M&A decreased by 32% in 2010 to 1.6 billion euros

The value of closed deals last year decreased by 32% compared to 2009, rising to about 1.6 billion euros, while their number increased by 12% to 212 deals, according to DealWatch Emerging Europe M&A Report 2010. Most attractive sectors for investors last year were trade, that recorded 41 deals, followed by industry with 39 deals. The same sectors were the top ranking in terms of trading value, the industrial sector being the first with 610 million euros and trading with 370 million euro.

The largest transaction of 2010 was that the Romanian state, through the Ministry of Finance has become the shareholder of Rompetrol, owning 44.7% of the capital, after Rompetrol shareholders decided to convert the bonds into shares worth 464 million euro. Another significant transaction was the acquisition of Plus Discount stores by German retailer Lidl for an estimated \$ 200 million. In third place was the increase in capital worth 118 million euros made by Garanti Bank in the company which owned financial services control firms Motoractive and IFN Ralfi Domenia. According to DealWatch consultants specialized in transactions such as mergers and acquisitions, 2011 is expected to bring an improvement in the number of transactions and mentioned as one of the renewable energy sectors with significant potential. However, not all are very optimistic regarding the return of the overall M&A activity and believes that large transactions are still to come.

4. Emerging markets in Europe brought 3164 transactions

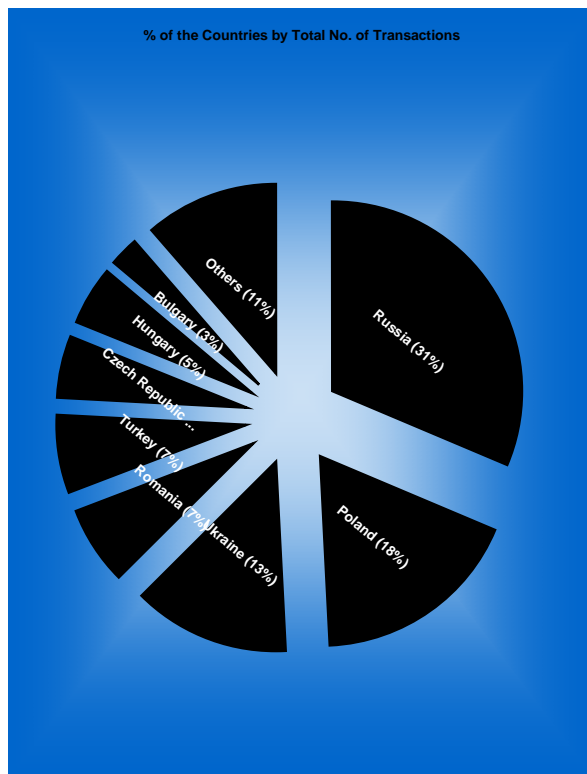
The number of mergers and acquisitions in Central and South-East Europe in 2010 grew by 7.7% to 3164 transactions, according to Emerging Europe DealWatch M&A Report 2010.

In 2010, the most dynamic sector, both on the number of transactions and in terms of value was the industry with 578 deals and a total of 34 billion euros, followed by Finance and Insurance with a value of about 25 billion euros. The most intense M&A activity in the region, both in terms of number of transactions, and their value was registered in Russia, which contributed 31.3% of the total number of transactions and the total value of 57.8% . Poland came in second place with 18% of total transactions and 14.8% in value. Third place was taken by Ukraine in terms of number of transactions by 13.3%, and Turkey in terms of trading value, 14.4% of the total. It can, also, be found that the average value per transaction diminished almost by half, from around 8.2 million euros in the first half of last year to 4.2 million at year end. In terms of distribution by industry, most transactions (11) were made in the FMCG segment, followed by IT&C (10 transactions) and financial services transactions in September.

Mr. Lionachescu Doru² states that a possible slippage in the relationship with international investors would kill the market. Otherwise, says the investment banker, a negative perception of Romania in the context of lack of investment interest for Europe in general is so strong that two or three specific measures of the Government would be totally inadequate. "It takes a radically different approach to relations between Romania and potential foreign investors, and this view now seems very far."

Currently, the investment house Capital Partners is working at a normal pace compared to last two years, about six active warrants, but crucial issues remain the same: working long duration and uncertainty of completion.

The Romanian M&A market was in decline after the first semester of last year, during which the total volume of closed transactions amounted 228 million Euros, meaning a decline of 8%.



Source: www.dealwatch.com

In the fourth quarter of 2010 were signed deals worth 52 million Euros after nine months when, in September, the Capital Partners Report revealed a total volume of 250 million Euros. The methodology used by Capital Partners is a standard one, meaning they are considered only announced transactions, which are allocated to the month in which they were officially announced, so do not count estimates of amounts and unconfirmed rumours.

5. The value of global M&A market in 2010: \$ 2.400 billion

2400 billion dollars - last year amount of mergers and acquisitions globally, 22.9% more than in 2009, marking the best evolution after 2008, according to annual statistics provided by Thomson Reuters quoted by foxbusiness.com. Emerging markets have generated a third of market share, amounting to 806.3 billion U.S. dollars, with 76% more than the previous year. The four most important transactions of last year topped 20 billion dollars each. The largest was the acquisition by America Movil

SAB of Carso Global Telecom, a transaction valued at 27 billion dollars.

6. The situation in the financial banking system

The stock of loans has increased slightly since the beginning of 2010, by 4.7% in local currency and 3.3% in Euros, driven by the foreign lending (8.3% up in Euros). Nonetheless, the stock of bank loans has remained more or less constant since the end of 2008, when the credit crunch occurred, and unblocking lending is broadly seen as paving the way to economic expansion. In our view however, broadening the financial intermediation mechanism is also needed in order to improve the resources' optimization. In regard to the deadlock on the credit market, both lenders and investors have visible problems in adjusting to the new situation.

While the banks have not settled their bad loans problem, investors are very reluctant to take risks. None of them seems however to have adhered to the low-margin strategies that will be needed on medium to long term. The convergence-driven logic of doing business in Romania before the credit crunch in 2008 was an inflationary logic of high profit margins and high interest rates.

At that time, sustainable, low-risk businesses were generally discarded by loan officers in favor of high profit deals that proved high risk ex-post. This resulted in a poor quality of the investments in the years before the credit crunch. For various reasons including but not limited to lower potential growth rate at home, currency wars and sustainability, bankers will have to reconsider their lending policies and investors also need to focus quality sustainable projects. The Romanian bank's aggregated loss diminished to EUR 55mn) from EUR 150mn in Q2, local media reported quoting central bank governor Nicolae Cinteza³ in late October. The majority of the large banks generated profits in the quarter and the problems accumulate in the region of smaller banks.

However critical might seem banks' financial circumstances at this moment, the Non-Bank Financial Institutions, namely leasing companies and consumer finance firms, have fared even worse last year. The

good news for the pension system is that the second pillar, namely the compulsory private pensions, are not being dismantled as it just happened in Hungary and Bulgaria. The mandatory and voluntary pension funds generated average yields of 15.1% and 11.5%, respectively, as at end-2010. The premium income of the domestic insurance market decreased by 5% in local currency or 4% in Euros to RON 6.3bn (EUR 1.5bn) in January September⁵, market surveillance body CSA said. The general government deficit narrowed by 8.6% nominally to RON 33.3bn (EUR 7.8bn) in 2010, or 6.5% of the estimated GDP down from 7.4% in 2009, revealed the preliminary data from the ministry of finance.

The financial services also face problems in terms of activity (volume of lending) and profitability. The stock of total bank loans expressed in Euros has hovered between EUR 48-49bn during the whole year, the new loans hardly covering the repayments. The stock of overdue payments on bank loans however kept rising sharply, by 104% to reach 7.8% of the total stock of bank loans up from 4% one year earlier. Nonetheless, the financial system's stability remains sound thanks to large profits cashed by banks in the past years and to an IMF-supervised agreement of the central bank with the foreign banks operating in Romania under which parent financial groups maintain their exposure.

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Data Distribution Techniques in Distributed Databases

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Abstract

The distributed databases are fundamental elements of the informatics systems contained in the infrastructure of an economic organization with offices distributed in various locations around the world.

This paper presents the techniques by which a distributed database management system provides data distribution. For this, there are described fragmentation and data replication methods. The aim of data replication is to improve performance and to protect the availability of applications.

Key words: distributed database, fragmentation, replication, methods.

J.E.L. classification: C61, C88, L21.

1. Introduction

The distributed database approach, as basic elements of integrated informatics systems in an economic organization, must consider three important trends that redefine their role in the economic applications:

- **The Internet** - the medium that connects in real-time key players: producers, sellers, distributors and customers.

- **The market globalization** - the business environment requires storage and processing of large databases distributed in all geographic locations involved in a particular activity or economic process.

- The transformation of industrialized countries in **information societies** (information economies) emphasizes the importance of efficient informatics and communication systems on top of which the distributed databases play the decisive role.

A **distributed database** (DDB) is a collection of multiple logically interrelated databases that are located in the nodes of a computers network. Specifically, a DDB is a

collection of distributed sites interconnected by a communication network.

The distributed database management (DDBMS) is the software that ensures working with DDB and supplies an access mechanism which makes their distribution transparent to all users.

To ensure compliance with **the DDB's specific objectives** such as: increase of system reliability and data availability, decentralization and better use of system resources and increase of system adaptability to changes in organizational structure, the DDB design aims to follow some *principles*:

- *Maximizing local processing of data* can be done by placing data closer to the applications that require them. In a properly designed DDB approximately 90% of the total data should be locally accessed and only 10% from remote locations.

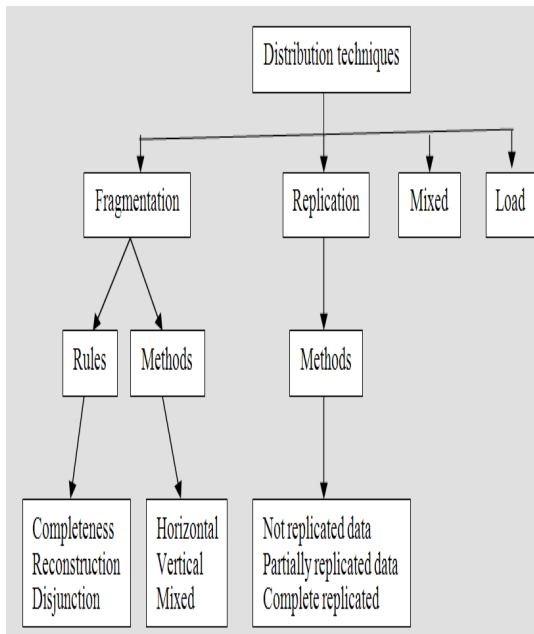
- *Providing a high level of data security and availability* can be done by making data replication to numerous sites. In this way, the system can use an alternative copy when the one which should have been accessed under regular circumstances is not available.

- *Parallel data processing* can maximize the use of CPU processing power for each station node.

2. Techniques for data distribution

Techniques by which a DDBMS ensure the distribution of data are represented in Figure 1: fragmentation, replication, mixed distribution, load distribution.

Figure 1: Distribution techniques



2.1. Distribution by fragmentation

Distribution by fragmentation is the operation of logical decomposition of global collections in disjoint parts called fragments, by using special operators.

Fragmentation is the partitioning of a global relation R in fragments R_1, R_2, \dots, R_n , which contain enough information in order to reconstruct the original relation R [5].

To achieve fragmentation DDBMS must respect certain rules and methods.

The rules which must be accomplished by fragmentation are:

- *completeness*: means that the entire global relationship should be partitioned into fragments;
- *reconstruction*: means that in any case it must be possible to reconstruct the global relationship from its fragments;
- *disjunction*: means that the fragments must be disjunctive, so that data replication can be controlled explicitly at data allocation level.

The methods that can be used for fragmentation are:

- **horizontal** signifies that decomposition of global collection in fragments is done by extracting a set of records while keeping all fields of the initial collection. In relational terms a horizontal fragment amounts to a subset of the rows of a table [1]

- **vertical** signifies that decomposition of global collection in fragments is made by extracting a set of fields while maintaining all records of the original collection.

- **mixed** means that decomposition of global collection in fragments is made by successively applying the horizontal and vertical methods.

2.2. Distribution by replication

Distribution through replication is the operation of storing portions from a database, as copies, on multiple nodes on a network. If a user updates a local copy then DDBMS automatically updates all copies of that data.

Replication is a process that consists in making and distributing copies of data between different places, at remote or mobile users, by using Internet. In addition, allows changes to be propagated consistently to the relevant copies. Distribution of these replicas aims to ensure local data processing in order to maximize efficiency and reduce communication costs. Furthermore, replication provides more reliability, minimizes the chance of total data loss, and greatly improves disaster recovery [3].

Replication improves performance and protects availability of applications because there always is an alternative access path to data. The application can run even if a local server should fail, but other servers with replicated databases remain accessible. It also increases system security and improves speed of data processing operations.

The methods that can be used for replication (Table 1) are:

- **not replicated** data means that DDBMS allocates space for some data on a single node from a computer network. The characteristics of this method are: minimal redundancy, data access concurrency is maximum, update time is small and retrieval time is great;
- **partially replicated** data means that DDBMS allocates for a part of data a single copy on a computer, and for another part of data multiple copies on multiple computers on the network. The characteristics of this method are: redundancy is increased, concurrency access to data is decreased, update and retrieval time is medium;
- **complete replicated** data, means that DDBMS allocates for the entire database

multiple copies on different computers on the network. The characteristics of this method are: redundancy is high, concurrency access to data is minimal, the time update is great and retrieval time is small.

Table 1: Methods of data replication

	Not replicated	Complete replicated	Partially replicated
Data consistency	Large	Small	Small
Storage costs	Small	Large	Medium
Reliability and availability	Small	Large	Medium
Update speed	Medium	Small	Small
Communication costs	Large	Large	Small
Redundant	Small	Large	Medium
Concurrency access to data	Large	Small	Medium
Update time	Small	Large	Medium
Retrieval time	Large	Small	Medium

The replication of a fragment R_i at j station, formula (1), is justified if the fragment allocation cost is less than the cost of remote accessing the applications k from j station to other copies of the fragment found on other stations j' ($j' \neq j$):

$$C_{ij} < \sum_k d_{kij'} \quad (1)$$

The replication is a solution for a distributed database environment when we need:

- to copy and distribute the data to one or more places;
- to distribute the copies of the data on a scheduled basis;
- when needed, to allow more users to make changes, then send data changes together, and even to resolve potentially conflicts;
- to build applications with data which can be used in online or offline environments;
- to build Web applications in which the users can access large volumes of data.

An important aspect is that replication does not usually involve the entire database (in which case we are dealing with a full replication). The most common case is to replicate a table, but is often used replication of data subsets from a table or more tables, which raises even more the complexity level of replication. Replication refers not only to data distribution, but also to processing distribution. Distribution of these replicas must ensure that the data processing is done locally [2].

2.3. Mixed distribution

Mixed distribution is the operation of successively applying fragmentation and replication for the same global data collection. This technique takes advantage of the other two, but it is more difficult to implement. The fragmentation and the replication can be combined: A relationship can be partitioned into several pieces and can have multiple replicas of each fragment [4].

2.4. Distribution by load

The load distribution is a scheduled copy operation of an entire centralized database or of a portion of a centralized database on local nodes. It is the simplest technique and is used when data are stable (not changing rapidly) or when not all users need to have access to the latest data.

3. Conclusions

The use of distributed databases in the economic environment needs to ensure both improved access to information and rapid data collection. The fragmentation operation for a database increases the system security and minimizes system response time by increasing the parallelism. Replication improves performance and protects applications by offering data availability, increases system security and improves speed of data processing operations.

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Distributed Transactions in Transnational Companies

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Abstract

The present society is without any doubt an information society. The implementation of complex informatics applications needed to support the various organizations, most of them with geographically distributed offices, resulted in the need for distributed database systems capable to ensure high efficiency and greater flexibility.

This paper describes distributed transactions used in distributed database systems with their properties and operations. The aim of a distributed transaction is to ensure data concurrency and data consistency for all the users of the database.

Key words: distributed databases, distributed transactions, two-phase commit protocol, concurrency control.

J.E.L. classification: C88, L21.

1. Introduction

The world economy is a system composed of fundamental components - national economies, transnational corporations, interconnected economic organizations, and derivatives - the world division of labor, international economic relations, the global market. The derivative components appeared as a result of the action of the fundamental components, together determining the evolution and dynamics of the economy and global trends.

Distributed databases have appeared as a natural consequence of the fact that most of the economic organizations in expansion have offices in different locations distributed around the world.

A **distributed database** is a set of databases on several computers that is seen by the application as a single database (located on a single computer). Fragments may be replicated. Every database must at

least support the ability to "create" new data content (store new data values in the database) and the ability to retrieve existing data content [3].

A **distributed database (DDB)** is a collection of logically interrelated data which are physically distributed on computers (nodes) over a network. Every computer in the network has the autonomy to process local applications. Also, each computer participates in the execution stage of at least one global application that requires accessing data from multiple computers [2].

In a distributed database located in multiple nodes of a network, access to data objects is usually done through transactions.

The transactions are logical groups of SQL (Structured Query Language) instructions. Each transaction ends with either a *finish* or a *rolling back* result. *Finish* result to permanently save of database changes made by transactions. *Rolling back* cancels all database modifications made by transaction.

The transaction management ensures the concurrency and consistency of data for all database users. In the absence of transaction management, data quality and accuracy would be compromised, and the database would become almost unusable.

The synchronization of access mechanisms applied in order to maintain database integrity is called **concurrency control**.

2. Distributed queries

A user interacts with the database by providing read and write requests in the database. These read and write operations are grouped into *transactions*.

The global users working with DDB would work as with a centralized database:

- make requests (global transactions);

- requests are assessed, decomposed and delivered to distributed execution supervisor;
- the supervisor send the requests to nodes in which there are local databases that will be queried;
- queried databases send replies to the supervisor.

The factors which affect the evaluation of queries in a distributed system are: the fragmentation details for relations, the location of these fragments / tables from the system, and connection speed of links used for communication of the *sites* from system (Rahimi & Haug, 2010).

2.1. The algorithm for achieving distributed queries

When sending a query which data processing located in different nodes a node will take the role of coordinator and other nodes will be cooperating nodes.

1. The coordinator node sends the message: *PREPARE* to the cooperating nodes;
2. The cooperating nodes are preparing for execution - reading and writing the updated or outdated data in local journals then send the message *READY* to the master node;
3. The master node sends the message *DO*;
4. The cooperating nodes run queries (inserted updates in DDB) then:
 - 4.1. If the system is correct functioning will send the message *DONE*;
 - 4.2. If the system does not function correctly will send the message *ABORT*, and *return*;
5. It restores the original database (the one before query release).

3. Distributed transactions

In a multi-user database system the procedures that cause changes to a database or retrieve data from the database are called transactions [1]

The transactions are atomic units that perform data update, by which a database goes from a coherent state into another coherent state.

A transaction allows the programmer to group one or more SQL (Structured Query

Language) instructions into a single, indivisible one. The transaction begins with the first executed SQL statement and ends when the effects of the transaction are saved or rolled back.

Definition. It's called a **transaction** a sequence of actions, executed by the user, which maintains a consistent and secure database. Intuitively, a transaction takes data from the database, performs some calculations and changes certain values of the database.

Example transaction:

```
begin transaction
extract (account1, amount);
submit (account2, amount);
updateHistory ();
commit transaction
```

If all operations succeed: COMMIT

If one operation fails: ROLLBACK

Running a successful transaction is not equivalent with finishing the transaction. A successful execution of a transaction means that SQL statements were executed without errors. However, the effects of successfully executed transactions may be rolled back as long as the transaction is not completed.

3.1. Transaction properties

To ensure integrity of the data, we require that the database system maintains the following properties of the transactions:

- **Atomicity:** the changes of a transaction status are atomic, meaning that they occur all or none.
- **Consistency:** a transaction constitutes a correct transformation of the database state.
- **Isolation:** even if the transactions are executed concurrently, each transaction T "sees" the execution of other transactions as being produced prior to T, or after T, but not both.
- **Durability:** once a transaction has been executed successfully (so it was "completed" or "committed"), the changes it has produced in the database state will not be affected by faults.

These properties are often called the **ACID** properties; the acronym is derived from the first letter of each of the four properties [4]- **A**tomicity, **C**onsistency, **I**solation, **D**urability.

3.2. Operations

1) **BEGIN TRANSACTION** marks the beginning of transaction execution. The transaction administrator records in a table the following:

- transaction identification number,
- the application of these transactions,
- transaction occurrence time, etc.

2) **READ** works as follows:

• if the access unit referenced is stored locally, management module returns its value,

• if the access unit referenced is not stored locally selects a copy of its and requires its value.

3) **WRITE** determine writing the access units (locally).

4) **COMMIT** announce the successful completion of the transaction, validation of changes made to the database and visibility of changes made for other transactions; from this point, changes cannot be canceled, or lost by a subsequent failure of the system (if the recovery mechanism of DBMS is working properly).

5) **ROLLBACK** (or **ABORT**) marks the failure of a transaction; any effect that it had on the database will be canceled. There are some systems in which after **ABORT** command the management module will indirectly try to recover a part of the actions of canceled transaction.

6) **UNDO**: is similar to rollback operation, but applies only to a single operation, not to an entire transaction.

7) **REDO**: specify that some operations of a transaction must be executed again in order to validate the entire transaction.

8) **END TRANSACTION** marks the end of execution for a transaction.

3.3. Two-phase commit protocol

The validation protocol in two phases (*two-phase commit*) - 2PC relates to a transaction that makes the database upgrade.

In the first phase:

The source (a database server) will require targets (other database systems) to prepare for executing the transaction and will wait for confirmation from them.

When all targets are prepared, the source will ask the execution of transaction and will wait for each target to report the success.

Each server responds with:

• The **READY** message, if it is prepared to validate the transaction; after this point, the server cannot cancel transaction unless the coordinator asks.

• The **REFUSE** message, if it cannot validate the transaction.

Phase two:

If coordinator received **READY** from all servers - all targets were successfully committed the transaction - it send **COMMIT** message to all servers and each server will validate the transaction.

If coordinator received **REFUSE** from at least one server, which means that at least one target cannot commit transaction, then it sends **ROLLBACK** to all servers and each server will cancel the transaction.

If all servers are working properly and there are no network errors, 2PC ensure atomic distributed validation for transactions.

However, taking into account the possibility of errors occurrence, other protocols are necessary to be used during validation process.

3.4. Concurrency control

If the transactions are serialized, time is wasted when the server waits for an input/output operation, or during other breaks. On the other hand, if the transactions are executed in parallel, we have concurrent transactions. Concurrency will increase efficiency, but also necessitate control mechanisms to be implemented because otherwise it can lead to database inconsistency.

Concurrency control in a database is the activity of coordinating transactions which operate in parallel, access shared data and can potentially interfere with each other. Concurrency control together with a recovery protocol guarantees the ACID properties of a transaction. The goal of concurrency control is to keep atomicity of transactions.

Concurrency control problem arises for the operation of reading (it is possible to allow multiple transactions to read data from a common data entity) and the operation of writing (do not allow many transactions to write the same data entity).

There are two large categories of concurrency control:

- **Optimistic concurrency** - Delay in synchronization between transactions until the operations are completed. In this case, the conflicts are unlikely to happen but are visible only at the end of the operation, making the rollback operation more expensive.

- **Pessimistic concurrency** - potential concurrent execution of transactions is synchronized during the execution cycle. The locks are more probable but, because they are visible, the cost of the rollback operation is minimized.

Distributed transactions provide consistent execution units which group different operations in different nodes and keep the database consistent. *Two-phase commit* protocol 2PC ensures transaction completeness and consistency. For large distributed transactions involving different nodes there is the solution of decomposing these transactions in smaller units.

4. Conclusions

Distributed transactions provide consistent execution units which group different operations in different nodes and keep the database consistent. Two-phase commit protocol ensures transaction consistency and completeness. For distributed transactions and for large transactions, which involve different nodes, there is the solution to decompose these transactions in smaller units.

Following the demands of increasing availability, reliability and flexibility of database systems and the progress in database technology and communications, distributed database systems are now widespread. The process of creating a distributed database system is justified when performing with large databases, which provide support for most of the activities in an organization, or in case that are planned frequent extensions of existing informatics system.

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Theoretical and Practical Overview of ISO 26000 – Social Responsibility Application at the European Level

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Abstract

The present research paper aims to present the framework and the achieved progresses on the application of ISO 26000 – Social Responsibility standard at the level of the European countries. The paper is structured into five main parts, each one emphasizing a specific research objective: brief description of CSR and its voluntary character; comprehensive review of the main benefits that CSR brings on for the responsible companies; general presentation of ISO 26000; research on the computed analysis of ISO 26000 application at the European level; recommendations and conclusions. The innovative element is represented by the attempt to offer a macroeconomic computed approach on the main CSR key-drivers at the European level in order to identify the specific country-level progresses on the implementation of ISO 26000 associated core subjects and issues.

Key words: ISO 26000, Corporate Social Responsibility (CSR), Social Responsibility (SR), European countries, common framework

J.E.L. classification: M14.

1. Introduction

The present economic and social context – especially market by the globalization process of the last decades and the recent economic and financial crisis – puts a stronger emphasis on (corporate) social responsibility. The organizations, in general, and the companies, in particular, aiming at long-term profitability, operating efficiency and credibility are realizing that ethical and

socially responsible criteria should become an integral and strategic part of their business operations.

The European Multi-stakeholder Forum on CSR (EMF on CSR, 2004) defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders *on a voluntary basis*” [1, p. 3], putting a great emphasis on the not-mandated and not-compulsory character of CSR.

In this way, a voluntary international standard for offering guidance in terms of SR (common basic definitions, working methods and methods of evaluation) is a necessary instrument for the companies aiming to apply a common framework for implementing and evaluating their CSR policies.

2. Benefits of Adopting a Socially Responsible Behaviour

Theoretical and practical evidence show that organizations that involve themselves in socially responsible practices will gain competitive advantages. In a more pragmatic and economic views, the benefits for responsible companies are at least the following:

- Obtaining a social operational licence from the main stakeholders of the company, not just from the shareholders
- Harmonizing business practices with the expectations of all the stakeholders
- Increasing efficiency and cost reduction
- Achieving sustainable competitiveness: improving corporate image, reputation and brand; increasing buyer’s loyalty with respect to the seller; increasing the sales’ efficiency, productivity and quality; improving corporate financial performances

- Creating new business opportunities and winning a comparative advantage
- Differentiating from competitors and achieving production or commercialization brand loyalty
- Increasing possibilities of recruiting and retaining high quality employees
- Attracting and retaining high quality investors and business partners: increasing the shareholders' value; reducing the volatility of the shares; decreasing the cost of the capital; obtaining good access to socially responsible investment funds; reducing risks by adopting the best practices of the business partners
- Cooperating with local communities
- Avoiding crises due to CSR deviations and better managing operational and commercial risks
- Obtaining governmental support and avoiding stricter governmental regulations
- Building political capital [2].

3. General Presentation of ISO 26000 – Social Responsibility

The International Standard *ISO 26000 – Guidance on Social Responsibility* provides harmonized, globally relevant guidance for private and public sector organizations of all types based on international consensus among expert representatives of the main stakeholder groups from developed and developing countries, and so encourages the implementation of best practice in social responsibility worldwide [3, p. 3]. ISO 26000 emphasizes what organizations need to do in order to operate in a socially responsible way.

ISO 26000 is an international standard, but not a management system standard; it contains voluntary guidance, but not requirements; it is not being intended for third-party certification or for regulatory or contractual use.

In applying ISO 26000, it is advisable that an organization takes into consideration societal, environmental, legal, cultural, political and organizational diversity, as well as differences in economic conditions, while being consistent with international norms of behaviour [4, p. 3].

ISO 26000 offers guidance on the following elements (seven clauses and two annexes):

- Scope of ISO 26000 (*Clause 1*)
- Terms and definitions related to SR (*Clause 2*)
- Understanding SR: Background, factors, characteristics and trends of SR (*Clause 3*)
- Principles and practices relating to SR (*Clause 4*)
- Recognizing SR and engaging stakeholders (*Clause 5*)
- Core subjects and issues of SR (*Clause 6*, see Table 1)
- Integrating, implementing and promoting SR throughout an organization (*Clause 7*)
- Examples of voluntary initiatives and tools for SR (*Annex A*)
- Abbreviated terms (*Annex B*) [5, p. 5].

Table 1: Core subjects and issues of SR addressed in ISO 26000

Core subjects and issues
1. Core subject : Organizational governance
2. Core subject: Human rights
<i>Issue 1:</i> Due diligence
<i>Issue 2:</i> Human rights risk situations
<i>Issue 3:</i> Avoidance of complicity
<i>Issue 4:</i> Resolving grievances
<i>Issue 5:</i> Discrimination and vulnerable groups
<i>Issue 6:</i> Civil and political rights
<i>Issue 7:</i> Economic, social and cultural rights
<i>Issue 8:</i> Fundamental principles and rights at work
3. Core subject: Labour practices
<i>Issue 1:</i> Employment and employment relationships
<i>Issue 2:</i> Conditions of work and social protection
<i>Issue 3:</i> Social dialogue
<i>Issue 4:</i> Health and safety at work
<i>Issue 5:</i> Human development and training in the workplace
4. Core subject: The environment
<i>Issue 1:</i> Prevention of pollution
<i>Issue 2:</i> Sustainable resource use
<i>Issue 3:</i> Climate change mitigation and adaptation
<i>Issue 4:</i> Protection of the environment, biodiversity and restoration of natural habitats

5. Core subject: Fair operating practices
<i>Issue 1:</i> Anti-corruption
<i>Issue 2:</i> Responsible political involvement
<i>Issue 3:</i> Fair competition
<i>Issue 4:</i> Promoting social responsibility in the value chain
<i>Issue 5:</i> Respect for property rights
6. Core subject: Consumer issues
<i>Issue 1:</i> Fair marketing, factual and unbiased information and fair contractual practices
<i>Issue 2:</i> Protecting consumers' health and safety
<i>Issue 3:</i> Sustainable consumption
<i>Issue 4:</i> Consumer service, support, and complaint and dispute resolution
<i>Issue 5:</i> Consumer data protection and privacy
<i>Issue 6:</i> Access to essential services
<i>Issue 7:</i> Education and awareness
7. Core subject: Community involvement and development
<i>Issue 1:</i> Community involvement
<i>Issue 2:</i> Education and culture
<i>Issue 3:</i> Employment creation and skills development
<i>Issue 4:</i> Technology development and access
<i>Issue 5:</i> Wealth and income creation
<i>Issue 6:</i> Health
<i>Issue 7:</i> Social investment.

Source: ISO, *Discovering ISO 26000*, 2010, pp. 6-7.

The standard for SR came into being at the end of 2010 (November 2010). The ISO Working Group for Social Responsibility (ISO/WG SR) was formed by 450 participating experts and 210 observers from 83 ISO member countries as participating countries, 42 liaison organizations and 16 ISO member countries as observer countries. Each ISO member country that took part in the process was represented by a NSB (National Standards Body). Romania was an observer and it was represented by ASRO (Romanian Standards Association) [6, pp. 3-12].

The development process of ISO 26000 was special in a number of respects, particularly with regard to the number of participating countries (99 – the highest number ever in all ISO standards) and the efforts made to ensure the fair participation of developing countries (twin leadership between a developed and a developing country in the ISO/WG SR) [7].

4. Analysis of ISO 26000 Application at The European Level: Data, Methodology and Results

At the European level, the understanding of CSR is country specific and the adoption or implementation of ISO 26000 highly depends on the economic, social, cultural and political situations in different countries.

Taking into account the four components of CSR (economic, social, environmental and second-order requirements), a recent study (2008) conducted at the level of Central-Eastern Europe (CEE) and Western Europe (WE) countries emphasizes the fact that the economic dimension of CSR is the most important one for both CEE and WE companies. While WE companies rank second-order requirements (e.g.: transparency and participation, stakeholders' involvement, reflectivity, integration of the other three dimensions and intergenerational equity) second, CEE companies give environmental responsibility issues a considerably higher importance, especially in the last 10 years. Apart from this difference, the importance of the economic, social and second-order dimensions is almost identical for the surveyed CEE and WE companies. Generally speaking, WE countries tend to put the same emphasis on ecological and social issues [8, p. 30].

The purpose of the research that we are going to present is to analyse the progresses that different European countries made (computed macroeconomic approach based on corporate or organizational initiatives collected at the country-level) in order to accomplish the criteria and issues of ISO 26000.

Data: We collected and synthesized information about CSR trends, its key-drivers and current CSR focus in different European countries from the CSR Europe's publication (October 2010) "A Guide to CSR in Europe: Country Insights by CSR Europe's National Partner Organisations" [9].

Methodology: In order to obtain a clear view of the main focus on CSR key-drivers in European countries (see Table 2 and Table 3) and the progresses that countries made for adopting part of the issues presented in ISO 26000 standard, we tried to identify for each analysed country those specific ISO 26000 issues that are most frequent in the respective

country. The approach was a computed one, because the information was initially collected for the corporate level and then a national and regional pattern was identified. The common framework that we used for analysing the European countries was the one offered by ISO 26000. For the respective analysis we took into account only 22 European countries, not all of them members of the European Union: from the 24 countries presented and analysed in the CSR Europe's publication mentioned above we excluded Hungary and Scotland because we wanted to keep for the analysis only participative or observers countries in the elaboration process of ISO 26000 standard. The analysed countries were: Austria, Belgium, Croatia, Czech Republic, Finland, France, Germany, Greece, Republic of Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Serbia, Slovakia, Spain, Sweden, Switzerland, Turkey, and United Kingdom.

Table 2: Main focus on CSR key-drivers in European countries (part 1)

	A T	B E	C R	C Z	F I	F R	D E	G R	I R	I T	L U
1.		X		X		X					
2.							X				
2.1.							X				
2.2.			X				X				
2.3.							X				
2.4.							X				
2.5.		X				X	X	X	X	X	
2.6.			X		X		X	X	X	X	
2.7.			X		X		X	X	X	X	
2.8.		X	X		X	X	X	X	X	X	
3.			X				X		X	X	
3.1.			X		X		X	X	X		
3.2.			X		X		X	X	X		
3.3.			X				X	X	X		
3.4.			X				X	X	X		
3.5.		X	X		X	X	X		X	X	
4.							X				X
4.1.	X		X	X			X	X			X
4.2.	X	X					X				X
4.3.			X	X	X		X	X	X	X	X
4.4.			X	X			X	X			X
5.											
5.1.		X							X		
5.2.											
5.3.		X									
5.4.		X				X			X		
5.5.							X				
6.											
6.1.		X				X					
6.2.											

6.3.	X	X			X						X
6.4.		X				X					
6.5.		X									
6.6.											
6.7.		X				X					
7.				X		X	X				
7.1.		X		X		X	X		X		
7.2.		X	X	X		X	X				
7.3.		X	X	X	X	X	X		X	X	
7.4.				X		X	X				
7.5.		X		X		X	X		X		X
7.6.				X		X	X				
7.7.		X		X		X	X		X		X

Legend: AT = Austria; BE = Belgium; CR = Croatia; CZ = Czech Republic; FI = Finland; FR = France; DE = Germany; GR = Greece; IR = Republic of Ireland; IT = Italy; LU = Luxembourg.

Source: Authors' synthesis and adaptation using CSR Europe (2010, p. 6-87) and ISO 26000 information.

Table 3: Main focus on CSR key-drivers in European countries (part 2)

	N L	N W	P L	P T	S B	S K	E S	S W	S Z	T K	U K
1.						X	X				X
2.	X							X			
2.1.	X							X			
2.2.	X							X	X		
2.3.	X							X			
2.4.	X							X			
2.5.	X	X		X		X	X	X	X		
2.6.	X	X		X		X	X	X	X		
2.7.	X	X		X		X	X	X	X		
2.8.	X	X		X		X	X	X	X		
3.	X						X	X			
3.1.	X						X	X	X		
3.2.	X	X					X	X			
3.3.	X	X					X	X			
3.4.	X						X	X			
3.5.	X			X		X	X	X	X		
4.	X	X									
4.1.	X	X		X	X	X				X	
4.2.	X	X	X				X		X		
4.3.	X	X		X	X	X		X		X	
4.4.	X	X		X	X	X				X	
5.											
5.1.									X		
5.2.											
5.3.	X	X					X		X		
5.4.	X					X	X	X			
5.5.	X		X				X	X			
6.											
6.1.	X	X				X					
6.2.											
6.3.			X				X	X	X		
6.4.						X					

6.5.									X		
6.6.											
6.7.						X	X				
7.	X	X		X			X	X		X	X
7.1.	X	X	X	X	X	X	X	X	X	X	X
7.2.	X	X		X		X	X	X		X	X
7.3.	X	X		X	X		X	X	X	X	X
7.4.	X	X		X			X	X		X	X
7.5.	X	X	X	X	X		X	X	X	X	X
7.6.	X	X		X			X	X		X	X
7.7.	X	X	X	X			X	X	X	X	X

Legend: NL = Netherlands; NW = Norway; PL = Poland; PT = Portugal; SB = Serbia; SK = Slovakia; ES = Spain; SW = Sweden; SZ = Switzerland; TK = Turkey; UK = United Kingdom.

Source: Authors' synthesis and adaptation using CSR Europe (2010, p. 6-87) and ISO 26000 information.

Results: The two tables (Table 2 – part 1 and Table 3 – part 2) offer a synthetic image of CSR achievements on each of the analysed countries, based on the common framework offered by ISO 26000.

Important achievements were made by the analysed countries in what concerns the 4th and the 7th core subjects of ISO 26000, respectively “The environment” and “Community involvement and development”. Moreover, for the most developed countries and Nordic countries, a special focus is put on “Human rights” (2nd core subject) and “Labour practices” (3rd core subject), confirming the results of the study of Steurer and Konrad (2009, p. 31). As one can easily observe from the two tables presented above (part 1 and part 2), there are some countries (e.g.: Germany, Netherlands, Norway, Sweden, Switzerland and even Spain) that are considering almost all the core subjects and associated issues of CSR. At the same time, in the publication “A Guide to CSR in Europe”, France is one of the most active countries (besides Switzerland) in specifically promoting the ISO 26000 standard. On the other hand, there still are European countries that do not put a great emphasis on CSR (they have already included it into their public policies and it lost its voluntary character or they do not consider it so highly important compared with other economic priorities of the moment).

5. Recommendations and Conclusions

Although, in general, companies and countries tend to consider the economic responsibility of CSR as the most important component, a special focus should be put on “Fair operating practices” (5th core subject) and “Consumer issues” (6th core subject) for coming closer to the recommendations of ISO 26000 standard.

For increasing the efficiency of CSR, specific necessities should be addressed at corporate, sub-sector or sector level and not at national or regional level, because of the highly CSR context dependence.

Finally, the responsible companies should correlate their CSR practices with their main object of activity for achieving unique competitive advantages.

As a conclusion, especially in the last decade, the European countries made consistent progresses in what concerns the implementation of CSR practices and their inclusion in the core business activities. The appearance of ISO 26000 will offer them a higher support in implementing and reporting procedures, which will generate higher benefits for the responsible companies in the European countries.

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Comparative Study of Agro-Food Sector in Romania and EU-27

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Abstract

Inside European Union confronted with an unbearable still raising unemployment rate, with a difficult situation of GDP/capita in all EU-27, all European stakeholders are determined to reach the goals of Europe 2020 Strategy. Romania is on seventh position on EU-27 top of agricultural land. If until 2007 Romanian farmer organised his production by tradition and own needs, now he has to manage his production according to the existing demand, he is forced to produce for market, according to European model.

The paper presents a comparative analysis of the agro-food sector between Romania, EU-27, and six European countries. The analysis emphasizes the poor results of Romanian agriculture and represents the key point of elaborating some measurements that national stakeholders should assume.

The research was run based on documentation, synthesis of data, statistical analysis and comparative analysis.

Key words: agriculture, agricultural output, agricultural holdings, comparative analysis, farm labour force

J.E.L. classification: Q10

1. Introduction

European authorities are in an ongoing process of building a more competitive European economy. The question still resists: is still possible to obtain economic performance in such shaking world?

In his speech on 7th September 2010 in front of European Parliament in Strasbourg, the President of European Commission, José Manuel Durão Barroso, presented The State of the Union 2010. With this occasion, he mentioned five challenges for the Commission for 2011:

- “dealing with the economic crisis and governance;
- restoring growth for jobs by accelerating the Europe 2020 reform agenda;
- building and area of freedom, justice and security;
- launching negotiations for a modern EU budget;
- pulling our weight on the global stage.”

In an European Union confronted with an unbearable still raising unemployment rate, with a difficult situation for GDP/capita in all EU-27, all European stakeholders are determined to reach the 2020 Europe Strategy. But, this seems to be harder and harder, still the EU-27 unemployment rate was 9.5% in January 2011, compared with 9.6% in December 2010. It was 9.5% in January 2010, while between 2008 and September 2010, 63 million persons lost their jobs and the employment rate for 20 to 64 years was 69%. Plus, “contraction in GDP wiped out on average four years of growth” (*Annual Growth Survey: Summary of the economic analysis and messages*, Brussels, 12 January 2011).

In order to reach Europe 2020 objectives, the European Commission plans for 2011 and ahead involve:

- creation of “European Vacancies Monitor”
- elaboration of “Platform Against Poverty”
- providing 6,4 billion euro for FP 7 Programme, for both researchers and business, especially for SMEs which offer 2/3 of the EU jobs;
- promotion of Southern Corridor as a possibility to provide Europe’s energy supply security;
- development of a forward-looking agriculture in order to provide food security, sustainable management of

natural resources, and to fight against biodiversity loss.

Starting this goal of the Commission, I analyse and compared indicators of agriculture and agro-food sector in several countries, including Romania and EU-27.

2. Romanian agriculture and agro-food sector against some European best practice

Romania is on seventh position on EU-27 top of agricultural land, after Spain, France, Great Britain, Italy and Poland and the fifth position on EU-27 top of arable area, after Spain, France, Germany and Poland (www.madr.ro, accessed on 3rd of December 2010). Romanian rurality has a great importance within national economy, given its main characteristics: the wealthy of natural and human resources. Natural resources were used, as Romania has a long tradition in agriculture, its soil being used especially for cereals. Still, the economic performance of this sector is absolutely missing.

After 1989, Romania has known structural changes with major economic and social impact. Transition to market economy seems for Romania, somehow, an ongoing failure. Still, numerous laws and regulations were promulgated in order to regulate national economy and to support rural activities.

The EU integration represents for Romanian rurality and agriculture and their specific activities a decisive moment in order for them to modernise and become more competitive. If until 2007 Romanian farmer organised his production by tradition and own needs, now he has to manage his production according to the existing demand. Therefore, he is forced to produce for market, according to European model.

Step by step, once the pre-adhesion and structural funds were accessed, Romanian economy, in general, and agriculture, specially, ameliorated the values of the macroeconomic indicators.

Because the existing restrictions of Romanian rural area are so important, the rural economy is the weak chain of national economy. But the absolute potential of this area may be the start point of so much wished and expected development. And agriculture, the dominant part of this area, may be the focal point of this development.

On the other hand, EU agriculture has performance and competitiveness. The gross added value has considerable values, while this sector's contribution to GDP respects the structure of a healthy economy.

Table 1. Agricultural holdings in comparison

	Number of agricultural holdings (1 000)			Holdings with dairy cows (1 000)			Holdings with irrigable area (% of UAA)		
	2003	2005	2007	2003	2005	2007	2003	2005	2007
EU-27	1502.0	1448.2	1370.4						
BG	665.6	534.6	493.1	195.0	152.6	120.8	20.5	14.3	14.8
FR	614.0	567.1	527.4	113.9	103.9	93.1	17.3	17.8	18.0
DE	412.3	389.9	370.5	121.8	110.4	101.1	-		
HU	773.4	714.8	626.3	22.0	16.3	12.2	4.0	2.3	0.2
PL	2172.2	2476.5	2391.0	873.8	727.1	651.1	0.7	1.0	1.1
RO	4484.9	4256.2	3931.4	1204.9	1134.4	1012.4	5.6	3.4	2.6
ES	1140.7	1079.4	1043.9	51.0	42.4	37.3	47.5	46.1	45.3

Source: *Europe in figures, Eurostat yearbook 2010*,
http://epp.eurostat.ec.europa.eu/cache/ITY_OFF_PUB/KS-CD-10-220/EN/KS-CD-10-220-EN.PDF, accessed on 9th of March 2011

Romania has almost half (48%) of the total number of small agricultural holdings in EU-27, around 6.4 million. The small agricultural holdings have less than 1 ESU (European Size Unit, 1 ESU=1200 Euro" (www.insse.ro, accessed on 15th of March 2011). As response to this situation, both small agricultural holdings and commercial agricultural holdings in Romania increased its average surface, as shown in the following table.

Table 2. Average surface of agricultural holding in Romania, between 2002 and 2007

Agricultural holding	2002	2005	2007
Agricultural holding	3,1 ha	3,3 ha	3,5 ha
Small agricultural holding	2,3 ha	2,2 ha	1,7 ha
Commercial agricultural holding	270,5 ha	263,1 ha	274,4 ha

Source: www.insse.ro, accessed on 15th of March 2011

The total number of agricultural holdings decreased with 8,8% in EU-27 between 2003 and 2007, because of several structural changes in Estonia. In the same time, many of the commercial agricultural holdings in Portugal, Bulgaria and Hungary finished their activity and determined an importance diminution of the total EU-27 number of this type of holdings. Therefore, the total number of commercial agricultural holdings in EU-27 was 7,3 million in 2007.

The total farm labour force in EU-27 in 2007 was around 11,7 million persons, the majority of them, 92% were involved in the activity of commercial agricultural holdings.

Table 3. Farm labour force, 2007

	Total farm labour force (1 000 AWU) (1)	Regular farm labour force (% of total)	Full-time regular farm labour force (% of total)
UE - 27	11 693	92	34
Bulgaria	491	95	38
France	805	89	67
Germany	609	91	50
Hungary	403	97	25
Poland	2 263	97	34
Romania	2 205	93	4
Spain	968	82	42

Source: Europe in figures, Eurostat yearbook 2010, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-CD-10-220/EN/KS-CD-10-220-EN.PDF, accessed on 9th of March 2011

Romania's contribution to European total farm labour force is 18,8%, while Poland's contribution is 19,4%, France's is 6,89%. It is remarkable that the western countries gather

small population in this sector and accomplish superior economic results, as seen in Table 4.

Crop output and animal output represent the main parts of the agricultural output. The analysis took into consideration three years, 1998, 2003 and 2008. In all the studied countries, the crop output, the animal output and, obviously, the gross value added of the agriculture industry knew slightly small diminution in 2003 against 1998, except Romania and Spain. The 2008's values rose much higher than the other both analysed years. The most interesting fact is to see that Romania with its potential and advantages has such a small gross value added of the agricultural industry.

Table 4. Agricultural output at producer prices (mil eur), 2007

	Gross value added of the agricultural industry			Crop output			Animal output		
	1998	2003	2008	1998	2003	2008	1998	2003	2008
UE - 27	132898	131305	141207	150700	157453	195658	123116	123850	148914
BG	802	1532	1767	1315	1629	2437	658	1019	1347
FR	24947	21672	24584	31342	29623	36380	21959	21514	24574
DE	2064	10899	14376	18952	17067	24610	17883	18163	22113
HU	970	1727	2737	2241	2652	4566	2041	2224	2453
PL	5084	4036	5740	6295	5646	10034	5627	5500	9910
RO	5111	5547	7559	286	6885	12115	4285	3671	2223
ES	9760	23449	20427	18670	24136	24279	10828	12678	14280

Source: Europe in figures, Eurostat yearbook 2010,

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-CD-10-220/EN/KS-CD-10-220-EN.PDF, accessed on 9th of March 2011

Index of income from agricultural activity represents the real income of factors in agricultural activity per annual work unit (Europe in figures, Eurostat yearbook 2010, accessed on 9th of March). Year 2005 has the initial value. We may see that between 1998 and 2008 the income from agricultural activity knew superior values. This proves an increasing efficiency of the agricultural process. This is the case of Bulgaria, France, Germany, and Poland. Romania lost of its efficiency and obtain lower values of the income from agricultural activity.

Table 5. Index of income from agricultural activity (2005=100)

	1998	2003	2005	2006	2007	2008
Bulgaria	-	86.4	100	96.0	98.5	127.0
France	117.8	106.8	100	110.4	122.2	109.4
Germany	70.7	76.1	100	104.8	125.7	116.6
Hungary	92.8	63.0	100	111.7	120.0	142.4
Poland	69.3	58.5	100	110.4	135.1	111.3
Romania	104.6	106.9	100	99.3	78.8	101.2
Spain	106.4	123.1	100	95.6	100.5	98.0

Source: Europe in figures, Eurostat yearbook 2010,

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KB/CD-10-220/EN/KB-CD-10-220-EN.PDF, accessed on 9th of March 2011

In year 2008, the best value belongs to Hungary, while Spain has the lowest value of this indicator. Thus, the values diminished in 2008 against 2007, in the case of France, Germany, Poland and Spain. The Romania values just emphasize once again the situation of its sector. It is incapable of obtaining higher values in this sector, even if it has so many and important advantages.

3. Conclusion

The analysis demonstrates once again the lower economic performance of Romanian agriculture, while European countries improve their results each year. It is obviously that Romanian rurality and agriculture confront major challenges:

- a poor infrastructure of roads, railway, public services, water and canalization, modern and adapted information;
- a weak manifestation of entrepreneur spirit which determines a high unemployment rate and a fragile jobs' offer;
- an unbalanced access in time and space of pre-adhesion and structural funds which determines economic and social differences;
- a high subsistence and semi-subsistence sector of agricultural holdings;

- a poor endowment of those agricultural holdings with specific equipments;
- a high percentage of self-consumption especially within individual agricultural holdings;
- a high numeric difference between individual agricultural holdings and commercial holdings.

In order for the country to obtain superior results and truly articulate its policy, immediate intervention in the sector need to be accomplished. The local and national authorities should:

- analyse the local and regional situation and interfere with state support where it is the case;
- improve the absorption of national and European funds;
- support local, regional and national traditional products;
- boost the private-public partnerships to built up new business in the sector;
- enhance the cooperation between individual agricultural holdings in order to integrate the production;
- create a legal framework to stimulate young and educated professionals to accommodate in rural area;
- provide chances for technological and knowledge transfer between research and practical agriculture.

An integrated policy of Romanian authorities and a coherent effort of all stakeholders may conduct to superior results of this traditional Romanian sector. This should determine economic growth and social welfare.

This approach may lead to a better understanding and management of the Europe 2020 goals, according to European behaviour.

4. Acknowledgement

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Economical Questions Raised by the Last Economic Crisis

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Abstract

The present paper is a conclusion of several ideas and comments over the effects of the 2007-2009 economic crisis, revealed in mass media over the last sixth months. The main topics that authors considered are: A new professional code of ethics for economists is needed? There is a link between inequality and financial crisis? Which are the real understanding and knowledge about the financial system? How is the market viewed by the different companies? How the economic states influence the terrorism? How severe is the impact of weather over the economics? The authors must admit that they will not debate the presented subjects but emphasizes some aspects that will considered important.

In conclusion the authors considered that new policies, methods and new ways of defining and control economics should be used in order to observe and manage the global economic change.

Key words: crisis, code of ethics, growth, market.

J.E.L. classification: F01

1. Introduction

We consider this article more like a way to make known different point of view presented in specialized and known magazines like The Economist or Financial Times. The Romanian academic media must consider those views and develop policy and eventually regulation for preparing our country for the economic future.

There are new challenges, new threats and as we will see in this paper, present unknown issues that we must try to determine in order to avoid or be prepared for future crisis.

2. A New Professional Code of Ethics for Economists is Needed?

For the January 6th 2011 annual meeting of the American Economic Associations (AEA) close to 300 economists (among who will find George Akerlof – Nobel laureate and Christina Romer – heading Barrack Obama's Council of Economic Advisers) [1] sign a letter that urges the AEA to adopt a code of ethics for the economics profession.

The main issue of the code can be found in the conflict of interest that arises from the way that economist considered to express their opinion in matters that involved companies and industries with which they have financial interests.

There is no evidence that the economists' professional judgments are influenced by their financial interests. But questions regarding the way that the economist can offer their financial expertise reveals themselves.

The most common problem is that the non-academic affiliation of the economist is often unknown and what is more somehow disturbing is that economists rarely disclosure their affiliations.

Others (George DeMartino – University of Denver) [1] considered that many economists were too eager to impose the free-market policies ignoring the bases of economic theory.

The bottom line is that more and more voices demand for a change in how the ethics of economics are defined and applied.

3. There Is a Link Between the Inequality and the Financial Crisis?

Mr Raghuram Rajan, of the University of Chicago Booth School of Business, in his book "*Fault lines*", argues that the increased inequality – especially the political response to it – cause the financial crisis [5]. This was presented at this January meeting of the American Economic Association (AEA).

What is Mr Rajan logic to determine such an idea? The inequality starts from the technological progress that imposes the demands for skilled workers, because of the supply of skilled could not keep pace with the demand. This determines the gap of wages between them and the rest of the workforce. Here the politics intervene.

The politicians cannot let the poor and unskilled fell farther behind the skilled ones in the matter of level of living. And the easiest way to prop up the living standards were the credits for the poor. For example, American Fannie Mae and Freddie Mac were pressured to lend more to poorer people [5]. But this credit boom inflated the known housing bubble, whose collapse precipitated the financial crisis.

So according to Mr Rajna: "*well-intentioned political responses to the rise in inequality that many found disturbing ending up having devastating side effects*" [5].

But two prominent economists, Daron Acemoglu (Massachusetts Institute of Technology) and Edward Glaeser (Harvard University) considered Mr Rajna idea plausible but less flawless. Even so, Mr Acemoglu considers that there is a link, not causal, between the increasing inequality and the crisis.

So even not directly there is a link between the inequality and the financial crisis. And we have to consider that inequality is present anywhere in the world and looks to become more and more important.

This is important for Romania now because we are in the same case as such presented by Mr Rajna: there is a more and more inequality not only on wages grounds but even in standards of living.

4. Which Are the Real Understanding and Knowledge about the Financial System?

The policymakers today find themselves in almost the same situation as those from the Great Depression when America developed the national accounts and gross domestic product used for a better economy measure. Even that we have organizations with the goal to maintain financial stability, like European Systemic Risk Board or America's Financial Stability Oversight Council, the unknowns of crisis emerges from the current situation.

In order for a better control and an accurate view of the financial system the International Monetary Fund and the Financial Stability Board (FSB) defined new priorities.

- System-wide measures for borrowing activities and "maturity-mismatch";
- Links must be established between the major banks and the others organizations of the financial system;
- Determining data and information about the "non-bank financial firms that often slip below regulators' radar".

Also, a common reporting template was developed by the FSB in order to have a better view on the global banks and the exposure to different financial sector and national asset markets. The problem that can emerge from this is how to persuade the financial organizations to fill this template. Also there are legal issues and confidentiality that we should think about.

Other problems are imposed by the luck of data in certain financial sectors like the hedge funds, money-markets funds and over-the-counter derivatives.

But this huge amount of data will imply the necessary human and technical resources and also the intelligence to decide when and how to act.

5. How Is the Market Viewed by the Different Companies?

Who better can reveal the future situation of the financial market then two of the biggest financial firms like Goldman Sachs and Societe Generale (SocGen). Both kept meetings on January 17th in London.

Goldman Sachs team formally dressed and using book of graphs keep a long speech about a beautiful future. The SocGen team was dressed somewhere between "outward-bound course or a company disco" [5] used a small slide book which advise their clients to use for the future "umbrellas and gas masks" [5].

So here we have to different approaches of two very different predictions. While Goldman Sachs considered that the emerging economies (Brazil, Russia, India and China) will help a stronger than expected growth of global economy for this year, the Societe Generale outlook was fundamentally modified by the financial crisis of 2007-2008. In their view the central banks will try to keep the interest rate low so that asset prices will rise and the consumer confidence is restored. But this can result in another bubble and another bust.

So which group is right? How this views and outlooks will convince the investors? But more important how can be such a difference between the economic views of organizations from the same field?

6. How the Economic States Influence the Terrorism?

Barack Obama said: „Extremely poor societies ... provide optimal breeding ground for disease, terrorism and conflict" [4] in his speech in favor of more development aid to poor countries.

The idea is based on several conclusions made observing the last years of terrorism activities. The terrorist usually came from poor countries were the education systems are ill-financed and wrong implemented (ex. low literacy).

But people who don't have much to lose and generally are ill-educated can be found easily between the terrorist?

There is no evidence that sympathy for terrorism is greater among deprived people. But some argue that poverty could be at the root of terror even if the terrorist are nor themselves poor. [4]

Several research shows that poor countries or countries with poor literacy or countries were the economies are relatively stagnant did not produce more terrorists. And contrary to the expectations the suicide-attackers came not from very poor countries.

What link the poorest countries with the terrorism might be explained especially through the means of education. A certain level of education makes it more likely that that people will become more politicized. But this level of education isn't it in relationship with economic value of the country?

But even this consideration was modified in time. The terrorist organizations are recruiting more educated suicide-bombers for more important targets.

So considering that more educated terrorists are more effective means in the other words that the economic conditions can and does influence the terrorism effectiveness. A collection data (recorded by Esteban Klor – Hebrew University in Jerusalem and Messrs Benmelech and Berrebi) regarding the suicide-attackers between 2000 and 2006, determined that because of high unemployed rate in Palestine the terrorist organizations can recruit more educate, mature people.

Maybe the terrorism is not the best reason to promote the economic development in comparison with civil and political rights for example. But if we add to the terrorism the level of crime or the corruption we can definitely considered that the economic status of a country can influenced the peace even on global level.

7. How Severe Is the Impact of Weather Over the Economics?

The snowstorms and freezing weather in the week before last Christmas closed down many cities and airports from the eastern coast of America and much of the Europe. The economical statistical results of this winter phenomenon can be seen in numbers as follows:

- in Germany the country's industrial production shrank by 1.5% and the construction results decline with 24%;
- in Britain the Gross Domestic Product (GDP) fall by 0.5% for the last quarter of 2010 because of the December bad weather.

A British trade group – Federation of Small Businesses (FSB) estimate that the British economy lost £1.2 billion for each day of snow. The group based its calculation on the "one-fifth or so Britain's workers who

it reckons did not make it to the office, the factory or the building site" [3] during the snowy days.

Considering that the data are exaggerating and the calculus were wrong, we cannot deny the facts that the bad weather affects the economy. Also this is happening at the end of the economic crisis establishing the grounds for delaying the recovery. So even we can question the methods, the database or the time scale used for the statistics we should consider the consequences of this phenomenon. Because we are talking about the global economy the effects are seen not only on local area but also on other regions (ex. the Heathrow closing forecourts of terminals).

So the question is which can be done to avoid such financial problems?

8. Conclusions

As we can see above that the crisis of 2007-2008 raises several important questions about the way that the global economy is observed, measured and controlled. Also the crisis revealed situations and problems that the world of economics was not prepared for and how the first reactions at the first sign of crisis were more political than economical.

We considered that a new code of ethics for economists is needed and more important new means of measuring and controlling the global economy and its performers.

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A Single European Corporate Governance Model – An Overview

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Abstract

The major changes that took place in the last decades in the European economic environment, prompted by the deregulation of the financial markets, the European integration process and lately by the financial crisis started in 2007 have determined also shifts in the corporate governance models used at European level. In this context it is only fitting to raise the question about the existence of a convergence process toward a single European corporate governance model. Our research aim is to provide an overview of this subject through a qualitative analysis based on a comparative approach between the two main models of corporate governance that exist at the European level. Through this approach we will not only compare the two models but also underline the factors that contributed to a possible convergence of the two models and also the ones who tend to hinder any closeness.

Key words: corporate governance model, European Union, integration process, financial crisis

J.E.L. classification: G23, G30, G32

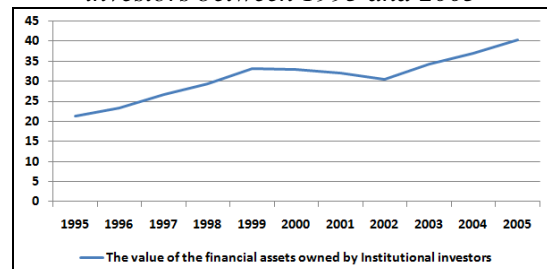
1. Introduction

Institutional investors have become starting with the 1980 and the Big Bang of the London Stock Exchange relevant international investors. The importance of this type of investors derives from their role in the dynamics of the international financial markets and the fact that they tend to own significant blocks of the shares in the firms in which they invest.

Pensions and mutual funds are the most active and important types of institutional investors on the international financial markets. Despite the fact that their product lines and investment processes tend to be different and must obey different types of rules and regulations, these investors tend to manifest a high level of investment homogeneity, mainly because their interests and financial demands tend to coincide on key issues. This is most relevant in the case of the reforms undertaken in the last decade at European level regarding corporate governance issues, as most of these were undertaken taking into consideration the specificities of the US mutual and pension funds, which represent the main institutional investors in the European financial markets.

The power of the institutional investors derives from their massive financial assets that they manage – approximately 40,329 billions of dollars in 2005 according to OECD data. Still, their geographical distribution tends to be very unbalanced as almost 51,84% of them are located in the US, while only 17,93% in Japan, 8,42% in the UK, 5,73% in France and 5,63% in Germany.

Graphic 1 – The evolution of the value of the financial assets owned by institutional investors between 1995 and 2005



Source: Own simulation based on OECD data

The academic literature identifies three major factors which have led to these developments. First of all, the world wide deregulation process that has characterised the mid 90 and the first years of the last decade has led to an unprecedented development of the financial markets, especially as a result of the removal of the barriers that hindered the free flow of the capitals across borders.

Secondly, the expansion of the western economies which has been mainly financed through an increase of the public deficit financed through the issuing of governmental bonds, which carried little risks, started at the end of the 1980. Taking advantage of the globalisation process, most of the European governments have considered the opportunity to finance restructuration and development programs through the financial markets and especially by attracting foreign investors. Nevertheless, also the massive privatisation programmes started in the eighties and continued through the nineties especially in Central and Eastern Europe have played a decisive role in attracting mutual and pension funds from the US on the European financial markets.

Nevertheless, the long time period in which financial assets rose, started in the mid 1990 and continued until the start of the financial downturn in 2007, represented for investor an incentive for an aggressive policy regarding their international portfolios. This evolution was also sustained by the favourable changes that occurred in the taxation policy regarding capital gains. On the other side, the high uncertainty regarding the way in which retirement pensions will be financed determined employees to increase their own saving plans. Also, the development of the stock markets in eastern and central Europe has been a key factor in the development of mutual funds in these markets, despite the fact that the investment tradition in these countries has been inhibited for a long period of time. A key element in these developments was played by the fact that the government has used the privatisation of the traditional infrastructures to attract foreign investors which have helped the development of the local stock markets, which have provided households with an alternative saving and investment opportunity beside the banking sector.

The development of institutional investors has triggered a shift in the way the capital of the major firms is distributed among shareholders. In France or Germany large blocks of share were held by friendly companies who through different combinations controlled these companies. As institutional investors have become more important, these blocks of share have been transferred from these friendly companies to institutional shareholders.

This trend has started in the 1990 and in many European countries corporate capital was transferred from the ownership of a few individual or strategic shareholders to large independent institutional investors, which tend to own a limited amount of these shares rather than large blocks. As an effect of these transformations cross-shareholdings and the use of dual classes of share has diminished considerably in Europe in the last two decades. Also, taking into account all these, many European Union countries have undertaken law reforms regarding corporate governance issues, to better suited the rules and regulations in place to the new environment and to raise the attractiveness of national companies to outside investors.

2. Different Models of Corporate Governance

If we take into consideration the definition of corporate governance than this relates with the separation between ownership and management in large corporations, underlying the way in which different interest groups or stakeholders are able to influence the corporate decision making process. If we take into consideration the two main classifications of the financial systems (systems dominated by the banks or systems dominated by the financial markets) then corporate governance presents two distinctive models – the shareholder model (which is based on external control exercised by shareholders) and the stakeholder model (which is based on internal control exercised by various parties which have an interest in that specific firm: e.g. local authorities, employees, creditors, banks, etc). The classification of corporate governance main seem stiff if it is reduced to only these models, as in reality there is a variety of models which are between the two extremes.

But still, the model of corporate governance adopted by the firm will tend to be focused on one of the two models, either by trying to maximize the market value of the firm or by satisfying the demands of all the parties involved.

2.1. The Shareholder Model Type

In regard to the shareholder model, this model tends to characterize especially the Anglo-Saxon countries. Despite the fact the corporate governance models from the US and the UK fall into this category they tend to be extremely different between them. Thus, the firm's main goal is to maximize the wealth of its shareholders and its market value represents most of the time the sole indicator of the management performances. In this context, corporate governance tends to be associated with the principal-agent theory. The managers tend to be very well remunerated and in a position of great power when opposed to the dispersed shareholders. Thus, the access to information tends to be very unequal between these two categories, as the costs that the principals (the shareholders) must cover in order to control and react to their agents' decisions (the management) can be very high.

In this case the main referees of the firm's performances are in the market. They are outsiders as they do not have direct access to the firm's information or can influence its decisions. In this situation the possible opportunistic behaviour of the management team is regulated by outside forces especially through the takeover market (Jensen & Meckling, 1976). In the case that the economic performances of the firm decline the shareholders have little interest at the individual level, or little means of actions, to intervene. Especially in the case of individual investors, these tend to have a relatively small stake in the company and thus, do not possess the necessary financial power to invest in monitoring operations.

In the case that these shareholders would invest in such activities there is the possibility that the benefits could be used by others freely (free riders). If the shareholders hold a diversified portfolio on a developed and liquid stock market then they have the possibility to sell their participation in these opaque firms and thus make them possible

targets for hostile takeovers. If this treatment seems real enough it could be a good incentive for the manager to rethink their strategies and concentrate more their activity in enhancing the wealth of the shareholders. If not, then the company could become the target of a raider or a competitor who will seek to acquire it and replace the current inefficient management team. The new owners will seek to raise the stockholders' value through strategic restructurings and by improving the operational efficiency of the firm.

2.2. The Stakeholder Model Type

In the case of the stakeholder model the capital structure of the firm is divided among very few stockholders who tend to have the control. In general these large stockholders (for example banks in Germany or financial and industrial corporations in France) tend to protect the management team against hostile takeovers. The managerial process is based on the fact that these privileged stockholders have access to inside information and can influence the decision-making process.

Despite the fact that Berle and Means (1932) tend to be presented as the first ones who developed the shareholder model, the fact that their thesis emphasises the importance of the firm's management to create not only added value for the shareholders but also for its employees, customers, suppliers and the community in which they are active, thus emphasising the core concepts of the stakeholder model. This model tends to be more familiar to continental European firms which tend to take into account more the impact that their decisions and actions influence different parties. Moreover the firm is considered to have a *de facto* obligation to these different involved parties.

One of the main characteristics of this model is represented by the fact that hostile takeovers are very rare and moreover long-term relationships tend to form between the firm and different financial institutions. In this case the financial market does not function as a transparent tool for the minority shareholders. Also, the company tends to become part of networks that will allow the development of long-term commercial relationships with both customers and suppliers. The typical example of this type of

relationships is represented by the German capitalism model, which relies on a tight relation between banks, industry, government, syndicates and the civil society.

3. Convergence Factors

Despite the fact that financial globalisation tends to manifest itself differently in every country the free circulation of capitals has become a common characteristic for this process. Alongside this, the adoption of the single European currency represents a strong factor of the integration and convergence process at least at EU level.

The globalisation process has been also accompanied by a series of structural changes. As a result of these, the investments management process has become more professional, even in the case of the banks and insurance companies from continental Europe. The asset management departments have been generally externalised allowing them to more pro-active and seek better investment opportunities (e.g. avoiding constrains that derive from the relationship between banks and industry in Germany or the existence of cross-holdings in the case of French companies). Also financial analysts have become more specialised, the country approach being gradually replaced by the sector approach.

We cannot argue that financial markets cannot impose their views and requests on firms, but in the last decades it has become clear that the latter are in no position to neglect the requirements that come from these markets (e.g. the need to use a standard international financial communication policy).

We must also take into consideration that the internationalisation of firm's does not represent a new phenomenon. Many corporations had been present at international level even at the beginning of the twentieth century. It is arguably that the first wave of the internationalisation process can be attributed to the entry strategies which allowed outside firms to break into local monopolies. Every national market has been independently regulated by the local governmental authorities in regard to the organisation of the competition. This characteristic was so deeply rooted that the European integration process has triggered o

series of major industrial and commercial reform in every country of the Union in regard to the competition laws and regulations (Ponssard, 1997).

Nowadays, the situation has changed allot. Firms, tend to develop more broad strategies, covering vaster geographical areas, sometimes taking a directly global approach. These approaches have created global interlinks and networks which have allowed not only the transfer of tangible and financial goods and assets but also of know-how and information. In this context, firms become more globally, developing little by little an internal culture that breaks away from the national customs and adopts more broad international standards (e.g. the board of directors tends to include foreign people, the human resources department adopts a global recruiting strategy, etc).

Nevertheless, political and governmental authorities, when faced whit these types of developments tend to adopt one of the two approaches: either they directly interfere in the process or try to become a part of the new regulatory forces, which manifest themselves this time not at national but at regional or international level (e.g. at European level or globally).

Despite all these the evolutions are still hesitant. There are still many cases where strong public reactions have lead to direct interventions from governmental authorities in the internal affairs of private firms (e.g. in the Danone case in France or Nokia in Germany). Despite all this, it has become obvious, especially in the aftermath of the financial crisis stated in 2007, that governmental bodies and political forces have the capability of organising themselves at an international level in order to counteract the deficiencies of the economic forces.

These changes have are having direct links to corporate governance issues, as they tend to: enable the establishment of standard prudential rules (which are mainly designed to prevent excessive risk taking by investors), enhance the usage of internationally harmonised accounting rules, leading, at least at the European level to a harmonisation process of the corporate laws and their adjacent fiscal policies and nevertheless the development of benchmarks which facilitate the analysis of the corporate governance evolution in different countries (e.g. the way

in which minority rights are enforced).

4. Divergent factors

There are also a series of factors which hinder the development of a common corporate governance model, mainly because these rules cannot be exported as they are from one country to another. One of the main reasons is represented by the differences that exist in the economical, juridical and social framework of each country, even in the European Union.

While the US system recognise that the social interest of the firm is one and the same as that of the shareholders, the European approach considers the firm a institution of stakeholders, in which all the involved parties (management, employees, suppliers, costumers, public authorities and civil society) have an interest that must be reflected in the organisation and behaviour of that firm.

Taking these into consideration we can argue that in the case of the Anglo-Saxon approach to corporate governance the rules and regulation are abundant and emancipated, underling exactly what the legal implications are while in the case of continental Europe the approach relies more on principals which need to be respected, following the belief that substance prevails over form.

5. Conclusions

Most of the academic literature emphasises that in any scenario the most efficient institutional framework will prevail in time. In the current economic environment the discussions about corporate governance models in the European Union are emphasising the pressures that the financial markets are putting on the abandoning of the stakeholder model, which tends to address the requests of a large panel of interested parties and the adoption of a shareholder model, which tends to be more focused only on the requests of that come from a single direction. Despite this, it has become obvious that the switch between the two models is not a simple matter of importing regulations, as most evolutions, even in the case of corporate governance tend to be related to path dependency issues. This underlines the fact

that the development of a common European corporate governance model is far from being a straight forward road, as the development and changes in corporate governance rules and regulations still depend in a great deal to national driven factors and decision makers.

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Methods of Forecasting the Market Evolution Case Study on the Romanian Insurance Market

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Abstract

There are various methods of evaluating and forecasting the evolution of a market, each method having advantages and disadvantages. In this paper we shall present and exemplify on the case of the Romanian insurance market some statistical methods: average growth method, linear trend method and Markov chain.

Key words: average growth method, linear trend method, Markov chain, insurance density, insurance penetration

J.E.L. classification: M31, G22

1. Introduction

The forecast constitutes the final goal of marketing research [1].

To forecast the market evolution we can choose from a large number of forecasting methods. The different methods have different degrees of complexity: from simple methods (intuitive judgments) to complex methods that use statistical techniques.

The theoretical literature and the practical use of forecasting methods have established there are two major categories of methods: quantitative and qualitative methods. The quantitative methods consider that variables are in permanent change, but history is repeating to a certain degree, and the best way of prediction relies on the identification of the liaison between the predicted variables and the time variable or between the predicted variables and other variables. [2]

The qualitative methods are based on the information obtained from specialists. Those methods are not based on the hypothesis of the constancy of the configuration, or on the

historical information about the variable studied, but the qualitative methods assume that in future there will be new, unexpected events from the environment of the studied variable. [3]

The quantitative methods of forecast can be classified function of the types of models used: dynamic series analysis methods and causal methods. The dynamic series analysis methods are endogenous methods that are based on the study of the past evolution of variables and on the identification of the specific of the series and on the extrapolation in the future of the data. The causal methods are exogenous methods that are assuming a cause-effect relation between the variables for which the forecast is realized and one or more independent variables. [4]

In the opinion of marketing specialists, the common forecasting techniques fall into five categories: executive judgment, surveys, time series analysis, correlations methods and market tests. [5]

The time series analysis supposes that the forecaster tries to discover a pattern in the historical data and the method assumes that the pattern will continue in the future.

The analysis of the insurance market can be realized using a series of indicators, among which the most important are: the volume of gross written premiums in insurance contracts, insurance penetration in the economy, the insurance density, the number of insurance contracts, the structure of the market, the number of insurance companies, the market share of insurance companies, the rate of market growth etc. [6]

In this paper, we have used in the prediction of the Romanian insurance market the following indicators: the volume of gross written premiums in insurance contracts, the insurance penetration in economy, the insurance density and the market structure

(by percentage in life insurance and general insurance).

The quantitative methods used in this paper for forecasting the insurance penetration in Romanian economy and the insurance density are the average growth method and the linear trend method.

The structural changes on the market can be analyzed and predicted by using the Markov chain method. [7] Therefore, in order to estimate the future structure of the Romanian market, we have used the Markov chain method.

2. The main characteristics of the insurance market in Romania

The insurance market in Romania is a developing market. Insurance demand is concentrated in areas of above-average economic activity, the supply is varied and the competition is increasing.

The evolution of the satisfied demand on this market is reflected by the evolution of the volume of gross written premiums in insurance contracts (see Table 1).

Table 1. Development of the volume of gross written premiums in insurance contracts 2002-2009

Years	Volume of gross written premiums (lei)	Volume of gross written premiums (mil. Euro)
2002	1,914,534,300	548.00
2003	2,673,816,291	650.29
2004	3,476,543,926	876.52
2005	4,417,165,819	1,201.26
2006	5,729,284,541	1,694.20
2007	7,175,789,699	2,033.83*
2008	8,936,286,505	2,242.48**
2009	8,869,746,957	2097.86***

Sources: [8], [9], [10], [11], [12], [13], [14], [15], [16], [17]

*Computed function of the leu/Euro exchange rate from the 31st December 2007: 3.582,

** Computed function of the leu/Euro exchange rate from the 31st December 2008: 3.985

*** Computed function of the leu/Euro exchange rate from the 31st December 2009: 4.228

The data from the Reports of CSA (Insurance Supervisory Commission) shows that between 2002 and 2008, the volume of gross written premiums in insurance contracts has increased from 548 million

Euros to 2,242.48 million Euros, but since 2009 the market decreased.

Till 2008 the market has increased, but due to the crises in 2009 compared to 2008 the volume of gross written premiums in insurance contracts has registered a real decrease of -5.24% (see Table 2).

Table 2. The growth of the volume of gross written premiums in insurance contracts 2002-2009

Years	Nominal growth compared to the previous year (1)	Inflation Rate (2)	Real Growth (3)=(1)-(2)
2002	-	17.8%	-
2003	39.60%	14.1%	22.40%
2004	30.02%	9.3%	18.96%
2005	27.07%	8.6%	17.01%
2006	29.70%	4.8%	23.68%
2007	25.25%	6.57%	17.53%
2008	24.53%	6.3%	17.15%
2009	- 0.74%	4.74%	-5.24%

Sources: [8], [9], [10], [11], [12], [13], [14], [15]

The evolution between 2002 and 2009 of an important indicator for the insurance market: the insurance penetration in the economy is presented in Table 3. In this period, the insurance penetration in the economy has recorded a slow growth. If in 1996, insurance penetration in the economy was of 0.51%, in 2002 the indicator exceeds the 1% level. In 2009, insurance penetration in the economy was calculated as being the gross written premiums from direct insurance-to-GDP ratio and it was of 1.8%.

Table 3. Development of insurance penetration in Romania in 2002-2009

Years	Gross written premiums (lei)	GDP (billion lei)	The degree of insurance penetration (%)
2002	1,914,534,300	151.2	1.27%
2003	2,673,816,291	189.1	1.41%
2004	3,476,543,926	238.7	1.46%
2005	4,417,165,819	287.2	1.54%
2006	5,729,284,541	342.4	1.67%
2007	7,175,789,699	404.7	1.77%
2008	8,936,286,505	504.9	1.77%
2009	8,869,746,957	491.3	1.80%

Sources: [8], [9], [10], [11], [12], [13], [14], [15]

Although recording an increase compared to the previous years, insurance penetration in the economy stays at a low level compared to values recorded in Central and Eastern European states (between 3 and 5%) or to the values recorded in developed countries in the European Union, of over 8%.

The gap compared to developed countries in the EU of insurance penetration in Romania is significant. To estimate the period necessary to reach the level of countries with a developed insurance market, we shall use the average growth and the trend methods.

Another important indicator for the insurance market is the insurance density. The insurance density represents the volume of gross written premiums in insurance contracts per person.

The evolution between 2002 and 2009 of the insurance density is presented in Table 4.

Table 4. Insurance density

Years	Population (million persons)	Insurance density (Euro/person)
2002	21.79	25.14
2003	21.73	29.92
2004	21.98	40.44
2005	23.50	55.59
2006	19.87	78.56
2007	20.19	94.23
2008	21.30	104.28
2009	21.46	97.75

Sources: [8], [9], [10], [11], [12], [13], [14], [15]

Till 2008 the insurance density has increased arriving at 104.28 Euro / capita, but in 2009, due to the economic crisis, the insurance density has registered a decrease.

3. The average growth method for forecasting insurance penetration

According to the average growth method, the annual average growth of insurance penetration was of 0.08% in the period 2002-2009.

We have used the following formulas:

$$\bar{\Delta} = (y_n - y_1) / (n - 1)$$

where:

$\bar{\Delta}$ = the average growth

y_n = insurance penetration in the last year

y_1 = insurance penetration in the first year

n = the number of years

$$\sigma = \sqrt{\frac{\sum (y_i - \tilde{y}_i)^2}{n}}$$

where:

σ = the average square deviation of the adjusted series compared to the real series

y_i = the real values of the series

\tilde{y}_i = the adjusted values of the series

$$\nu = \frac{\sigma}{\bar{y}} \cdot 100$$

where:

ν = the variation coefficient

\bar{y} = the average of the series = $\sum y_i / n$

Table 5. The average growth method – forecast regarding insurance penetration

Years	The degree of penetration y_i	\tilde{y}_i	$(y_i - \tilde{y}_i)^2$
2002	1.27	1.27	0.0000
2003	1.41	1.35	0.0036
2004	1.46	1.42	0.0016
2005	1.54	1.50	0.0016
2006	1.67	1.57	0.0100
2007	1.77	1.65	0.0144
2008	1.77	1.72	0.0025
2009	1.80	1.80	0.0000
Total	12.69		0.0337
2010		1.88	
2011		1.96	
2012		2.04	

Source: computed

$$\bar{\Delta} = (1.8 - 1.27) / 7 = 0.0757$$

$$\sigma = \sqrt{0.0337 / 8} = 0.0649$$

$$\bar{y} = 1.586$$

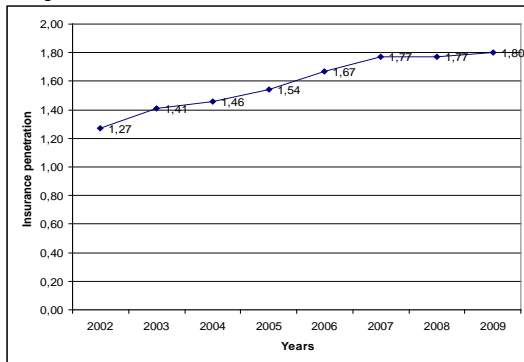
$$\nu = 4.09\% < 5\%$$

Using this method for forecasting, in 2011 the insurance penetration will be 1.96%, in 2012 of 2.04%, and it would follow that in approximately 77 years, we could reach, if the current trend continues, a 8% level of insurance penetration.

4. Trend method for forecasting insurance penetration

In the case of the *trend* method, to choose the function for adjusting we will first represent in a graphic the evolution of insurance penetration (see Figure 1).

Figure 1. The evolution of insurance penetration in Romania in 2002-2009



Sources for data: [8], [9], [10], [11], [12], [13], [14], [15]

According to the graphic representation, we shall use the linear trend method, the evolution of insurance penetration recording an approximately constant growth in the period analyzed.

Table 6. Linear trend method – forecasting insurance penetration

Years	y_i	x_i	x_i^2	$x_i y_i$	\tilde{y}_i	$(y_i - \tilde{y}_i)^2$
2002	1,27	-7	49	-8.89	1.31	0.0016
2003	1.41	-5	25	-7.05	1.39	0.0004
2004	1.46	-3	9	-4.38	1.47	0.0001
2005	1.54	-1	1	-1.54	1.55	0.0001
2006	1.67	1	1	1.67	1.62	0.0025
2007	1.77	3	9	5.31	1.70	0.0049
2008	1.77	5	25	8.85	1.78	0.0001
2009	1.80	7	49	12.6	1.86	0.0036
Total		0	168	6.57		0.0133
2010					1.94	
2011					2.01	
2012					2.09	

Source: computed

$$y_i = a x_i + b$$

where:

y_i = insurance penetration in the year „i”

x_i = values corresponding to the year „i”

a, b = coefficients

$$a = \sum x_i y_i / \sum x_i^2 \rightarrow a = 6.57/168 = 0.039$$

$$b = 1.586$$

$$\sigma = \sqrt{0.0133/8} = 0.04077$$

$$V = (0.04077/ 1.586)100 = 2.57\% < 5\%$$

The method adjusts well the data series and can be used for forecasting.

Function of the equation: $y_i = 0.039 \cdot x_i + 1.586$, the forecast of the insurance penetration indicates the following values: 2011: 2.01%, 2012: 2.09%. When forecasting by using this method we have reached the same conclusion as in the case of the previous method.

5. The average growth method for forecasting insurance density

The evolution between 2002 and 2009 of insurance density is presented in Table 7.

Table 7. The average growth method – forecast regarding insurance density

Years	Insurance density	\tilde{y}_i	$(y_i - \tilde{y}_i)^2$
2002	25.14	25.14	0.0000
2003	29.92	35.51	31.2481
2004	40.44	45.88	29.5936
2005	55.59	56.26	0.4489
2006	78.56	66.63	142.3249
2007	94.23	77.00	296.8729
2008	104.28	87.38	285.6100
2009	97.75	97.75	0.0000
Total	525.91		786.0948

Source: computed

Using the data from Table 7 we have obtained the following values:

$$\bar{\Delta} = (97.75 - 25.14) / 7 = 10.37$$

$$\sigma = \sqrt{786.0984 / 8} = 9.9127$$

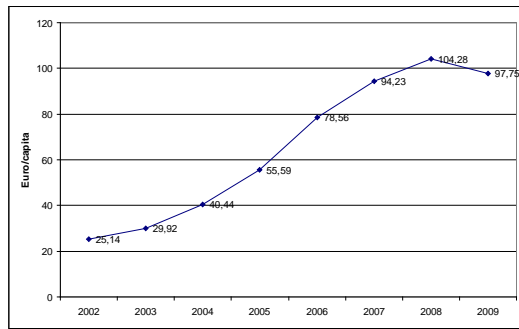
$$y = 65.73875$$

$$V = 15.1\%$$

6. Trend method for forecasting insurance density

In the case of the *trend* method, to choose the function for adjusting we will first represent in a graphic the evolution of insurance density (see Figure 2).

Figure 2. The evolution of insurance density in Romania in 2002-2009



Sources for data: [8], [9], [10], [11], [12], [13], [14], [15]

Table 8. Linear trend method – forecasting insurance density

Years	y_i	x_i	x_i^2	$x_i y_i$	\tilde{y}_i	$(y_i - \tilde{y}_i)^2$
2002	25.14	-7	49	-175.98	21.39	14.0625
2003	29.92	-5	25	-149.60	34.06	17.1396
2004	40.44	-3	9	-121.32	46.73	39.5641
2005	55.59	-1	1	-55.59	59.40	14.5161
2006	78.56	1	1	78.56	72.07	42.1201
2007	94.23	3	9	282.69	84.75	89.8704
2008	104.28	5	25	521.40	97.42	47.0596
2009	97.75	7	49	684.25	110.09	152.2756
Total		0	168	1064.41		416.608
2010					122.76	
2011					135.43	
2012					148.10	

Source: computed

$$a = 6.336$$

$$b = 65.739$$

$$\sigma = \sqrt{416.608/8} = 7.21637$$

$$V = 10.98\%$$

The forecast was made through the linear trend method because the smallest variation coefficient was obtained by using this method, reaching the following estimates of insurance density: approximately 135 Euro / person in 2011; 148 Euro / person in 2012.

7. Markov chain

Andrey Andreyevich Markov discovered a mathematical system that transits from one state to another in a manner similar to the chain. The statistical models were called after him and the Markov chains are frequently used in economy due to their numerous applications.

In Table 9 the evolution of life-insurance and general insurance on the Romanian market is presented. We can notice that the

most important contribution to the total volume of gross written premiums from insurance came, on the whole period analyzed, from general insurance. In 2009, the general insurance sector represents 81.64% of the total volume of written premiums and life insurance sector represents 18.36% of the total volume of written insurance premiums.

Table 9. Development of gross written premiums from life-insurance and general insurance 2003-2009

Years	Total insurance mil. Euro	Life Insurance (LI) %	General Insurance (GI) %
2002	548.00	22.96	77.04
2003	650.29	23.19	76.81
2004	876.52	21.98	78.54
2005	1,201.26	23.50	76.50
2006	1,694.20	19.87	80.13
2007	2,033.83	20.19	79.81
2008	2,242.48	20,90	79,10
2009	2097.86	18,36	81,64

Sources: [8], [9], [10], [11], [12], [13], [14], [15]

In order to study the evolution of the structure of the Romanian insurance market we have used statistical methods such as the Markov chain.

Table 10. Transition matrices 2007-2008

	LI	GI	2007	
LI	20.2	-	20.2	-
GI	0.7	79.1	79.8	0.7
2008	20.9	79.1	100.0	
	0.7	-		

Source: computed

Table 11. Transition matrices 2008-2009

	LI	GI	2008	
LI	18.4	2.5	20.9	2.5
GI	-	79.1	79.1	-
2009	18.4	81.6	100.0	
	-	2.5		

Source: computed

Table 12. Total transition matrix

	LI	GI	Total
LI	38.6	2.5	41.1
GI	0.7	158.2	158.9
Total	39.3	160.7	200.0

Source: computed

The transition probabilities matrix is:

$$\begin{pmatrix} 0.93917 & 0.06083 \\ 0.00441 & 0.99559 \end{pmatrix}$$

The calculation of the forecasting structure of the Romanian insurance market for 2011:

$$\begin{pmatrix} 0.93917 & 0.00441 \\ 0.06083 & 0.99559 \end{pmatrix} \begin{pmatrix} 18.4 \\ 81.6 \end{pmatrix} = \begin{pmatrix} 17.64 \\ 82.36 \end{pmatrix}$$

In conclusion, for 2011 the forecasted structure of the insurance market using the Markov chain method is: life insurance 17.64%, general insurance 82.36%.

8. Conclusion

The statistical methods presented in this paper have the advantage that using existing information concerning the Romanian insurance market we can create a picture of the possible future of this market, but they have a major disadvantage: the fact that they can not take into account the new elements that can change the course of events: the crises, the changes in legislation etc. For example, the coming into force on 15th July 2010 of the Law requiring the mandatory insurance, Law no 260/2008 [18] may influence the evolution and the structure of the Romanian insurance market. So, in order to have a more realistic picture of the possible future of this market, it is necessary to use not only quantitative methods of forecasting, but also qualitative methods (for example the Delphi method).

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The Implementation of the Phillips Curve to Romania's Realities

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Abstract

The Phillips curve represents a tool used in economics which presents the relationship between the rate of unemployment and the rate of inflation. Its analysis using the values recorded by these two indicators in Romania shows the existence of a link between these two rates only on short term.

The choice between these two macroeconomic imbalances is difficult given that there is no link between indicators to allow influencing one by means of another.

Key words: the Phillips curve, inflation, unemployment

J.E.L. classification: E24, E31

1. Introduction

The economist Alban William Phillips from New Zealand demonstrated by means of the Phillips curve the inverse relationship (but considered non-linear) between the variation of nominal salaries and the unemployment rate.

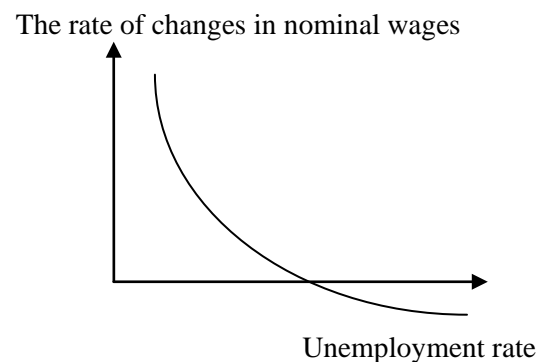
Phillips has made a graph with the help of which he highlighted the increase of the variation rate of nominal wages while reducing unemployment. The graph was made by using data from the UK economy specific to the 1861 – 1957 period. [4]

The Phillips curve was considered important for the macroeconomic models and an aid for the decision makers in choosing the macroeconomic policy, namely the choice between unemployment and inflation.

In fact, the Phillips curve demonstrates that:

- at high rates of unemployment, the nominal wages grow more slowly;
- at low rates of unemployment, the nominal wages grow faster.

Figure no. 1 The Phillips curve



Source: Stiglitz J., Walsh C., 2005, *Economie (Economics)*, Editura Economică, p. 625

The formula determined by Phillips is:

$$\Delta W_t = f(U)_t$$

where: ΔW_t – the rate of change of the nominal wage

U – the rate of unemployment

t – time

The above-mentioned statements have been supported starting from the belief that if unemployment is low, the employees will want higher wages, and if they do not receive them, they will not seek new better paid jobs. Conversely, if unemployment is high, the employees will accept a lower salary because the job offer is significantly higher than the labour demand and getting a new job is more difficult to achieve.

2. Content

Over time there have been economists who have brought changes to the idea presented by Phillips. Among them:

- Richard Lipsey brought changes to the Phillips curve, considering that the relationship is linear and not

nonlinear, as claimed by his predecessor.

- Monetarists, including Milton Friedman, have changed the formula established by Phillips, replacing the nominal salary with: the real salary, the expected rate of price growth (inflation) and then with the money supply growth rate. Monetarists have shown that we can take into account the Phillips curve only on short-term, because on the long term the relationship between unemployment and inflation is not preserved. [2]

Usually, for greater relevance, the Phillips curve is used employing the rate of inflation instead of the nominal wage growth. This change does not distort the meaning of the explanations, because between the nominal wage growth and the inflation rate there is a direct relationship, since the wage increases result in increases of the production cost, which is then reflected in the prices.

The choice between inflation and unemployment is a real dilemma, but by using the Phillips curve, inflation becomes the key in an economy, the government being in the position to choose between the two while establishing the macroeconomic policies. One can go on a low level of unemployment, but with the price of high inflation, or vice versa, a high level of unemployment is accepted, but with low inflation as a benefit.

We have already shown that the relationship established by Phillips between the variation of the nominal wages and the unemployment rate underwent various transformations. In this paper, we aim at analyzing taking the example of Romania's economy the possibility of the existence of a link between the unemployment rate and the inflation rate. If there is a relationship between the two, the next step is to establish its meaning.

In today's economy, both unemployment and inflation are macroeconomic imbalances with strong effects on the economic activity. The policy makers were in a real difficulty in trying to determine what is best for the Romanian economy, especially in the 1990 - 2000 period when changes happened quickly one after another.

Romania was confronted with high values of the inflation rate in the 90s, 1993 recorded the record by obtaining the value of 256.1%. Along with this year, our country recorded for another four years rates which have exceeded 100%, thus: in 1992 to 210.4%; in 1991 - 170.2%; in 1997 - 154.8%; in 1994 - 136.7%.

The unemployment rate has generally recorded values under two-digit, values that did not greatly vary in close periods of time. The highest recorded unemployment rate was in 1999 when it was 11.8%. Other years in which the values exceeded 10% are four in number, namely: in 1994 - 10.9%; in 2000 - 10.5%; and in 1993 and 1998 - 10.4%

Table no. 1 Unemployment and inflation in Romania

<i>Year</i>	<i>Unemployment rate</i>	<i>Inflation rate</i>
1991	3	170.2
1992	8.2	210.4
1993	10.4	256.1
1994	10.9	136.7
1995	9.5	32.3
1996	6.6	38.8
1997	8.9	154.8
1998	10.4	59.1
1999	11.8	45.8
2000	10.5	45.7
2001	8.8	34.5
2002	8.4	22.5
2003	7.4	15.3
2004	6.2	11.9
2005	5.9	9
2006	5.4	6.56
2007	4.1	4.84
2008	5.6	7.85
2009	7.8	5.6
2010	6.8	7.96

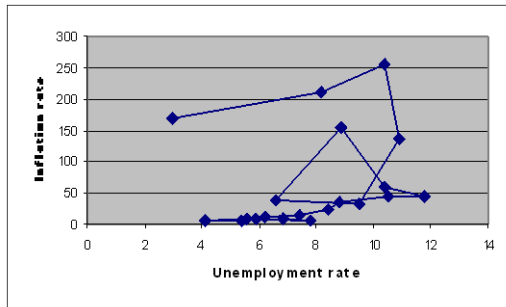
Source: www.insse.ro, www.mmuncii.ro/ro

The relationship between unemployment rate and inflation rate over the period analyzed (1990 - 2010) is shown in Graph no. 2, using the above mentioned values in Table no. 1.

In the analyzed period of time it is difficult to establish a certain relationship between the two macroeconomic imbalances. The meeting points related to unemployment and inflation are dispersed, only for the last

period one can notice certain proximity. Thus, on long term it is difficult to notice by the graphic method the existence of a certain relation of dependence between the two macroeconomic imbalances, not to mention to determine the intensity of the relationship between the two variables.

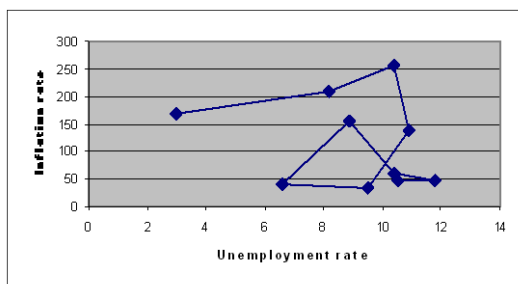
Graph no. 1 The unemployment – inflation relationship in Romania



Source: Data from table no. 1

Further we shall try to analyze the existence of a connection between the two variables, but within 10 years. To highlight this relationship we propose dividing the analyzed period in two segments, namely: 1991 - 2000 and 2001-2010.

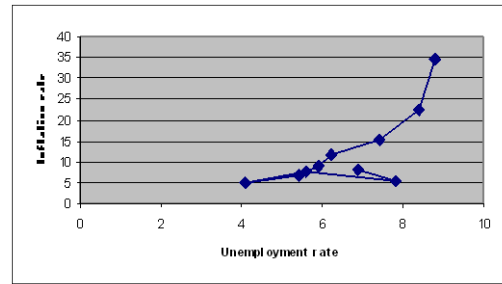
Graphic no. 2 Inflation and unemployment in Romania during 1991 – 2000



Source: Data from table no. 1

From graph number 2, we see that during 1991-2000 the values recorded by the inflation and unemployment rates are quite varied, which does not establish a relationship between the two macroeconomic imbalances. One can easily see that during the first three years both indicators have increasing values.

Graph no. 3 Inflation and unemployment in Romania during 2001 – 2010



Source: Data from table no. 1

For the last period 2001 - 2010, the trend is to order the points of intersection on the first bisector. Using the graphic method specific to the statistical correlation, the link between the two imbalances is a direct one. Thus we can see that the reduction of the unemployment rate led to the reduction of the inflation rate, a statement valid until 2008. Starting this year, it is obvious that the effects of the crisis make their presence felt in the Romanian economy, the recorded values do no longer comply with the direct link established at the beginning of the period. Thus we can see that in the last three years we can no longer establish again a connection between the two variables.

To complete the demonstration of the existence or non-existence of a link between the two variables, we shall also use another statistical method to highlight the relationship and the intensity of the connection between the phenomena.

The existence and the intensity of the connection between the two variables is determined by using one of the nonparametric methods for determining the relationship between the phenomena, namely the ranking method. Only the Spearman coefficient shall be calculated, which involves establishing the specific ranking for each variable separately.

The unemployment is regarded as being the independent variable, and it will still be denoted by X, and the inflation rate is considered to be the dependent variable and it will continue to be marked with Y.

The Spearman coefficient calculation formula is shown below.

$$C_s = 1 - \frac{6 \sum_{i=1}^n (Rx_i - Ry_i)^2}{n(n^2 - 1)}$$

Where: Rx_i – rank of X;
 Ry_i – rank of Y; n – number of pairs

By substituting in the formula the values calculated for the two variables, we determine the Spearman coefficient value for the period 1991-2000.

$$C_s = 1 - \frac{6 * 200}{10(10^2 - 1)} = -0,21$$

Thus, by the result obtained it is obvious that between the two indicators there is no connection, which means the unemployment rate could not influence the rate of inflation in the period under review.

By substituting in the formula the values calculated for the two variables, we determine the value of the Spearman coefficient and show the existence and intensity of the connection between the two variables for the period 2001-2010.

$$C_s = 1 - \frac{6 * 48}{10(10^2 - 1)} = 0,71$$

Following the calculations made the result is of 0.71, which demonstrates again that the connection between the variables is direct. The approaching to 1 shows the intensity of the link between the variables, so that between the unemployment rate and the inflation rate there is a strong connection.

3. Conclusions

The values recorded in Romania show that on long term it is difficult to establish a relationship between unemployment and inflation, but that nevertheless it can be demonstrated on a short period (the period from 2001 to 2010 being obvious).

The use of the Spearman coefficient completed the demonstration of the link between the unemployment rate and the inflation rate. We note that in the early stage of the analysis there is not this link between the two indicators, but it is demonstrated in the second part of the analyzed period. Certainly, the transition from one economic system to another has led to these various trends and in the first stage without connection between the indicators. After passing the transition period, the evolutions of the indicators are totally different, finding again the interdependence between them.

What is important to pursue in the next period is the evolution of the unemployment rate and of the inflation rate during the economic crisis, but also after passing it.

In conclusion, the idea that one can choose between inflation and unemployment has governed in the beginning when the Phillips curve was used in its first form. Over time it was concluded that one can not choose an imbalance in favour of another, but it takes macroeconomic policies to support and to monitor both imbalances, trying thus to reduce the negative effects or the influence on the population.

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Population Ageing and Its Effects on the Pension System

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Abstract

The economic crisis has emphasised the fragility of the pension system in Romania. The ageing tendency of our country's population completes the already bleak economic picture concerning the pension system. Romania's situation is not unique, it is found in most developed European states, in which the population ageing phenomenon is more pronounced. Accepting the imperfections of the pension system and finding the right solutions for the next period are the current requirements. At European level there appeared the concept concerning the implementation of a new culture of active ageing as one of the possible solutions for improving the pension system.

Key words: the pension system, the economic crisis, aging population

J.E.L. classification: E24, E60

1. Introduction

The economic activity, regardless of its nature, means the capitalization of labour so that this production factor becomes indispensable for economy. It is understood that alongside with the labour factor the other production factors take part in obtaining the results from the economic activities.

The changes to which the Romanian economy took part in the last decades determined the substitution effect to be specific to many Romanians. The desire to have a better life and to harness the great diversity of offers available on the market, determined them to try to increase their available income. [1]

The wish to have a living standard higher than before represented the impetus to look for a job paid according to the aspirations.

The same desire determines the Romanian employee to turn his/her thoughts to the future, anticipating the income he/she will receive during the retirement years. The current comments and forecasts fail to reassure the future retirees who see that it is possible that after decades of work and contributions to the pension fund as a future retiree may not obtain an amount of money that would ensure a peaceful existence, much less a certain comfort in old age. The economic crisis has emphasized this problem and it has shown that the pension system in our country has multiple disadvantages.

This situation is not specific only to Romania; it can also be noticed at European level, but obviously with other imperfections. The European parliament is concerned with the future possibilities of the member states to ensure entitlements to future retirees. In their vast majority, the European countries are faced with an ageing of the population, which will lead in the future to a more and more reduced basis of the active population and growth of the inactive population.

2. Content

The current problem of the labour market is represented by the youngsters who are not part of the working people. This aspect is determined, on the one hand, by the desire for further study and training in higher education, and on the other hand, by the impossibility to find a job for unskilled youth.

The discussion about increasing the retirement age is based on the population's evolution, especially in the developed countries. For 2010 the situation is not at all favourable to these states which have started to confront the problem of ageing population.

Table no. 1 European states with ageing population

Country	Population over 65 years (%)
Germany	20,5
Italy	20,4
Sweden	18,3
Greece	18,3
Portugal	17,3

Source: Calculations made by the authors using the data provided by <http://epp.eurostat.ec.europa.eu>

Table no. 1 lists the states which that occupy the first five positions in terms of ageing population. In order to complete these data we must also analyze the degree of economic dependence of the elderly population from Europe. The calculations carried out by Eurostat on the evolution of dependency of people aged over 64 inactive on the labour market as compared to the working population aged 15 - 64 show the future problems of the pension systems. This trend is highlighted in table no. 2, the values representing the percentage of people aged over 64 in relation to the working population.

Table no.2 The economic dependency ratio of elderly people in the EU

Country	2008 2030 2060 (%)		
EU 27	37	51	78
Euro area 15	40	54	73
Belgium	41	56	68
Bulgaria	38	52	91
Denmark	29	46	50
France	39	57	66
Germany	42	57	73
Hungary	40	53	91
Ireland	21	30	55
Italy	50	64	89
Poland	31	54	106
Romania	30	43	99
Spain	36	46	79

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

It is more than obvious, by looking at table no.2 that the economic dependency ratio of people aged over 64 years inactive on the labour market as compared to the working population aged 15 – 64 will record in the

future values much higher than those obtained in 2008.

In 2008 within the European Union the ratio between employed and retired people was of 4/1. For 2020 it is expected that this indicator will record a ratio of 5/1, and for 2060 the ratio will drop dramatically, recording 2/1. The ageing trend of the population is more than obvious, especially given that the birth rate does not record values which could lead to a reduction of dependency of the elderly population on the working population.[2]

In 2010 the average retirement age in the UE was of 61,4 years. In Romania, in 2009 the average retirement age was of 54 years, a value determined by the high number of retired people who have taken this state before the standard retirement age, but also by the reduced retirement age for certain categories of employees (military and police officers, magistrates and auxiliary staff in courts and courts of appeal, civil aviation personnel).

The comparison between the values recorded as average retirement age and life expectancy at birth indicates the duration in which the retiree enjoys the rights won during the period of activation within the employed population.

Life expectancy at birth in Romania significantly differs by gender, since for men life expectancy is of 69.6 years and for women is of 77.1 years. For the entire population, without further categorizing by sex, life expectancy at birth is of 73.3 years. Based on data presented, life expectancy at birth is about 19 years higher than the average retirement age in Romania, but completed by the evolution of the population in the future, the difficulties in supporting the pensions by the state are inherent.

In this situation it is clear that the macroeconomic policies implemented by each state must be based on the figures that show the population's progress. The importance of the population for a country's economy mainly derives from two aspects:

- it provides the workforce needed in any economy
- it achieves the consumption of goods and services

These two points are sufficient to understand the place held by the evolution of the population in an economy, regardless of the degree of its development, especially the fact that the rethinking of the pension system is required.

In our country the evolution of the population in the coming years is decreasing, so that in 2050 according to forecasts there will be about 17.279 million people (this is the average option of calculating the number of population).

Table no. 3 Evolution of the number of people in Romania (thousands)

Year	Total population
1990	23 207
1995	22 681
2000	22 138
2005	21 635
2009	21 275
2010	21 190
2015	20 787
2020	20 380
2025	19 961
2030	19 489
2035	18 978
2040	18 439
2045	17 877
2050	17 279

Source: World Urbanization Prospects: The 2009 Revision Population Database
<http://esa.un.org/wup2009/unup/p2k0data.asp>

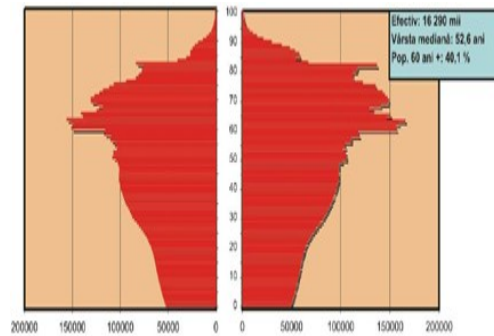
The forecasts concerning the evolution of Romania's population were made from several alternatives aiming at changing the number of population, these being the following:

- the optimistic scenario considers that Romania's population in 2050 will be of 19.721 million persons;
- the pessimistic scenario considers that Romania's population in 2050 will be of 15.102 million persons;
- the scenario in which fertility is kept constant considers that Romania's population in 2050 will be of 16.269 million people.

The decrease of Romania's population is accompanied by the growth of the population over 50 years of age and by the reduction of

the young population. The age pyramid for 2050 shows the continuing trend of population aging in our country.

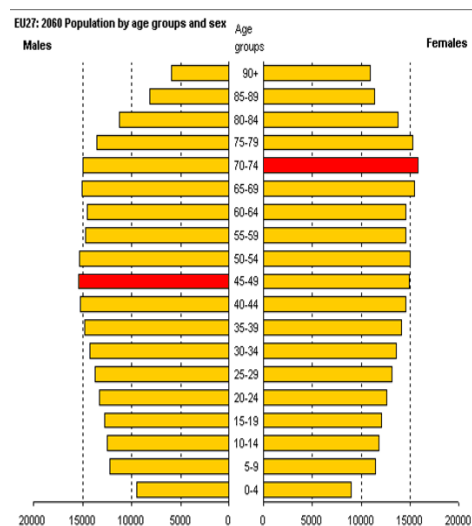
Figure no. 1 The age pyramid in Romania (2050)



Source: <http://populatiaromanieiincotro.unfpa.ro>

In the coming decades, Europe's population will undergo dramatic demographic changes due to low fertility rates, continuous increases in life expectancy and the retirement of the baby-boom generation.

Figure no. 2 The age pyramid in the European Union



Source: Interim EPC-SPC. Joint Report on Pensions - <http://www.europarl.europa.eu> (the red bar indicates the most numerous cohort)

Though the exact impact will be determined by several factors, ageing populations will pose major economic, budgetary and societal challenges. It is expected to have a significant impact on economic growth and lead to strong pressures to increase public spending. This will make it

difficult for Member States to maintain sound and sustainable public finances in the long-term. Ensuring fiscal sustainability requires keeping the EU's fiscal house in order, which involves addressing budgetary imbalances before the budgetary impact of ageing starts to be felt in earnest. [2]

The concerns found in the European Union are also found in Romania. The forecasts bring worrying figures, so that the finding of viable solutions and changing the current pension system is the current option.

The figures show a critical situation in the future concerning the possibility to support pensions, because the reduction in population is accompanied by an increase of the elderly people.

3. Conclusions

The European Union aims to maintain some "adequate, reliable and secure" pension systems; each Member State being responsible for establishing the pension system. The European Parliament through the decisions adopted can only suggest solutions for the pension system, which must then be adapted to the characteristics of each state. At European level certain aspects of the pension systems are coordinated related to the functioning of the internal market, the observance of the requirements of the Stability and Growth Strategy 2020 Treaty.

The report "Towards European suitable, viable and safe pension systems," component part of Europe 2020 strategy, has brought forward some ideas that might be adopted by the European states:

- increasing the retirement age;
- deterring the layoffs of the elderly;
- stable employment;
- alternative pension systems as solid as possible.

The central conclusion of the report aimed at creating a culture of active aging.

At the level of the European Union it is considered that a solution is to achieve an annual economic growth of 2% which would have the power to boost the labour market, thus providing new jobs.

In addition to the country's adoption of the proposed solutions to the European Union, we can adopt and implement various decisions that will lead to:

- increasing the birth rate;
- transition from undeclared work to formal employment;
- improving and streamlining the medical system;
- creating jobs for the elderly.

If there are not viable and appropriate measures taken to reform the pension system, supplementing the state pension received with a private pension is the solution to achieve a better life.

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Analysis on the Evolution of Public Expenditure Financed by the State Budget Law of Romania

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Abstract

State budget expenditures, provided by the annual laws of the state budget, are part of the public expenditures. Figures recorded in the past years show that Romania's public expenditures have been constantly increasing, and their ascending trend was accompanied by a similar evolution of the state budget expenditures. However, the trend was an expected one, given the fact that the majority of the European countries recorded such evolutions, especially considering the deterioration of the economic environment. Through this paper we intend to analyze past and present evolution of Romania's state budget expenditures, focusing on their structural changes.

Key words: public expenditure, public deficit.

J.E.L. classification: H50, H60.

1. Introduction

Within any economy, the state plays a central role in the present days. It acts in order to fulfill the general public needs. Undoubtedly, satisfying these needs means spending money.

Nationally speaking, the need for financing different fields or economic sectors claims the existence of a large revenues so that these expenses may be covered. In the context of the transition to market economy, Romania's public expenditure recorded a tendency of significant increase, in both real and nominal terms. The increase maintained over the past decade and is predicted to preserve over the next period, as well. As the level of resources is limited and the needs are amplifying and diversifying with a rapid rate,

it is imperiously necessary that public expenses should be made under strict conditions of economic efficiency. That is why resource allocation for public expenses is made by taking into account the priorities of the national economy.

Moreover, due to the deterioration of the economic climate, public expenditure policy has become an essential instrument in order to control, influence or intervene in the economic activity.

2. The evolution of public expenditure financed from the state budget

As mentioned above, Romanian public expenditure recorded an ascending trend over the past decade, with a significant increase from year to year. Moreover, the volume of expenditure surpassed each year the financial resources of the state, so that Romania is one of the countries presently managing a budgetary deficit. The increase of public expenses, determined by both objective and subjective factors, is reflected in the increasing proportion they have in the gross domestic product. Actually, public expenditure determines a proportional increase of gross domestic product, as public expenditure is a component of the latter. The evolution of the proportion that public expenditure has from the gross domestic product over the period of 2006 – 2010 is presented in the table below.

As shown, in 2010 budget expenditures amounted 201.9 billion lei, which represents a nominal increase by 4.2% in comparison to 2009. This increase was mainly a result of financing budget deficits accumulated in the previous years, especially social security spending (7.3% increase) due to higher unemployment ratios.

There can be noticed the great increase in public expenses especially starting with 2007, the medium increase until then being that of 1%. A significant increase of public expenses was recorded in 2008, respectively that of 2.1 percentage points, when public expenditure represented 35.4% of the gross domestic product at the end of that year. In

fact, the share of the public expenditure in the total of GDP reflects the negative evolution of the economy since the end of 2007, with its peak in 2009. Improvements recorded in 2010 led to a lower percentage of the public expenditure in the total GDP, that of 33.3%, compared to 36.4% in 2009.

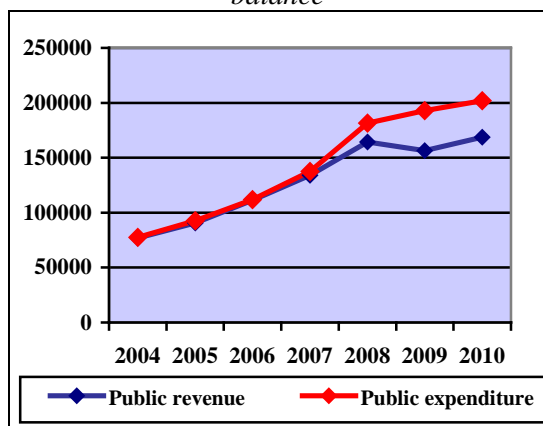
Tabel no.1–Romania’s public expenditure compared to GDP (billion Lei)

Indicator	2005	2006	2007	2008	2009	2010
Public expenditure	92.73	112.00	137.43	181.67	193.00	201.90
GDP	288.9	344.6	412.7	513.2	491.9	512.3
Publicexpenditure/GDP (%)	32.1%	32.5%	33.3%	35.4%	36.4%	33.3%

** Source: Report on State Budget Law 2010*

Analyzing Romanian public expenditure in relation to its income, the first recorded higher growth rates than the latter, which reveals the fact that, in the case of Romania, public income growth generated an even higher public expenditure growth. The evolution recorded over the past four years amplified the discrepancy between the two, which lead to a subsequent increase of the budgetary deficit, especially starting with 2007. The negative evolution is shown in the chart below.

Chart no.1 - General government budget balance



**Source: State budget laws*

Concerning the structure of Romanian state budget financed public expenditure, there was a difference over 2005-2008, according to the sectors that needed prior financing. The structure of state budget financed public expenditure on the main chapters of the functional taxonomy reveals the fact that the greatest part of the funds

allotted from the state budget was used to finance socio-cultural actions, that is education, health, culture, leisure, religion, insurance and social assistance. Expenses with defense, public order and national safety also had an important share of the total state budget expenditure, being followed by economic actions and general public services expenses. The smallest share of the state budget expenditure was used for financing the public development services.

From the point of view of the economic structure of expenditure, the greatest share was represented by current expenses – 84.3% of the total state budget expenditure over 2006; that is 90.7% in 2007 and 86.1% in 2008 – having an ascending trend over the analyzed period.

The capital expenses, representing a small share of the total expenditure, indicates the fact that there were no prior allocation of funds for public investments from the state budget, as Romania had access to European funds in this direction, that is structural funds and cohesion funds that the European Union had allotted to Romania in important amounts in order to realize investments, but these were used in a low proportion (the funds’ draw was approximately 6% of the total volume of the allotted funds).

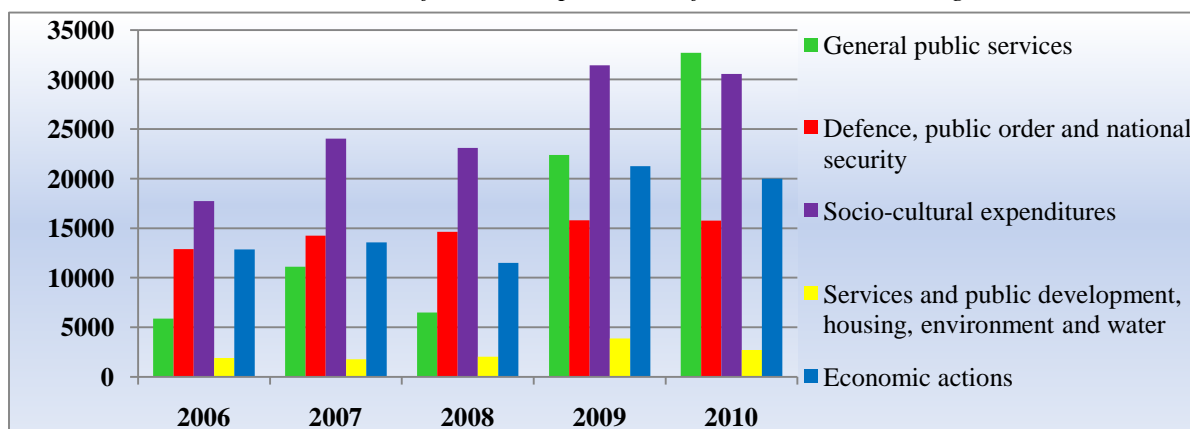
Taking a closer look at the current expenses of the state budget, we note that the percentage of the personnel expenses from the state budget had a downward evolution, reaching 20% from the total of the current expenses in 2008, compared with 24% in 2006. a downwards share was recorded for

the goods and services expenses – 5% in 2008, compared with 8% in 2006, and subvention expenses – 8% in 2008, compared with 12% in 2006. The amounts allotted from the state budget for transfers among state institutions had the opposite evolution; these represented 13% of the current expenses in 2006 and 19% in 2008. Social security expenses represented 20% of the total current expenses from the state budget in 2008.

The 2009 state budget law states that the maximum level of expenditure is that of 94 767.5 million lei, with an increase of 20.1% compared to 2008. This volume of the allotted expenses for 2009 deepens the forecasted budgetary deficit.

The structure of the state budget within the functional taxonomy indicates a high level of socio-cultural expenses, which underlines the fact that the financing of these sectors will continue to be a priority.

Chart no.2 – Structure of current expenditure of Romania's state budget



*Source: Annual state budget laws

Actually, the current need for restructuring and modernization of the health and education sectors, compel making high expenses, just as in the case of social assistance. At present, there is a strong accent on increasing the efficiency of social security activities, as well as ensuring respectable life conditions for all citizens, which implies an improvement of the insurance and social security system. Prior financing for these expenses is reflected in the structure of the state budget expenses which allots important amounts of money to this end, as presented in the following chart.

A significant importance is given to financing economic activities, which benefit from increasing funds from the state budget. In this regard, there is an allocation of funds from the state budget of 2009 for the implementation of an aid scheme for regional development, as well as for offering minimis aid for the development and modernization of companies or for stimulating exportation.

The expenses for public services also have a significant share of the state budget expenses, closely followed by defense, public

order and national safety expenses. The smallest funds allotted from the state budget over 2009 are those destined to services and public development, environment and waters. This is due to the fact that Romania wishes to access European funds in order to finance public development activities, especially regarding infrastructure development, as the European Union allotted important funds in this regard, but most public investment made over the past years were made from internal resources.

3. Perspectives on Romania's budgetary policy

On the short-term, according to the 2011-2014 Convergence Program, assumed budgetary policy for 2011 is a prudential and restrictive one, which aims fiscal consolidation throughout reaching the targeted deficit of 4.4% of GDP (in cash). Expenditure policy for 2011 considers continuous expenditure adjustments, maintaining budget constraints and further

structural reforms as a main challenge.

Personnel expenditure was limited to 39 billion lei in 2011 (excluding social security contributions for the military, worth 1.6 billion lei, under the new pension law), as a result of a restrictive policy. In addition, limiting the spending on goods and services has been extended to 2011, together with several subsidies reductions.

On the medium term, the specific objective of fiscal policy is adjusting the budget deficit, given the fact that planned targets are below 3% of GDP in 2012, 2.5% of GDP in 2013 and 1.8% of GDP in 2014 (cash methodology).

On the expenditure side it is considered restructuring public expenditure in the sense of adjusting the current ones to sustainable levels in order to reduce budget deficit and finance large investment projects. Therefore, special attention will be given to personnel expenses, for which prudential policy started in 2009-2010 will be conducted in the future 3 years, targeting a reduction of their share in GDP to approximately 6.5% in 2014 (from 9.4% of GDP in 2009).

Another priority of the budgetary policy accelerating the absorption of EU funds. Financing public investments throughout European funds rather than using internal resources will facilitate the adjustment process and will ensure achieving the specific medium-term objective.

In addition, during 2011-2014, the effect of reducing personnel costs, subsidies, and spending on goods and services together with the public pension system reform will lead to an increase of only 24.2% of total expenditures (in absolute value). This will actually result in a reduction of 3.7 points percentage of their share in GDP in 2014, compared to 2010. The effort of adjusting the current spending will allow maintaining an increasing trend of the investment expenditures (increase of almost 1.2 percentage points relative to GDP in 2014 compared to 2010), and a strong reduction of the budget deficit, with nearly 20.7 billion lei between 2011-2014.

4. Concluding remarks

In the present context of accelerated economic development, expenditure volume increase is inevitable. This growth tendency was noted over time for all the states in the world, but the growth rates were different, according to the existing economic reality.

For Romania, public expenditure recorded significant increases in the period after 2007, which points out the dynamic character thereof, but also the negative effects of the crisis. The total of the state budget public expenses recorded the same upward trend, as a component of the total public expenses.

The state budget fund allocations presently consider stimulating public investments, improving the insurance and social security system, as well as prior financing of sectors such as health and education. On the long run, there is envisaged that the allocation of important amounts for investment expenses, with a multiplying role in the economy and an important means of economic decline prevention, European funds accessing and an increased absorption rate thereof, protecting the economic interests of the population and ensuring social security, represent important priorities for Romania.

In the perspective of 2011, the accent will be set on further limiting public expenditure, preventing the foreshadowing economic decline. This main objective set for 2011 will be accomplished by the prior financing of investments expenses, a part of these expenses coming from the state budget.

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A View of Capital Market Internationalization Bank Wave Mergers and Acquisitions

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Abstract

The studies over the fusions and banking acquisitions have tried to identify the economic mode for them. The result that the efficiency is common to banks, and the internal fusions, between partners of the same dimension, signify the trying of the banking efficiency, so that the specialists call it X-Efficiency. This isn't realised quickly, but in a very caution sincronization of the effort effect, the fuzions and the acquisitions that represent an excellent way of reorganization of the banking activities, to see the growth of the efficiency. Generally, the examination, in time, the economic function of the process of the fusions and the banking acquisitions, this is the growth of the profitability of the new entity that was formed.

Key words: fusions, acquisitions, reglementation, effects, economy

J.E.L. classification: G34, K2

Regarding this fact, it has to be mentioned the existence of the empiric studies in USA, and in Europe, these present a large vision regarding the problems of fusions and the banking acquisitions, seen in the general conclusions, and the most important are these:

1) The banks that are operated on the marketing shown on a big concentration, practic, big intrests at the enterprises for the small business and pay the reduced intrests, the colected deposits with the retail operations. The recent evolutions show that:

- The new channels of distribution of products and banking services are factors favorized for the banking marketing and contestable;
- The dereglementation (liberalization) that came to the increase of the competition of the local marketing;
- The banking products, became goods, they made a competition more alert, and they modified the power of marketing;

2) Studies that show the power of marketing, realised by the specialized company of the financial - consultance, they have shown the complexe results of the procedures of fusions and acquisitions, in time.

It was examined, in a special way, the profitability of the institutions that participate at the fusions, before and after fusion, that are compared with the profitability of the institutions, unemployeed in other activities.

3) The modifications of the reglementations that created a large marketing, with the erase of the restrictions, refering at the banking systems in USA and in European Union, and in Europe, the creation of an euro zone played an important role.

Fig.1 The last wave of fusions and aquisitions (1997 – 2000), superior of the previous wave (1987 – 1990)

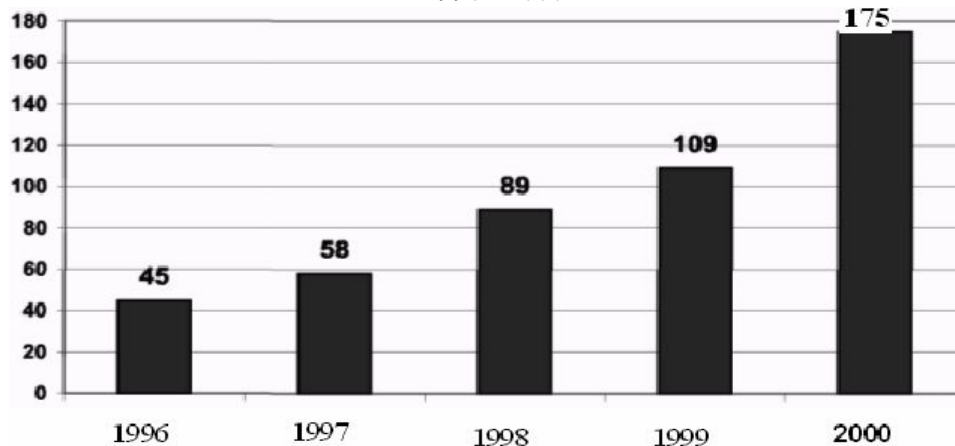


Source: Maurice Obstfeld, Alan M. Taylor, **Globalisation and Capital Markets**, Working Paper, 8846, 2002.

The benefits resulted in the adjustmen of costs of explotion can be estimated easy and seeing the fusion between financial and banking institutions and intern, so for the cause of the financial groups that are anticipated of the future incomings from the entire sort of activities specified to the group of new format. An image for the costs can be structurated - to the activity object of that institution, combined with cronological informations refering at the annual costs and nominal, from the evidence.

In the International Reglementation Bank, for the finish of the last century, at the level of august 1999, for example, the fusion and the aquisitions of the banking industry is shown in billions USD (Fig. 2). The statement shows that an increase of the fusion vaule and fusions at 17,5 bld.USD , in 1991- 1992 , then a decrease of it at 14,6 bld. USD, in 1993 – 1994, then comes with another increase from 19,1 bld USD , in 1995 – 1996, at 100, 4 bld. USD, in 1997 – 1998, for ground zero – Austria, Irland, Luxemburg and Portugal.

Fig. 2 The tranzactions number of the 1 bilion dollars over, firms 1996 - 2000



Source: Simon G. Evenet, **The Cross Border Mergers an Acquisitions Wave of The Late 1990s**, Working Paper 9655, NBER, 2003.

The european banking system crossed a period of 10 years in wich the international banking level, of the way to fusions and

aquizations, was very high, even comparing with USA.

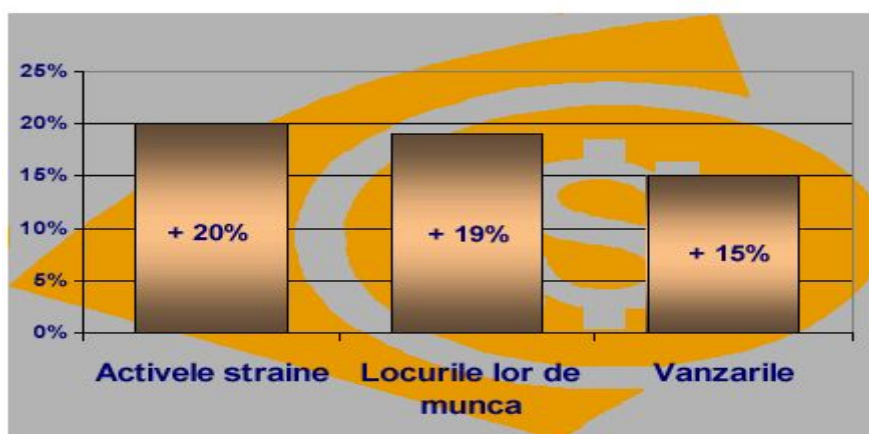
The level is shown with the reduction of the credit institutions, from 12.256 – in 1985, at 9.285 – in 1997. [1]

fusions and aquisitions of the afferent effects, for activities, places to work, sales, generally [2]; (Fig. 3).

“After year 2000, it has appeared, in terms of speciality that is called the global slow, the effect beeing the reduction of number of

Fig. 3 Effects of the major aquisitions and actions, at the end past century, forward of the global slowness

INDICATORI



Source: UNCTAD Statistics, 2002.

The economic ration of the most important, in the process of aquisitions and fusions look for [3]:

- *the decrease of costs, based on economy at scale,, in wich the eficiency of the costs is realised in the decrease of the unity enviroment of costs.* The large consense it was that a very tiny bank has the potential of the economy at a scale, and the cost curve of the enviroment turns, much or less, the payment to the big firms.

- The variation of the optimus size that is influenced of the progress of the techonological factors and the dereglementation (liberalization) banking that permits for the new stage of organization of the considerable size. In Europe, after the introduction of the unique european coin, the European Comision has examined the existence of the economic scale, at an active of over a 25 bld. UDS, and the economists have estimated that this size is between 10 and 100 bld. Euro.

- *the growth of the brand* (the comercial name), on the base of some economy of scale. The size can permit the notice of the

efficient brand, at a low cost. This is a special type of economy at a scale, with the costs of marketing per unity of product, looking at the brand, that represents a potential source of a competitive advantage, for the future, when the customers of financial services can be found at a large scale with the help of the new “integrators“.

- *the incoming of the economic scale.* The size of the bank and capitals can permit the accordance of big credits and subscribe’s of the title of valorification of the positive impact over asking of some titles. In context of euro and the integrity of marketing, of capital size, it will represent a source of competitiveness and advantage.

In 1997, an economist said that the fusions have permission to the american banks to transfer the actives, representation actions of low value to the generators of big value.

This is the way that the megafusions help at the diversification of portfolio and the reduction of risks, letting the consolidated banks to accord more credits to the same level of capital.

- *The assurance based on scale economy.* If a bank comes to be very big, it comes to be what it is now named "too big, to fail" or to big to come to a ruin. This shows an competitive advantage in the conditions, for a low cost – for a particular level of the capital risk, so the large positions accepted by the partners.

- *The cost based on the realisation of economy.* The efficiency of the costs are realised with the offering of a large scale of financial products to the clients of base. This can generate the fixed costs in the offer of the data base of equipment that can be used for a large scale of services. Studies of efficiency from U.S.A. have measured, in comparison, the specific cost of firms that offer a large scale of financial services, that should represent the cost, if this services were to be offered from a series of firms that have a reduced scale of financial products.

- *The incomings that have the base of realisation of economy.* It has been hoped that a bond of the new products, to them have a client base – for example, the banking products and insurance. So, some economists (1996) tried to evaluate if the banking incomings realised can offer a scale of services. "They said that the absence of some incomings on the way to economy can interpret the results on the fact that every customer can evaluate individual the offer, but the competition don't permit to banks to rise the prices, and the simple customers aren't capable to evaluate the offer individually. So far, this arguments must be analysed with caution, to show the banks services of assurance, with the banking onss, second, induced by" [4] and the inclusion of the firms that offer only a service, so that it shows the estimation of the economic sphere not to be simple.

- *Financial diversification, based on the realisation of economy.* The standard portfolio theory show that a portfolio is imperfect, correlated on risk, can reduce the general volatility or the profit. In consense of Pillof and Santomero, the volatility can be reduced or can increase the financial health of actions in, some ways. "The first, it refers the the costs of value of ruin, can be reduced, seeing that o good part of costs of a ruin can be determined by the loss of value of the franchise caused by ruin, the second it referears at taxes that have to be payed if it

get's to a ruin, and the third at the loss of the values resulted from partnership with other clients, made in many years of coloboration" [5].

- *The X-Efficiency* it referears at the volume given at the exits, when a firm doesn't opperate with a maxim cost of efficiency, and rentability, that they are exploited, causes losses (for example, a structure to big of costs) [6]. This source of efficiency is qouted as a first motivation for internal infusions , when two banks fusion for the coordonance of the size reduction of the link, formed after the fusion entity.

- *The power of marketing.* The horizontal fusion reduces the number of firms that opperate on market and can lead to a reduction of competition and the growth of profit. "The fusions between industries can permit a larger profit, tie to the firms that can offer more products". [7] A long series of studies tried to measure the impact of concentration to credit and depozits. It is true, the benefics that were waited for, from the efficiency of costs, can be created and concentrated and can facilitate the cost and performance and credit and depozit. To be mentioned, the study of Carletti (2002) can conclusionate the fact that, in general, the concentration makes bigger credits and reduced at depozits. As a remark, in Germany, France, Spain, these institutions, fighting for size, attract a part of the banking profit and private commercial. The situations can evolve so that a part of this institutions can change their legal status.

- Of course, dereglementation, started in 1980 and the creation of marketing and mutual fonds, reduced the ability of banking to increase the deposit, and the acces of the large companies of capital marketing, in subscribing the value papers and forces, has reduced the potential impact over the credit of small and middle enterprising, it is first of all satisfied of the local sucursals of banking.

- *Selfdefence against the base of economy at scale.* "Can't be evidented on a direct link, in the measurement of a bank and probability of this can be participated at a process of fusion" [8] shown that the majority of fusions in U.S.A. " have implicated bigger banks of aquisitions some of them small".

- "The benefics of fusions and aquisitions. A series of studies, in U.S.A, analysis, when the fusions and aquisitions helped the banks to make their X-Efficiency better, profitability and of course, to identify a modality, to realise this way. In the study over megafusions", [9] show that "the measurements helped at the profitability, not to the growth of profitability, but to the chance of the mix of exit, in the favor of more credits and actions possessed. Also, the profit has to be big and efficient for some banks, and has to be pronounced. At micro level [10]. (Maurizio Zollo, 1998) economist considers that the experience is codificated, as "a key that determines the succes in the future of fusion".

Another part of specialised literature and analyses the impact of fusions over the value of actions on the capital marketing. Many studies have tried to observe a good relation, between fusions and safeness of the stock actions, it is observed that the safeness is transferred, from the aquisitor firm, at the firm that is aquisitioned. Using the dates reffering the 54 tranzactions, between 1988 – 1997, [10] showed that the positive effects for the internal fusions and the "industries" of assurance and no value created of fusions from commercial banks and firms of real estate values. The recent studies examined the european efficiency in a single case and observes "a low efficiency in France and Spain" [12].

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Shipping Marketing and Management

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Abstract

The shipping enterprises carry on a large variety of activities that concentrate on the market provision of services. Supply and demand synchronization represents the fundamental objective of marketing. Planning becomes thus essential for modern naval administration in the sense that it yields long-term profitability as well as it enables the management to successfully distribute the business resources. Against the background of strong competition (with particular focus on international transport market) the use of the appropriate tools for the foundation of strategic decisions has determined the emergence of various models of strategic analysis of the competitor environment. The dominant characteristic of the supply/demand model in shipping is represented by the obvious discrepancy in stability between demand, which changes rapidly and unpredictably, and supply, which undergoes slow and well-balanced changes. The contemporary international transport is performed in accordance with numerous regulations of international trade policy that sometimes are different for certain partner countries.

Key words: shipping, marketing, management, company, market

J.E.L. classification: M0

The management of marketing refers to "analysing, planning, implementing and controlling the programmes designated to create, extend and maintain the advantageous transactions with the respective consumers in order to accomplish the objectives of the organisation" [1].

The dynamics of shipping "was determined by the production of goods that need transportation of raw materials as well as finished materials and products, on the one hand, and by the profound changes at the level of service provision in shipping, on the other hand" [2].

The existence of shipping as an area of research in marketing is due to its specific characteristics: the market, the marketing policies and the organisation of the activity: "The shipping enterprises carry on a large variety of activities that concentrate on the market provision of services. Supply and demand synchronisation represents the fundamental objective of marketing" [3].

With reference to shipping, "marketing development presupposes constant predictions that interest the recognition of the economic-social environment as well as the adaptation of service supply" [4] of sea transport and harbour activities to the actual demand. The quality of the services offered "presupposes a direct participation of the beneficiary, especially in international traffic where service provision implies frequent encounters of the carrier with the customs, the ecological and the border police authorities" [5].

Planning represents a managerial process that results in co-ordinating the marketing activities in order to accomplish the objectives of the organisation [6]. Planned task implementation consists of resource and responsibility management. Planning becomes thus vital for the modern naval administration in the sense that it yields long-term profitability as well as it enables the management to successfully distribute the business resources.

The main objective of planning in shipping is "to identify the commercial opportunities and to develop them by supplying the necessary resources. Shipping

companies encourage mobile acquisitions to be made efficient use of: it implies the transfer of ships from a route to another as well as the allotment of new ships to profitable areas" [7].

Shipping companies, in general but also in particular with reference to liners, have developed a business plan that constitutes a strict system of budgetary control. The business plan of the shipping company establishes its objectives for a period of five or ten years, depending on the nature of the business: "The competition will be tougher on Ro-Ro market and the trade volume will increase" [8]. In addition, the container market has rocketed since 1992 and it has resulted in the emergence of new tonnage. The new container ships have replaced the twin deck ships and they will eventually eliminate the bulk carriers. This recent ship model has completed the six-year container ship implementation programme that was meant to replace the inventory of double deck ships, which was exhausted [9].

The business plan of the company ought to be revised periodically to record any variations of the circumstances such as economic trade decrease, crisis periods, and the outbreak of any hostilities.

The net profit, the punctuality and the factors influencing the tasks of the individual services ought to be thoroughly looked into on a regular basis as well so that the ships involved are equipped in accordance with the predominant conditions.

In theory the traffic forecasts represents the evaluation of the circumstances that are likely to happen for a period from one to five years. It basically involves all the details of total transportation that are available on the market for a particular year in conjunction with the market share that the ship operator expects to hold: "The economic forecasts illustrate the approximate level of the industrial production for a certain year that may interest the ship operator in terms of available goods for export and transport. Other examples include the rate of interest, the bunkering prices etc." [10].

The forecasts refer to uncontrollable circumstances that the ship operator is to consider. They differ in relation to the budget administration and they include the industrial use and the policy in accordance with the economic forecasts regarding salary rates,

inflation, industrial production and unemployment. The forecast data is completed by an evaluation of the event probability [11].

Financially speaking, the global administration of the budget is a method of activity co-ordination for the entire shipping company - a "plan of action" that is based on previous productivity as well as the evaluation of the factors influencing the business in the future. The budget administration represents a thorough analysis of the past and a careful estimate of probable or future operations.

The forecast techniques are also used for the ship administration as well as the business plan. The most significant indicators are the level of the exchange rate, the economic growth, the level of the bunkering prices, the interest rate and the market information.

The maritime management represents "a form of administration that is based on the anticipation of changes that need to be operated within the organisation as well as its interaction with its environment in order to avoid the occurrence of situations in which service provision and service acquisition do not concur" [12].

The shipping enterprise represents a complex reality: a distribution agent or a service provider and a profit centre with its own identity and organisational culture, an organism, an environmentally friendly dynamic system. The shipping enterprise holds responsible for significant economic, social and ecological issues.

The process of formulation and implementation of the enterprise strategy (strategic management) is threefold: reasonable and analytic (the economic dimension) socio-political (the human dimension) and bureaucratic (the organisational dimension) [13].

The strategic management in shipping and harbour activities represents a form of administration based on strategic thinking with focus on actions against competitors in order to maintain competition for the purpose of business development. [14].

The emergence of various methods of strategic analysis of the market competition has resulted from the use of the appropriate means of strategic decisions against strong competition in international shipping. [15].

The shipping industry has expanded vastly on the international market. The maritime trade is as dynamic as the world economy and the sea transport has reached the pinnacle of world economic activity. The political-economic issue of the maritime market is not to be neglected in this respect.

Shipping and sea traffic have influenced the progress from the isolated communities to the global community in our days. It was, however, a reciprocal exchange that determined major transformations in the maritime industry.

The concept of shipping as a catalisator in economic development is not at all new: Adam Smith, generally known as the father of modern economy, considered shipping a cheap transport source, the stepping stones of economy. The economic development has generally gone hand in hand with sea trade for reasons of economic efficiency that Adam Smith explains as it follows: "By means of sea transport a gradually wider market addresses any type of industry and alongside the borders of the rivers opened for navigation any industry starts subdividing naturally and often improving as a result and also expanding towards inland. [16; 17].

The most important and recent technical innovation is the introduction of systems for multimodal and packaged transport of goods by liners.

Before WWI for a period of fifty years the shipping market recorded regular and normal six-eight-year cycles in between two periods of maximum. L. Isserlis pointed out that the freight shares between 1869 and 1936 peaked upon six occasions and they coincided with the pinnacles of world economic cycles. Isserlis also highlighted the importance of

political events. He thought that the pinnacle in 1873 was partially due to demand for transportation ships towards France and Germany for trade restoration after the French-German war whereas the pinnacle in 1990 could be the result of transportation needs determined by the South-African war.

Although the shipping market was intensely cyclic before WWI, the circumstances were in general auspicious and the expansion stages on the freight market compensated the ship owners more than enough after the tough recession years.

After WWI there was an overflow of commercial ships and the economic growth was never strong enough to overcome it. At the beginning of the economic crisis in 1929, the ship owners were confident in a return of favourable market conditions but the Wall Street Crack in October 1929, as well as the world trade recession pushed the shipping industry into a long depression. Regarding the fifty-year period after the WWI there was a succession of maximum and minimum values on the freight share market.

The practice is relevant for the explanation of the causes for the occurrence of changes in the market. The recurrent element of the freight market share is the equilibrium demand – supply that implies the usual techniques for the market analysis of demand and supply.

Among various influences on the shipping market, there are ten significant issues: five of them affect the demand of sea transport means and the other five determine the supply. These include:

THE TRANSPORT CAPACITY DEMAND	THE TRANSPORT CAPACITY SUPPLY
1. world economy	1. world fleet
2. maritime trade	2. ship construction output
3. average maritim route	3. fragmentation and loss
4. transport costs	4. fleet performance
5. political eveniments	5. operațional environment

With reference to demand, the world economy generates the fundamental demand for sea transport that can be modified by the evolution of the trade of certain goods (for example, an increase in the price of petrol influences the demand for petrol) as well as by changes in the routes the goods are transported on with a final service demand for shipping measured in tones-miles.

With reference to supply, the commercial fleet represents a fixed resource of transportation means that could be extended by the building of new ships as well as by the reduction of fragmentation.

A tanker fleet with transportation speed of 11 knots in ballast on return route transports far less goods per year than a similar fleet of bulk carriers with transportation speed of 14 knots that transports goods at maximum capacity on return route.

The performance, namely the ship efficiency, represents a significant variable that determines the supply available in shipping services, which is counterbalanced by demand.

The demand – supply relation is dynamic in the sense that the demand and the supply are considered from different points of view. The supply theoretically follows the demand upon the condition that decisions are met carefully – the level of demand and the coherent course of action are taken into consideration for the adjustment of the supply available. The decisional staff consists of ship owners, banks, governmental officials and ship builders who hold a certain control over supply oscillation, albeit their objectives may be different. The predominant characteristic of the demand – supply model in shipping is represented by demand instability that is rapid in change and unpredictable whereas the supply is slow in change and well balanced.

Many specialists refer to “market equilibrium” and a real equilibrium between demand and supply could be attained by chance or during periods of demand stability.

The external market refers to an assembly of demand and supply of different ships, containers, transport provisions, conflict conditions and settling as well as economic relations that consequently emerge between partners from different countries.

For an operation of sale-purchase (transport provision) to be included within the activity of the external market, the external element must play an important part.

The international market consists of bills of sale and the relations regarding the exchange of goods and transport services between different countries as well as the exchange on the internal market. The world market includes the total of markets: the market of mineral bulk carriers, the market of tankers, the market of container ships, the market of general goods ships, the market of ship building, the market of ship sale and purchase, the market of freights – all this not as a simple arithmetic sum but as an assembly of reciprocal relations between different interdependent markets. “The practice of international exchange relations has resulted in a terminology that is specific for different ways of act and relation development within external markets such as the characteristic market for a certain product that is representative of the market with the highest transactional volume (commodity exchange) as well as the representative market that represents a reference point due to its qualitative level or to certain conditions of the commodities on the respective market” [17].

The characteristic factors of the external markets could be classified in accordance with “different criteria such as: area of action, method of action, length of action, nature of factors determined by the specific area they belong to” [18].

The first condition to ensure the performance of the trading activity is “the evaluation of the potential buyers by the beneficiary as well as the elaboration of complex market research programs” [18].

Consequently the evaluation of exchange relations and the possibility to enter new markets have become important for the decision concerning the respective products or services.

The modern view in international transport presupposes that the negotiation needs a thorough analysis regarding the external market, the partners, and the economic situation, even some features or personal habits of the partners. The objectives of the research are numerous and they vary in approach.

The political relations with the partner countries and especially the trade relations represent a general objective that influences the potential initiation of international trade operations.

The contemporary international trade is regulated by various trade policy stipulations of different countries that sometimes act differently in relation to certain partners. Consequently, the exporters ought to know the general policy that the other countries have towards our country - the trade policy stipulations start with the traditional custom taxes and a series of other trade policy tools as well as the stipulations that concern international transactions.

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Financial Auditor's Professional Judgement and Challenges Faced in a Global Audit Environment

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Abstract

In an increasingly globalised economy, the quality and professionalism of a business is becoming more important than ever before. The audit profession is no exception. This paper examines audit professionalism alongside audit efficiency, its trend and its relationship with professional judgement. It is discovered that there is a contradiction between the commercial logic and the professional logic in the audit practice. It is also discovered that professional judgement is an essential tool for the auditor and that there is an opposition between efficiency and effectiveness in the audit practice. This article argues that the key to bring a balance to these contradictions is professional judgement.

Key words: audit, professional judgement, professionalism, efficiency, effectiveness.

J.E.L. classification: M10, M41, M42.

1. Introduction

Financial audits exist to add credibility to the implied assertion by an organization's management that its financial statements fairly represent the organization's position and performance to the firm's stakeholders and to consolidate trust in the business world. The financial statements must present information that are true and fair, that reflect the economic reality of the transactions, that are impartial, prudent, relevant and credible. As a professional and an expert in accounting, the financial auditor and his work, respecting laws and International Standards on Auditing, adds credibility to the financial statements.

Recent events in the economic arena brought trouble in the audit world. Global corporate scandals alongside the current financial crisis fuelled the society and regulator's critics. Different researchers

investigating the issue place emphasis on a variety of phenomena that created the environment in which these major scandals were possible. The consequence was that the entire accounting and audit profession has had its reputation tarnished. The forces at work were numerous and complex. Corporate and individual greed, delivering services that acted to impair independence, becoming too close with clients, and participating actively in finding ways to avoid the provisions of accounting standards were only a few of the causes but the main cause that embedded all the rest was deficient professionalism. The profession's historical defences to combat these forces proved ineffective. The bottom line is that the profession and the society as a whole, has paid a high price for the accounting profession's failure to meet the expectations of investors, creditors, and other users of financial statements.

All these facts prompt to a more considerate approach towards the use of professional judgement in every stage of an audit and to allocating a greater importance to the issue of professionalism.

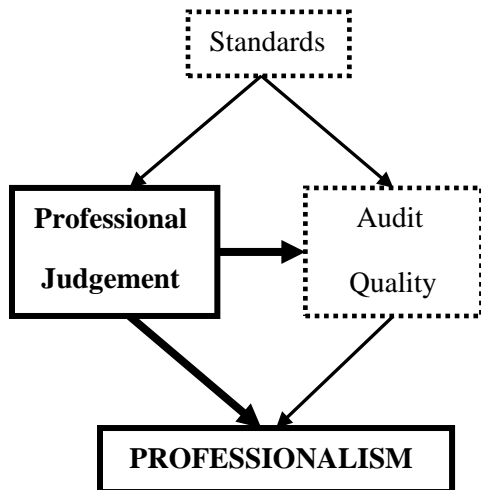
2. The concept of professional judgement

Throughout his work, the financial auditor uses an important and central element: professional judgement. Professional judgement is the cornerstone for the audit profession and is applied in all stages of an audit, from planning stage to the audit opinion. Professional judgement is an integral part of audit and cannot be dissociated from it.

Professional judgement in auditing is the application of relevant knowledge and experience, within the context provided by auditing and accounting standards and the rules of professional conduct, in reaching decisions where a choice must be made between alternative possible courses of action [1]. By referring to professional standards, concepts like independence and objectivity,

professional competence, integrity, professional scepticism and responsibility are implicitly incorporated in the definition of professional judgement. It is clear that professional judgement takes place in the context of professional standards reflecting the collective judgements of the profession. Professional standards are therefore important in exercising professional judgement as they act as references and lighthouses for auditors. The absence of comprehensive professional standards combined with factors such as the increased frequency of business failures and the inability to meet public expectations have increased auditors' exposure to liability claims. The quality of professional standards will definitely impact the professional judgement of the auditor and both will impact the quality of the audit work. The professional judgement exercised by the auditor in the course of an audit together with the quality of the audit work will, consequently, impact the level of audit professionalism (see Figure 1.).

Figure 1. The relationship between professional judgement and professionalism



Source: Original conception of the author

3. The concept of professionalism

Many attempts have been made to define a profession, in general, and professionalism, in particular. The essence of professionalism is a commitment to develop one's skills to

the fullest and to apply them responsibly to the problems at hand. Professionalism requires adherence to the highest ethical standards of conduct and willingness to subordinate narrow self-interest in pursuit of the more fundamental goal of public service [2].

Professionalism is an aspirational standard with a few essential elements: competence, personal integrity, responsibility, accountability and public obligation. The competence element comprises relevant, up-to-date skills and capabilities appropriate to the particular task and a broader foundation of relevant experience, knowledge and understanding. Competence, as part of professionalism, must also include appropriate non-technical skills such as communication, business, leadership, management competences. Competence must also be supported with relevant qualifications and maintained through continuing professional development. Integrity refers to a clear commitment to abide by a code of ethics which is recognised and administered by the professional community. Responsibility and accountability comprises a set of personal obligations and responsibilities which sit alongside the contractual obligation to an employer or client and a matching accountability which is also separate from that of an employer. Public obligation is another essential element of professionalism which refers to a contribution to protect the public interest, to social responsibility commitment and to a contribution to the professional community alongside support from that community [3].

4. Commercialism versus professionalism

Throughout the audit profession the push was on to extend the range of services provided. The consulting practices grew in different ways among the firms, mainly directed by the different talents of the personnel with the firms. These people were not paraprofessionals, but rather they were relatively high-paid personnel with strong skill sets in areas only distantly or even unrelated to accounting or auditing. Their numbers grew rapidly, and their success in generating high-margin fees gave them an increasing voice in firm management. Their relative success created enormous pressure

on the auditing and tax practice, both to grow revenues and to increase margins. This added to the pressures already faced by the auditors in terms of cultural, political, economic and social factors, pressures that make auditor independence an ideal difficult to attain [4]. The successes in the consulting practice increasingly influenced behaviour by auditing leaders and the impact of these behavioural changes gradually affected the behaviour patterns of audit personnel as well. Improved profitability became the key focus. These changes associated with the growth of consulting practices evolved relatively slowly over a period of about forty years. In essence, the cultures of the firms had gradually changed from a central emphasis on delivering professional services in a professional manner to an emphasis on growing revenues and profitability [5]. The focus on delivering quality professional service did not disappear, of course. No one rang a bell in a firm and announced that quality professionalism is out. But, on the other hand, keeping the client happy and doing what was necessary to retain the client achieved a prominence that did not exist prior to the advent of the successful consulting arms within the firms. As a direct consequence, it can be concluded that over the last forty years the core values of the professional firm were undermined by primarily commercial interests.

5. Efficiency and effectiveness in auditing

In approaching an audit mission there is a contradiction between efficiency and effectiveness. Because of the limited resources of time and personnel, efficiency in audit is driven by economic and commercial factors of the cost-benefit analysis type. In contrast, effectiveness is based on professional and ethical factors of the work well done type and audit quality. Although the academic theories that have warned against the unacceptably high level of compromise between efficiency and effectiveness seem to be contradicted by some studies [6], big scandals and frequent litigations in the audit profession indicate a rather high level of compromise between efficiency and effectiveness. In this situation of contradiction between efficiency and effectiveness, professional judgement is,

again, of critical importance. Whether used in risk assessment procedures, in tests of controls or in analytical procedures, professional judgement is a key element in choosing an adequate level of compromise between efficiency and effectiveness during an audit. In this context, depending on each and every economic sector, the need arises for a more attentive analysis of the equilibrium between efficiency and effectiveness through the use of professional judgement. The focus on delivering quality professional service did not disappear, of course. However there is a strong sense of contradiction between the effectiveness and the efficiency of the audit work. Action is therefore needed in order to improve the quality of the audit and consultancy products and to better prepare the audit profession for the challenges it may expect from the present as well as from the future.

6. Conclusion

The possibility of human error in decision making is a critical reason why the study of decision making tasks and, in particular, professional judgement is important. The audit framework was undermined, and the result was what we have recently seen in massive bankruptcies, corporate restructurings and ongoing litigation. The gradual changes in internal firm culture effectively altered the long-standing value systems of firm leaders and the results have been costly and problematical to reverse. The cultural changes evolved over a long period and have become pervasive in nature. However, the professional auditor has a powerful tool at his/her discretion: professional judgement. Now, more than ever, is the time to use professional judgement in order to restore the balance between the logic of commercialism and the logic of professionalism as well as to resolve the contradiction between efficiency and effectiveness in the audit process, for the benefit of the audit profession and the society at large. Therefore, the current challenge of firm leaders has to be to gain an understanding of how the current culture evolved and how to make the best use of auditor's most important tool - professional judgement.

7. Acknowledgements

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Personal Factors That Influence Audit Manager's Risk Behaviour

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Abstract

Risk is a fundamental concept in audit as well as in the business world at large. Yet, little is known about the personal factors that might influence the risk attitude of a decision maker. The business decision makers are usually faced with a degree of uncertainty when they have to assess risk and make decisions. This paper examines risk behaviour from an audit firm manager perspective and from an academic perspective. The emphasis is on the managerial risk behaviour in business decision making. The research objective is to identify the extent to which personal factors like gender and age are determinants of risk behaviour. It is discovered that the issue of establishing the determinants of risk behaviour has been debated by many authors but no conclusive theory is currently accepted.

Key words: risk behaviour, decision making, audit, manager.

J.E.L. classification: M10, M42.

1. Introduction

Audit firms are business entities that provide financial services and their management is ruled by the same forces that govern the global business world at large. The manager of an audit firm in today's globalised economy is required to make decisions that will imply a certain degree of risk that will impact on the firm's profitability and reputation. Risk is a central concept to both the audit process and the management of the audit firm, so this paper will be of interest for both the auditor and the manager. The concept of risk taking has played a central role in business research in the last few decades. The idea of risk has

been present in business ever since man began to trade but never before the globalisation age has risk been more diversified in nature and more present on every business agenda. Risk is a concept whose definition has not generated a consensus in the academic or business circles but is generally accepted that it relates to issues of unpredictability, decision making and potential loss. Risk is intrinsically linked with decision-making and every decision made in business implies a certain degree of risk. The importance of risk to decision making is attested by its position in decision theory, by its standing in managerial ideology, and by the high level of interest in risk assessment in management. This paper will look into research on gender and age as personal factors that influence risk behaviour, building on previous research done by many scholars.

2. Behavioural aspects of risk taking

Academic theories which attempted to explain the risk behaviour of decision makers date back as far as 1738 [1] and there are a significant number of empirical studies in the area of risk taking behaviour. However, these studies have not produced uniform findings. Some scholars underline the importance of understanding the personal attitudes to risk and considers the attitude and behaviour dimension one of the key dimensions to understanding risk. The rationale of the importance of understanding the decision makers' risk behaviour is that, to a certain extent, the strategies of an organisation reflect the dispositions of their managers in terms of their background, beliefs, attitudes and problem-solving styles [2]. This behavioural aspect of managers' risk taking in decision making introduces the fundamental question about the determinants of risk behaviour. What exactly determines or influences a manager's risk behaviour when

making a decision? There are currently several views accepted, like the dispositional view and the situational view, but there are also views that consider a relationship between personal factors like gender and age which influence the risk behaviour of a decision maker.

3. Relationship between gender and risk behaviour

There have been many studies into gender differences in risk behaviour and decision making quality but their results are contradictory. From the middle of the last century to present day, the stereotype that, when confronted with risky decisions, women choose low-risk alternatives whereas men choose alternatives with higher risks has been disputed in academic circles. Studies conducted in the 1950s and 1960s show consistent findings that, even when differences such as intellectual aptitude and special abilities are controlled, women apparently show inferior quality of problem solving. Johnson and Powell [3] comments on previous literature and observes that women were found to be more easily persuaded and influenced than men, irrespective of the risk involved, less aggressive, more conforming in group pressure situations and had less confidence in their decisions. Other scholars' findings support the body of evidence that men are more inclined to take risks than women in a variety of situations. There is evidence from survey data which suggests that the nature of wealth holdings of single women is less risky than those of single men of equal economic status, which might imply that women are more risk averse than men. However, Wallach and Kogan [4] found that women were more conservative than men when unsure of their decisions but more extreme than men when very sure of their decisions. Wallach and Kogan conclude that a simple generalization about gender differences in judgement and risk taking cannot be made and that the level of certainty of the decisions together with the subject matter they concern must be analyzed. Extrapolating the investigation on gender differences in the management domain, Powel [5] conducted an extensive review of research on sex differences in management and, in determining the level of support for each of

these viewpoints, considered four types of possible differences: in behaviour, motivation, commitment and subordinates responses. Powel found insignificant differences and concluded that there is little reason to believe that either women or men make superior managers, or that women and men are different types of managers. Later, in a study on managerial and non-managerial populations of men and women, Johnson and Powell found that women differ from men in their risk propensity in the non-managerial population but found no difference in the managerial population.

4. Relationship between age and risk behaviour

Compared with the literature on the relationship between gender and risk behaviour, a lot less has been written about the relationship between age and risk behaviour. Most of the literature comes from psychology, sociology, economics and behavioural sciences and only a small proportion comes from management sciences. However, this is only an observation, not an inconvenience, as the nature of studying the relationship between age and risk behaviour in a business context transcends from the management domain into psychology, sociology, economics and behavioural sciences. While conventional wisdom suggests that individuals take fewer risks as they age, the evidence from empirical studies yields contradictory results. In an early study on the relationship between age and risk behaviour, Wallach and Kogan [6] compared risk-taking behaviour of college age and elderly men and women, and found that the older subjects, both males and females, were significantly more conservative than the college students. Recognizing the shortfalls of examining two extreme age groups, Kogan and Wallach [7] comment in a later review article on the need for further exploration of age – risk-taking relationship using less extreme age groups. In an attempt to satisfy this need, Vroom and Pahl [8] investigate the age-risk behaviour relationship on a sample of almost 1,500 managers with age ranging from 22 to 60 years. After plotting the data obtained using the Kogan and Wallach [9] choice dilemma questionnaire as a measure of risk propensity, Vroom and Pahl found that the slope of the

relationship between mean riskiness and age is greatest in the age range 22 to 32 years, flattens out in the age range 33 to 48 years and increases again in the age range 48 to 58 years. This means that for the managers used in Vroom and Pahl's study, the age group 22 to 32 years and 48 to 58 years appears to be more risk seeking whereas the age group 33 to 48 appears to be more risk averse.

5. Conclusion

Since scholars first articulated the fundamental question about the determinants of risk behaviour, the issue remains unresolved. However, there have been attempts, along the years, to resolve this issue by researchers who advanced the integrative theories but with little or no success at all. The most popular theories about the determinants of risk behaviour consider the personal characteristics such as the gender and age of a decision maker as natural predisposition towards taking or avoiding risk. It appears that, similarly to the relationship between gender and risk behaviour, the relationship between age and risk behaviour is not conclusive and that additional variable factors must be taken into account. The process of globalisation has altered the way business managers and auditors perceive risk. As the risks in a globalised economy have become more pervasive in nature, if better decisions are to be taken by managers and auditors alike, the determinants of risk behaviour must be better understood.

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Financial and Macro-Economic Views of the Mondial Economic Crisis

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Abstract

The global economy has significantly deteriorated in 2009 and the comeback looks to be irregular. The weakest performances in terms of reverting to the situations before the onset of the crisis are predicted to show for the countries of the European Union. Even though the monetary and fiscal stimuli have been consistent, the lack of sustainability of public debt and the risk of rising prices bring up discussions of initiating measures for the gradual retraction of stimuli.

Key words: world economy, financial markets, economic deficit, crisis, recession.

J.E.L. classification: G01, H61, H68

1. The Context of the Current Crisis

Even since the end of 2007 or the beginning of 2008, when credit collapse was considerably covered in the press, and governments tried to adopt extraordinary measures to control the effects, there have been successful investors, public servants, economic analysts who tried to predict the trend of the crisis. Most of them gave positive forecasts over the real growth with a medium estimate of 2%, and the most optimistic estimate was 5%. The only one who predicted correctly was Jan Hatzius from Goldman Sachs who had put forth the value of -0.4%, the real modification of GDP between the two periods taken into account being -0.8%.

At that time, these economists had not understood and had no idea about the global effects of the phenomenon.

The global economic activity in 2009 remained at a very low level, after suffering a severe contraction in the last quarter of the previous year. The world economy was also

negatively affected by the adjustment of firm balance sheets and population incomes, by the wealth effect and by the lowered level of confidence which prevailed, despite the measures of systemic risk limitation and financial stabilization put in place by governments and central banks.

The modification of international financial system characteristics starting with the second half of 2007 was no surprise, numerous supra-national institutions (IMF, BIS, ECB) drawing attention to the fact that the risk is under evaluated and that a negative evolution is an increasing possibility.

The main identified causes for the problems in the financial systems of developed countries have been [2]:

- the development of financial innovations without an adequate understanding of the risks assumed and without the implementation of adequate risk management methods
- the significant excess of liquidity in the context of low interest rates which promoted the assumption of great risks for obtaining high turn-over
- the transparency of investments in innovative products as well as the implementation framework were insufficient .

The central banks reacted promptly through immediate measures consisting of urgent liquidity supply, the use of new financing facilities over the ones offered by current monetary policy operations and, in some situations, the reduction (aggressive within the FED) of monetary policy installments.

Regarding international financial markets, dominated by people who invest other people's money, often within a context in

which a destructive behavior gives birth to fabulous wealth, their evolution was marked by volatility and a significant drop in stock prices.

The slowdown of advanced economies, under the conditions of a reduction in global trade as an effect of the lowering of global demand, especially affected the manufacturing industry of countries with emergent economies.

The global activity, in the second quarter of 2009, returned to a rising trend, being stimulated by the monetary and fiscal policy measures implemented in many states, meant to contribute to the stabilization of the financial sector. Initially stimulated by the manufacturing industry and later by the services industry, the economic recovery occurred faster in emerging economies, whose direct exposure to the crisis was reduced. Worldwide production fell by 0.6% this year, after a 3% increase in 2008 and 3.8% increase in 2007.

The influence of the crisis over actual activity was also felt in the evolution of world trade, which registered a decrease of -11.3% in 2009, as compared to an increase of 4.4% in 2008 and one of 6.3% in 2007. Following the decision of OPEC to reduce production, as well as the improvement of the perception over economic perspectives, the price of oil (the BRENT quotation), stabilized in the first quarter of 2009, after which it began to rise, reaching 77.8 USD per barrel at the end of the year, on the whole, however, the price of oil averaging 62.5 USD per barrel, 36.4% less than the average for 2008. It is worth mentioning the fact that the price of oil peaked at 147.5 USD per barrel (reached in July 2008), followed by a sharp drop up to the end of 2008 and reaching a minimum of 38.5 USD/barrel. This fact was an effect of consolidation the US oil supplies and of the impact of the financial crisis over the perspectives of global economy. However, on the whole of the year, the average price was 3.5% over the average of 2007, with a value of 98.3 USD/barrel.

With regards to the prices of raw materials (exclusively energy resources), expressed in USD, they were very volatile throughout 2008, registering a sharp increase in the first quarter, determined by the prices of agricultural products and followed by an abrupt drop in the second half of the year, on

the backdrop of the reduction in the prices of energy resources; the prices of non-energy commodities rose on average by 14% in 2008 as opposed to 2007 and in 2009 they dropped on average by -18.7% as opposed to 2008, with the exception of the prices of metals, which registered increases, due to the measures of infrastructure development announced by China.

Worldwide inflation was strongly affected by the evolution of global economies and the abrupt movements of the prices of commodities. Due to the increase of prices for foodstuffs and energy resources in the first half of 2008, inflationary pressures were considerable, the average inflation rate reaching 4.8% in July (this data is for OECD countries). In the second half of the year, inflationary pressures subsided, the average inflation rate in OECD countries decreasing to 3.6% in December, registering a negative rate in the first half of 2009, determined by the decrease in international commodity prices and the reduction of the degree of using production capabilities, as a result of the restriction of economic activity. Starting with the second half of 2009, the comeback of international commodity prices raised the inflation rate to 1.9% in December [1].

2. Aspects of the Crisis in Countries Belonging to the Euro Zone

With regards to the Euro Zone, it showed a significant economic slowdown, from 2.7% in 2007 to 0.8% in 2008, due to the worsening of economic conditions starting in September, along with the accentuation of tensions on the financial market. In 2009, the Euro Zone registered a -4.1% economic decrease, after an increase of 0.6% in 2008, on the backdrop of the reduction of private capital expenses and the restriction of international trade (the states included are the 16 EU members which belonged to the Euro zone at the beginning of 2009, as opposed to 15 states at the end of 2008: Australia, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Malta, The Netherlands, Portugal, Spain, Slovakia and Slovenia).

. Worldwide economic growth entered negative territory for the first time in 1980 (-0.6%), and the economy of the Euro Zone decreased by -4.1% (WEO Update, iulie 2010), significantly affecting commercial

exchanges, which dropped by -20% at a global level, and by -16% at a European level.

The gross fixed capital formation decreased by -10.9%, especially in the corporate field, as a result of the restriction of demand and in the construction field, on the backdrop of the decrease in housing prices.

In the first half of 2008, internal demand was considerably dulled due to the decrease in the real incomes of population households, on the backdrop of the increase of increase in the international prices of commodities.

Private consumption was reduced by 1.2%, being affected by the lowering of the real available income of population households, as a result of the decrease in the degree of occupancy and the tightening of crediting conditions.

At that point the decline of residential investments also began (affected by the fall of the housing markets) as well as the decline of productive investments (due to the tightening of financing conditions), and the consumption of public administration rose by 2.4% as opposed to 2008, being stimulated by the anti-cyclical fiscal measures, thus limiting the economic decrease of the Euro Zone.

External demand was limited by the slowdown of economic growth, both in advanced and in emerging economies.

If, in 2007, the export of goods and services in the Euro Zone were rising by 5.9%, in 2008 they were slowed to a mere 1% increase, and imports of goods and services from a 5.8% increase in 2007 to just 1% in 2008, due to the reaction to the evolution of internal demand; in 2009 the exports of goods and services were reduced by 13.3% and the imports of goods and services by 12%. This reduction of exports was determined by the evolution of external demand and by the substantial appreciation of the Euro, while the decrease of imports of intermediate and capital goods was determined by the compression of exports.

The slowdown of economic activity, from a sectoral perspective, was reflected in all fields, but especially in the manufacturing industry - determined by the decrease of external demand, the quickly diminishing internal orders stock and the reduction of activity in the automobile and construction industries. The activity in the construction

industry registered a significant decrease on the backdrop of the deterioration of the housing sector, especially in the countries where its GDP input rose in the period predating the financial crisis. The activity in the services sector suffered a collapse as well, especially in transports, car rentals, consultancy and publicity, being affected by the diminishing private consumption and production activities.

The average annual inflation rate, measure by a harmonic index of consumption prices, fell from 3.3% in 2008 to 0.3% in 2009, being the lowest level ever registered since the introduction of the Euro, this being due to reduced inflationary pressures. This evolution was determined by the reduction of the prices of international commodities, especially of energy resources which, in 2008, came in at the highest level since the introduction of the Euro and over the level which defines price stability in the Euro Zone.

If, beginning with 2006, the conditions on the labor market had seen a significant improvement up to the middle of 2008, the conditions on the labor market of the Euro Zone deteriorated in 2009 for the second consecutive year. The BIM unemployment rate [4] increased from 7.6% in 2008 to 9.4% in 2009, significant increases in unemployment rate being registered in Ireland and Spain, while in Germany and Italy, the increase were not as drastic.

With regards to the budgetary deficit of the Euro Zone, it rose from 2% of GDP in 2008 to 6.2% in 2009 being the largest budgetary deterioration since the creation of the Economic and Monetary Union, on the backdrop of the evolution of the financial crisis, the major economic contraction and the anti-cyclical methods of fiscal stimulation. In 2009, in the majority of countries, the budgetary deficit exceeded the reference value of 3% of GDP, becoming the object of the excessive deficit procedure instituted by the European Commission, with terms for correcting the budgetary deficit between 2012 and 2014. The lowest shares of budgetary deficits of GDP were registered in Luxemburg - 0.7% and Finland -2.2% and in three countries of the European Union there were recorded shares of budgetary deficit of GDP of over 10%: Ireland -14.3%, Greece - 13.6% and Spain -11.2%.

In 2008, as an effect of governmental interventions for the financial system stabilization, the rate of public debt of the euro zone rose by 3.3% over the previous year, reaching 69.3% of GDP. Compared to the previous year, in 2009, the rate of public debt of the Euro Zone rose by 9.4% reaching 78.7% of GDP, as an effect of the decline of economic activity, of governmental intervention for the stabilization of the financial system and the increase in budgetary deficits. All of the states in the Euro Zone have recorded a rise of the share of public debt of GDP, of which 10 exceeded the 60% reference, the largest being recorded by Italy -115.8%, Greece -115.1%, Belgium -96.7%, France -77.6%, Portugal -76.8% and Germany -73.2%.

Due to the transformation of the deficit of commercial balance into surplus and the halving of the income balance deficit, the aggregated current account of the Euro Zone closed at a deficit of 67.6 billion Euro (0.6% of GDP), as opposed to 161.6 billion Euro in 2008, compared to a surplus of 13.5 billion Euro in 2007. The commercial balance of the Euro Zone closed at a surplus of 46.4 billion Euro in 2007, under the conditions of a sharper drop in imports compared to exports. The later stabilization and re-invigorating of exports was sustained by re-establishing external demand, but the favorable effect of these facts was limited by the decrease in the zone's competitiveness, through the appreciation of the Euro, compared to the second half of 2008 when the Euro saw important devaluations.

If we are referring to direct and portfolio investments in 2009, they recorded net inputs of 229.8 billion Euro as compared to 145.4 billion Euro in 2008, the increase being a reflection of the net influxes of participatory portfolio investments (due to the attempt of global investors to modify the investment portfolio to favor their resident countries) and the decrease of direct investment outputs. These evolutions were partly limited by the reduction of net influx such as debts.

The governmental incentives were significant in 2009, the average fiscal deficit in the European Union reaching almost 7% of GDP, while the external public debt expressed as a share of GDP rose by 12%, with another increase, by about 6%, being projected for 2010. These evolutions are not

sustainable, imposing measures of fiscal consolidation in the majority of European economies, and the withdrawal of fiscal incentives could affect the resumption of economic growth in the main European countries.

In 2009, an important incentive was received by the international financial system from the monetary and fiscal authorities. The central banks of many developed economies have resorted to extraordinary measures to provide liquidity. For example, the most important measure of the European Central Bank to supplement liquidity regarded the providing of unlimited fixed rate liquidity for all refinancing operations. Other measures of the ECB for supplementing liquidity were: increasing the maturity length of long-term refinancing operations (from the maximum of 3 months, prior to the crisis, to one year); insuring financing in other currencies (dollars, Swiss francs, etc.) through establishing some financing programs between the ECB and other central banks; extending the list of eligible collateral; buying guaranteed bonds.

Also in 2009, some central banks went from the return-based approach to the quantitative approach because conventional methods of relaxing monetary policy were almost exhausted. For example, for the Euro Zone the measures led to the increase in the volume of liquidity injected into the market, from approximately 460 billion Euro in September 2008, to about 900 billion Euro in July 2010, with the result of a significant increase in the balance sheets of central banks from the respective developed countries and the increase of already owned mature actives.

The accessing of banks of these supplemental resources was asymmetrical. With regards to the ECB, the Greek credit institutions have significantly used the existing facilities, the volume of refinancing operations exceeding 20% of GDP in December 2009, therefore the gradual elimination of these measures will have to be initiated having into account the dependency on external financing of certain banking groups. In the first months of 2010, the measures initiated by the ECB have led to the continuing extension of the support offered to the banks.

The fiscal authorities of certain member states of the European Union have adopted in 2009 also, important measures of support for the banking sector, over 60% of the value of banking recapitalizations coming from this source. These governmental actions have permitted, by the end of 2009, that the banking losses be covered through the volume of newly induced capital.

The banking sector of the ECE is also dominated by Euro Zone banking groups. This is also reflected by the homogeneity of the degree of vulnerability to local shocks, the problem of common creditor being very important. As can be observed from Table 1, in the matrix regarding the importance of transmission channels, a high indicator value implies a high contagion degree. The row sums represent the importance of the country in question for the transmission of regional shocks, while the column sums represent the vulnerability of the respective country to regional shocks. The matrix represents the importance of the transmission channel between two countries based on the exposure to a common lender, considering only the banking calculus and assuming the hypothesis of uniform shock transmission between the countries in question. The crediting countries used were: Austria, Greece, France, The Netherlands and Italy. The criteria was the importance of the banking groups from these countries for the Romanian banking sector. The method of calculating regional exposure is based on the definitions used by the BIS with regards to banking exposures and is taken from Fratzscher, M., "On Currency Crises and Contagion", European Central Bank, #139, April 2002.

The degree of contagion through the banking channel did not suffer any important modifications in 2009 at the level of the ECE, with the exception of Russia for which the regional importance index was lowered. Countries such as Poland, the Czech Republic, Romania and Russia can have the largest impact over the ECE region, through the common creditor channel, due to the high volume of Euro Zone bank exposure in the respective countries.

3. Conclusions

It was to be expected that in 2010, economic growth would see a comeback, however in a non-uniform manner, on the international level. The countries of the European Union are predicted to record some of the lowest performances (1% economic growth as opposed to the 4.6% world average) and the comeback from this crisis is estimated to be the result of both the packages of fiscal measures adopted by the authorities as well as the result of the incipient re-invigoration of activity in the private sector, although the viability of this comeback remains affected by short-term uncertainties.

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The Global Economic Crisis, Deglobalisation and Recovery

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Abstract

The global economic crisis has sparked short-term divergence of economic performance between the West and emerging markets, and thereby accelerated the longer-run convergence of the latter on the former. This Shift to the East is also even more evident in international trade and FDI than it is in other channels of globalisation.

But emerging markets' political and economic institutions, and intra-regional divisions, continue to hold back their rise. That means the Shift to the East will not translate into Chinese or other emerging-market leadership for a long time to come – if ever. The USA is still the fulcrum of international relations, and the world is far from being “post-American”. Thus the economic shift to emerging markets, accelerated by the crisis, does not translate into a paradigmatic shift in global political-economic order. But it does insert more multipolarity and uncertainty into that order, and leaves more of a leadership vacuum.

Key words: crisis, economy, deglobalisation, development

J.E.L. classification: G01

1. Introduction

World trade is recovering from its steepest fall since the 1930s – part of the biggest “deglobalisation” the world has seen since the Great Depression. The good news is that rampaging 1930s-style protectionism has not returned; indeed new crisis-related protectionism has been remarkably restrained. But protectionism has resurfaced

nonetheless, creeping out of the thicket of domestic “crisis interventions” and the seeming return to “big government”. Trade liberalisation had already stalled around the world before the crisis; the latter, predictably, increased all-round defensiveness.

The global economic crisis has also ushered in a dramatically different political and economic context compared with benign pre-crisis conditions. It has narrowed the gap between the West and emerging markets. An anaemic recovery and pervasive gloom cloud the West; talk of American decline and Eurosclerosis is back in fashion. Roaring growth and sunny optimism brighten emerging-market skies, especially in Asia; China and India shine brightest of all. But skies also shine brightly in parts of Africa and Latin America, notably Brazil. Russia has also rebounded after a searing recession.

2. The goldilocks global economy before the crisis

The pre-crisis global economy enjoyed golden conditions. The quarter-century up to the crisis saw the fastest increase in economic growth, globalisation and prosperity in history. International trade increased sevenfold between 1980 and 2008, outpacing the increase in world GDP in the same period; world foreign direct investment (FDI) far outpaced both. The global stock of outward FDI increased from USD 579 billion in 1980 to USD 16206 billion in 2008. The number of transnational companies in 2008 was estimated at 82 000, with 810 000 affiliates representing sales of USD 30 trillions [1].

The global economy had its “Goldilocks” moment in the half-decade from 2002.

Growth, trade and FDI soared to ever-greater heights; financial globalisation soared even higher. Comparative advantage worked in textbook fashion. Labour-abundant Asia rose, powered by the opening and global integration of China and, to a lesser extent, India. China became deeply enmeshed in east-Asian manufacturing supply chains linked to final markets in the West. Resource-abundant Latin America, Africa and the Middle East did well in a China-led commodity supercycle. And the capital- and technology-abundant West also prospered.

Modern globalisation has two engines: technology and policy liberalisation. Technological innovation has slashed the transaction costs of trade by shrinking physical distance; the information-technology (IT) revolution – a combination of the Internet and mobile phones – has obliterated it altogether. Advanced IT has created new global manufacturing supply chains as well as new, highly tradable services sectors.

But technological innovation has not occurred in a vacuum; it has been enabled by internal and external policy liberalisation. Internal liberalisation has reduced or eliminated regulations in product, capital and labour markets, thereby liberating the “animal spirits” of competition and entrepreneurship. This was the essence of the Reagan, Thatcher and European Single-Market revolutions in the 1980s and early 1990s. External liberalisation has lowered barriers to cross-border trade and investment. Developing countries liberalised massively and integrated into the global economy in the 1980s and ‘90s, with ex-Soviet economies following from the early 1990s. Average tariffs in developing countries fell from about 30 per cent in 1985 to just above 10 per cent in 2005. There were corresponding reductions in non-tariff trade barriers, FDI restrictions and restrictions on trade in services. The Washington Consensus reigned, reaching its apogee in the late 1990s. According to Jeffrey Sachs and Andrew Warner, around a quarter of the world’s population lived in open economies in 1980. By 1993, a majority of humanity lived in (more or less) open economies [2]. Today, adding China and India, that figure is closer to 90 per cent.

Finally, there was a conducive geopolitical environment. America became the sole superpower in the 1990s, replacing Cold War bipolarity. And global economic institutions, especially the IMF, World Bank and WTO, were at the height of their powers.

This was the global economic and geopolitical context for major emerging markets until 2008. The BRICS (Brazil, Russia, India and China) and other large emerging markets (such as Indonesia, Mexico and South Africa) undertook massive external liberalisation in the previous two decades. They became much more globalised, with increasing trade volumes, trade-to-GDP ratios, growing shares of world trade and exported value-added, and increasing FDI inflows and outflows. And, to varying degrees, they enjoyed “catch-up” growth. OECD analysis indicates that those countries and sectors in the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa) that opened up most have enjoyed the largest growth spurts. Export-oriented manufacturing in China, much of it driven by openness to inward investment, is one notable example. The emergence of globally competitive services providers in India, especially in a young, lightly regulated IT sector, is another [3].

3. The global economic crisis, deglobalisation and recovery: different effect on the west and emerging markets

The financial crisis that exploded in September 2008, preceded by the credit crunch that started a year earlier, transformed a benign global political and economic context into something more malign. A sharp contraction in global growth ensued. This was reinforced by even sharper contractions in trade, FDI, financial flows and other channels of globalisation. The world suffered its worst deglobalisation since the Second World War. Contrary to some predictions, Asia and other emerging markets did not “decouple” from the West; they too were dragged down. Contractions in growth, industrial output and trade bottomed out towards mid-2009, followed by a halting global recovery. The crisis has induced both divergence and convergence between the

West and emerging markets. Post-crisis economic performance has diverged markedly; but this has accelerated the long-run catch-up or convergence of emerging markets with the West.

Diverging economic performance has its roots in the crisis itself. The West had a financial crisis. That translates into a deeper-than-normal recession and a slower-than-average recovery [4]. The picture looks very different in emerging markets, particularly in Asia. Unlike the West, Asian and many other emerging markets did not suffer a financial crisis; their banks and balance sheets (household, corporate, government and external) were reasonably solid. Rather they suffered a trade or deglobalisation crisis as the financial crisis, originating in the West, spread to the "real economy" and demand for exports collapsed. But they rebounded quickly – much more so than the West.

4. Trade policy, emerging protectionism and the 1970s' precedent

Will domestic crisis interventions spill over to trade protectionism? There is an optimistic answer – and a contrasting pessimistic one.

Start with the optimists. One aspect of the post-crisis conventional wisdom – dear to the hearts of Keynesian and other social engineers – is the belief in "Keynes at home and Smith abroad" (otherwise known as "embedded liberalism" in International Relations jargon). Greater government macro- and microeconomic interventions at home are needed to stimulate recovery and preserve social stability – and thereby prevent a slide into protectionism. But this should proceed in tandem with open markets abroad, which require robust international policy coordination (sometimes labelled "global governance").

To Jan Tumlrir, the GATT's long-time in-house philosopher, the source of the problem is overactive governments in cahoots with domestic organised interests. Cumulative interventions distort prices, rigidify economies, and make public and private actors more resistant to adjust to external change. The predictable corollary is a "fear of trade" and the resort to import protection.

Thus "protectionism is the inherent logic of the redistributive state working itself out externally." This is how Tumlrir accounted for twentieth-century protectionism, in the 1920s, 1930s, 1970s and 1980s [5].

We agree with Smith and Tumlrir. I am more worried about the medium-term competition-restricting consequences of BigGovernment, including protectionism, than I am about a short-term contraction of aggregate trade and demand in the wake of the crisis.

A review of the troops

Now turn to the major players in trade policy and see how they have responded to the crisis. This section starts with the United States and the EU, and then goes on to the major emerging markets and Japan.

United States

America is down and diminished, though not out. On foreign policy, President Obama's rhetoric on soft power and multilateralism has not translated into effective American leadership abroad, on either security or economic agendas. Economic woes at home clearly cramp the USA's ability to lead abroad; weakness at home translates into weakness on the global stage.

Trade policy has deteriorated in the United States since the Obama administration took over. The Bush administration, for all its faults, did not do a bad job on this front. Its major achievement was to contain protectionism at home, especially against China. President Obama, on the other hand, while no clear-cut protectionist, has ambivalent views on the subject and is not an instinctive free-trader. He has powerful protectionist forces inside his tent – among Congressional Democrats, the AFL-CIO, and at his Cabinet table. The Office of the United States Trade Representative is packed with staffers with close links to trades unions as well Congressional lawmakers with protectionist voting records. This makes the Obama administration different from previous administrations, including the Clinton administration.

EU

The picture in the EU is similar to that in the United States: internal weakness and external defensiveness. True, some European economies show signs of healthy recovery. But that is not the overall picture. Symptoms of *malaise* abound: sovereign-debt crises, still-malfunctioning banking systems, industrial strife, sclerotic labour markets, bloated welfare states, intergovernmental squabbling and weak EU institutions.

The EU has behaved better than most in terms of headline protectionist measures. It has not increased tariffs, nor – unlike the Americans and Chinese – has it resorted to discriminatory public-procurement measures. And there has been no significant increase in anti-dumping actions and other “trade remedies”. But worrying signs persist. They concern crisis-related regulatory measures that could easily spill over into protectionism. The relaxation of EU state-aid rules during the crisis opened the door to discriminatory subsidisation, especially to the financial and automotive sectors. The EU already has the most stringent food-safety and technical standards in the world. These could become more restrictive, especially on environmental and climate-change regulations.

Caribbean and Pacific countries, and bilateral negotiations with several countries in Asia, the Middle East and Latin America. Trade relations with China are also adrift and replete with tensions. The exceptions to this rule are the freshly ratified FTA with South Korea, and ongoing negotiations with Canada, Singapore and India. And the EU’s vaunted “soft power”, outside its immediate neighbourhood, is hardly taken seriously – when not dismissed as a joke. The European Commission’s new trade strategy, announced in November 2010, does nothing to change these facts on the ground, rather being an update and slight modification of established policy [6].

Finally, the EU suffers from a paradox. With enlargement and greater market size it is weightier in the global economy. But at the same time its decision-making has become more fragmented, making it more difficult to coordinate national positions and speak with one voice. That decreases its ability to wield collective power abroad. In the one arena

where the EU is a global heavyweight -- trade policy -- competence has been divided on several issues, notably services and investment. An enlarged EU made it extra-difficult to have credible positions in international negotiations on services and investment. The Lisbon Treaty is supposed to overcome these problems by streamlining decision-making and unifying competence on services, investment and intellectual property rights. But this is counter-balanced with “co-decision” for the European Parliament. That confers the EP greater power in EU trade policy. Market-sceptical forces and single-issue fetishists in the EP are bound to complicate decision-making and could tilt policy outcomes in a more protectionist direction.

China

China has powered through the crisis with a turbo-charged fiscal and monetary stimulus equivalent to almost 45 per cent of GDP in 2009. It is the leading contributor to post-crisis global growth. China’s continuing industrial revolution. That is also true of other east-Asian economies, who, in addition, export parts and components to China for assembly and export elsewhere. Increasingly, they are also gearing up to export finished goods to a booming Chinese consumer market.

China is now one of the Big Three in the global economy. Until recently, it imported “global order”: it absorbed policies, rules and institutions that materialised from decisions made elsewhere. China still imports global order; but, given its market size, and like the USA and EU, it now exports global order as well. Decisions made in China reverberate around the world. And they do so to a much, much greater extent than decisions made in the other BRICS. China accounts for about 60 per cent of BRICS’ output, two-thirds of its foreign-exchange reserves and exports, and one-third of its inward investment. China plays in its own league among emerging markets. The other BRICS play in an inferior league; they are still much bigger net importers of global order [7].

Japan

Japan is still about as large as China in absolute market size, and is still Asia's richest economy (in terms of per-capita income). But it is stuck in a political and economic quagmire that has lasted two decades. The Japanese political system is blocked; it seems hopelessly incapable of delivering clear policy choices, including economic reforms. The economy has sputtered along a low-growth track, now with astronomically high public debt. The crisis seems to have made Japan even more averse to reform. Exceptionally in Asia, Japan has had a Western-style crisis: Keynesian macroeconomic policies alongside escalating public debt; and growth contraction followed by modest recovery. Conditions would be much worse if not for roaring growth in its neighbourhood, especially in China.

India

India has weathered the crisis well, buoyed by exuberant domestic consumption. Previous market reforms, especially since 1991, have liberated domestic producers and consumers. and opened India to the world. Trade and FDI liberalisation has been critical to India's recent global economic integration. Internal and external market reforms have transformed the business landscape and spawned an aspiring, vibrant urban middle class. But relatively high levels of protection remain: agricultural tariffs and NTBs, peak industrial tariffs and big-ticket services sectors (such as professional services, banking, insurance, retail and distribution, and aviation) [8].

Russia

Russia is exceptional among the BRICS. Since 2003/4, previous market-opening reforms not only stalled; they were reversed and policy went in a strongly deliberalising direction. Politics has become increasingly authoritarian; and it has been used by the state to nationalise energy assets, promote monopolistic practices by favoured national champions, and generally apply laws and regulations in a highly selective, arbitrary manner. "State capitalism" is the order of the

day. Its external manifestation is "hard mercantilism". Foreign policy is aggressive towards Russia's neighbours, its "near abroad". Arbitrary trade measures, such as cutting off gas supplies to other countries, and unlawful treatment of foreign investors, have become more frequent. Trade mercantilism extends to playing off EU member-states against each other in order to entrench EU energy dependency on Russia [9].

The impact of the global crisis on Romania's economy

During the first quarter of 2009 the gross domestic product of Romania fell by 2.6 percent compared to fourth quarter of 2008 (adjusted data taking into account the seasonal variations) and 6.4 percent compared to first quarter 2008 (data not adjusted). The fourth quarter of 2008 witnessed a reduction of gross domestic product by 3.4 percent over the third quarter. The second quarter of 2009 saw another decline of GDP, by 1.1 percent compared with the previous quarter and by 8.8 percent compared with the same period of 2008. So, according to the technical definition of a recession, i.e. a decline in GDP for two consecutive quarters, Romania has entered recession in 2009.

The global crisis has seriously affected in 2009 the industrial sector, whose main branches are under the majority control of foreign capital and subsidiaries of multinational corporations, being more exposed to international markets. In the first seven months of 2009, the industrial production decreased by 9.6 percent over the same period of last year. On sections, a decline by 10.8 percent has been recorded both in extractive industry and manufacturing. On industry groups, more severe production drop was in intermediate goods (-15.3 percent) and durable consumer goods (-17.4 percent).

In the first eight months of 2009, compared with the same period of 2008, the biggest fall in the industrial production was registered in manufacturing of basic metals, manufacture of other nonmetallic mineral products and textiles. Other manufacturing industries in decline were clothes, paper and

paper products, chemicals and chemical products, rubber and plastics, petroleum products, furniture. Industries less affected by the crisis and where production has increased during the analyzed period (wood processing, publishing houses, printing and reproduction of recorded media, manufacture of electric equipment), even are not touching essential sectors of the economy, could see a more rapid recover [10].

5. Conclusions

The global economic crisis has sparked short-term divergence of economic performance between the West and emerging markets, and thereby accelerated the longer-run convergence of the latter on the former. That is particularly evident in globalising Asia. This Shift to the East is also even more evident in international trade and FDI than it is in other channels of globalisation. And it creates very different economic and geopolitical conditions to those that prevailed under US leadership and a transatlantic-centred world economy in the second half of the last century. Western and emerging-market elites are only just beginning to recognise this shift, but they still have little clue how to deal with it.

But emerging markets' political and economic institutions, and intra-regional divisions, continue to hold back their rise. That means the Shift to the East will not translate into Chinese or other emerging-market leadership for a long time to come – if ever. The USA is still the fulcrum of international relations, and the world is far from being "post-American". But the USA is diminished; it is less capable and willing to exercise global leadership – clearly evident under the Obama administration. Europe is also no substitute for US leadership. The EU has the world's biggest unified market. But that is the extent of the EU's global power. Its hybrid nature, internal divisions and absence of hard power (a unified military capacity) will always prevent it from having a serious, coherent foreign policy. Its soft power, outside the greater European neighbourhood, is mostly postmodern hot air.

On a final contextual note, the global economic crisis has brought Keynesian macroeconomics back to fashion, and with it

Pigovian welfare economics – microeconomic interventions to fix alleged market failures. A social-engineering mentality – the belief that superior technocratic minds can solve complex social and economic problems with targeted interventions – has been in the ascendant. Welcome to the world-view of Mr. Bentham, Mr. Keynes, Mr. Stiglitz and Mr. Krugman. That of Mr. Hume, Mr. Smith and Mr. Hayek – the belief that markets are complex organisms; that governments, however expertly staffed, cannot possibly have enough knowledge to "fine-tune" macro- and microeconomic outcomes with detailed, prescriptive regulations; that governments also "fail" through human fallibility, political pressure and corruption; and, consequently, that regulation should err on the side of caution and stick to general rules to allow markets to operate effectively – has become less popular.

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The Impact of the Global Crisis on the European Labour Market. Case Study: the Labour Markets of Spain and Romania

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Abstract

The paper deals with a comparative analysis of the labour markets in Spain and Romania, countries which are powerfully connected under the migratory stream. The first part of the analysis is connected to the Spanish economic environment which was able to support a high labour demand until 2008. The second step is to present the situation of the Romanian labour market under present crisis.

A distinct part of the paper deals with the European balancing labour market prospects, including Spain and Romania.

The main conclusion of the paper is that the labour market is far away to find the equilibrium. Moreover, its situation in Romania is worst. The analysis and its conclusions are supported by neutral statistical databases, tables and pertinent diagrams.

Key words: migratory stream, unemployment rate, active population, labour cost.

J.E.L. classification : J60, J61, J62.

1. Introduction

The European Commission referred to the labour mobility deficit in the EU. Only 2% of the EU working-age population work in other member state. On the other hand, the foreign workers from the EU are two times more mobile than the European citizens [1].

In order to obtain better jobs, the European citizens have to move from a place to another. The young workers started to understand it. The latest Eurobarometer survey demonstrated that about 70% of the young workers support the geographical and professional mobility in order to build their career. Moreover, they practice multi mobility, a paradigm which covers short term

jobs, according to the employer or employee's needs time.

The European Commission's implemented measures achieved partly the mobility increase.

According to the European Labour Force Survey, the number of the mobile workers in the EU15 grew, from 470000 in 2000, to 680000 in 2008. These data have to be corrected with the casuals.

Even that 2006 was the "Year of the EU workers mobility", there are barriers against the labour free movement, related to: administrative formalities, housing cost, difficulties in hiring spouse, pensions, language, children's schooling and so on.

Nowadays, the potential migration from the latest EU member states decreased, after a boom during 2004-2008.

2. Regional unemployment under the global crisis

At the end of 2009, the community regional unemployment rates varied between 2.1% in Zeeland (Netherland) to 27.1% in Reunion (France). During 2008-2009, the unemployment rate increased in 90% of the NUTS2 regions. 28 regions had an unemployment rate less than 4.4% and a half rates equal to the EU average. From the second category belong 11 regions from Netherland, 5 from Austria, 3 from Italy, by two regions from Belgium, Czech Republic and Germany and by a region from Bulgaria, Romania and UK.

At the other extreme are 13 regions with unemployment rates of 17.8% or greater: 9 regions from Spain and 4 regions from the French Departments [2].

The female regional unemployment rates were lower in Zeeland (2.4%), Utrecht (2.9%) and Tirol (2.9%). The greatest female regional unemployment rates were in Mellila (33.6%) and in 4 French Departments.

Table 1. Total regional unemployment rates (2009, %)

The lowest unemployment rates		The highest unemployment rates	
Region	Rate	Region	Rate
Zeeland (Netherlands)	2.1	Melilla (Spain)	33.6
Gelderland (Netherlands)	2.8	Reunion (France)	29.0
Bolzano (Italy)	2.9	Ceuta (Spain)	28.2
Utrecht (Netherlands)	2.9	Andalucia (Spain)	27.1
Tirol (Austria)	2.9	Canarias (Spain)	27.0
Prague (Czech Rep)	3.1	Guadeloupe (France)	26.3
Noord-Brabant (Netherlands)	3.2	Guyane (France)	25.9
Noord-Holland (Netherlands)	3.2	Extremadura (Spain)	25.3
Salzburg (Austria)	3.2	Martinique (France)	23.0
Trento (Italy)	3.5	Castilla-La Mancha (Spain)	21.4
Friesland (Netherlands)	3.5	Valenciana (Spain)	21.0
		Murcia (Spain)	18.8

Source: <http://ec.europa.eu/eurostat>

Practically, the female unemployment has the same rates as the total one. As a result, Netherlands and Austria had lower unemployment rates, but the French Departments had the highest ones.

Table 2. Female regional unemployment rates (2009, %)

The lowest unemployment rates		The highest unemployment rates	
Region	Rate	Region	Rate
Zeeland (Netherlands)	2.4	Reunion (France)	27.1
Utrecht (Netherlands)	2.9	Canarias (Spain)	26.2
Tirol (Austria)	2.9	Andalucia (Spain)	25.4
Gelderland (Netherlands)	3.1	Melilla (Spain)	24.2
Prague (Czech Rep)	3.2	Guadeloupe (France)	23.4
Noord-Brabant (Netherlands)	3.3	Martinique (France)	21.8

Bolzano (Italy)	3.4	Valenciana (Spain)	21.1
Noord-Holland (Netherlands)	3.4	Murcia (Spain)	20.7
Flevoland (Netherlands)	3.5	Extremadura (Spain)	20.5
Drenthe (Netherlands)	3.6	Guyane (France)	20.2
Overijssel (Netherlands)	3.6	Ceuta (Spain)	18.9
Zuid-Holland (Netherlands)	3.6	Castilla-La Mancha (Spain)	18.8
Salzburg (Austria)	3.6		
Bucharest-Ilfov	3.6		

Source: <http://ec.europa.eu/eurostat>

The greatest disparities are connected to the young people unemployment. The situation is better in Netherlands (Zeeland 4.0%, Gelderland 5.4%, Overijssel 5.6% and Utrecht 5.7%), but worst in the French Departments (Guadeloupe 50.3%, Martinique 57.6% and Reunion 49.6%).

Across 35 regions, the young people unemployment rates were less than 9.9%: 14 regions from Germany, 12 regions from Netherlands, 5 from Austria and by one region from Czech Republic, Slovakia and UK. Across 7 regions, the unemployment rates were above 39.8%: by three regions from Spain and France and a region from Italy.

Across 75% of the EU regions, the young people unemployment rates were at least two times greater than the EU total average unemployment rate. Only Bremen had a young people unemployment rate less than the total unemployment rate.

Table 3. Young people regional unemployment rates (2009, %)

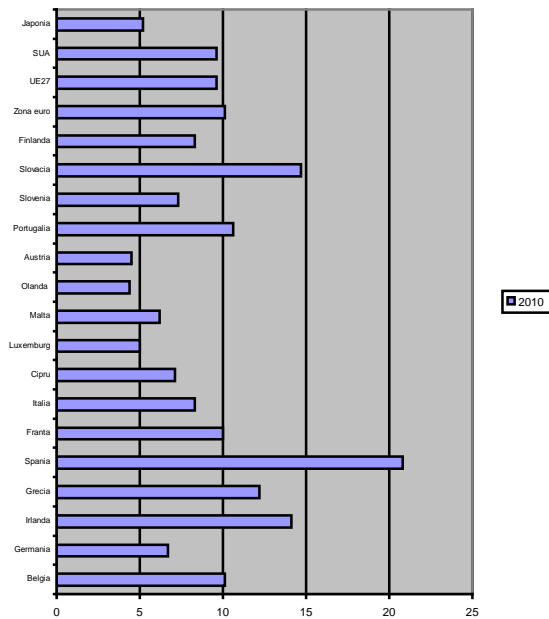
The lowest unemployment rates		The highest unemployment rates	
Region	Rate	Region	Rate
Zeeland (Netherlands)	4.0	Guadeloupe (France)	59.3
Gelderland (Netherlands)	5.4	Martinique (France)	57.6
Overijssel (Netherlands)	5.6	Reunion (France)	49.6
Utrecht (Netherlands)	5.7	Canarias (Spain)	47.9
Tubingen (Germany)	5.8	Andalucia (Spain)	45.0

Noord-Holland (Netherlands)	6.1	Sardinia (Italy)	44.7
Noord-Brabant (Netherlands)	6.3	Extremadura (Spain)	41.2
Oberbayern (Germany)	6.4	Melilla (Spain)	39.7
Tirol (Austria)	6.4	Valenciana (Spain)	39.5
Freiburg (Germany)	6.7	Sicilia	38.5
Bremen (Germany)	6.9	Basilicata (Italy)	38.5
Oberpfalz (Germany)	6.9	Campania (Italy)	38.1

Source: <http://ec.europa.eu/eurostat>

Across the Euro area, the average unemployment rate was 10.1% on September 2010 regarding 9.3% on the same month 2009.

Figure 1. The unemployment rate trend (%)



Source: personal contribution using [3]

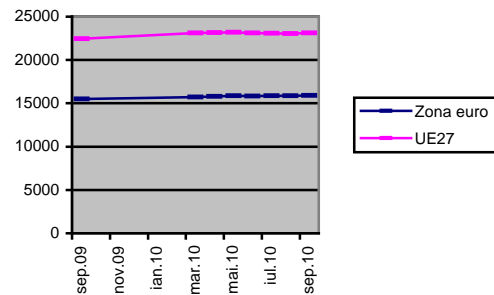
Eurostat forecasted the EU total unemployment stock to 23,109 million persons in 2009. About 16 million of them were from the Euro area. The unemployment rate in the Euro area is greater than that in the EU (9.6%). On the other hand, the lowest unemployment rates in 2010 were achieved in Euro area: Netherlands (4.4%) and Austria (4.5%). The paradox is the highest unemployment rate came from the Euro area,

as well: Spain (20.8%) [4].

In 2010, the unemployment rate was 9.6% in USA and 5.1% in Japan. As a result, the EU average unemployment rate is two times greater than in Japan and the same with that from USA.

The monthly unemployment stock evolution in the EU and Euro area during September 2009 – September 2010 is presented in figure 2.

Figure 2. The unemployment stock trend (mill. persons)



Source: personal contribution using [3]

3. Labour market analysis in Spain and Romania

More than 1/3 from the Romanian households had at least a member went abroad still 1989 [5]. 12% of the people aged 18 to 59 years worked abroad still 1989.

This phenomenon grew after 2002, as a result of the Romanians free movement across the Schengen space.

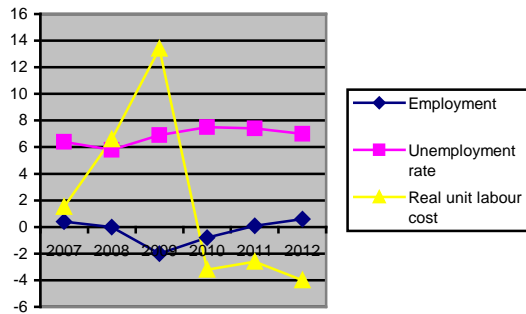
Nowadays, 75% of the Romanians who work abroad are in Italy and Spain. The Romanian legal workers in these two countries are about 1.8 million persons. Moreover, there are at least 400000 persons who work illegally. The Romanian workers activate in construction, agriculture and domestic works.

The Romanian abroad workers represent an important source of incomes and an important investment, as well. The money from abroad was used in housing, cars, electronics and other durable goods. The sources of the migration are the less development regions from Romania.

During the present crisis the Romanian labour market was influenced by the agreements with IMF and the high labour migration abroad. As a result, even the

employment growth rate was low, the unemployment rate and the unit labour cost grew (see figure 3).

Figure 3. The employment, unemployment rate and real unit labour cost in Romania (%)



Source: personal contribution using [3]

The European Commission's forecasts talk about a low employment growth during 2011-2012. The unemployment rate will decrease lowly during the same time period. An important decrease will be achieved by the real unit labour cost.

This information has to be used carefully. On the first hand, the private sector covers 2/3 of GDP in Romania. This is why the influence of the public sector wages decreased on the market. On the other hand, the implementation of the European social model, as a result of Romania's adhering to the EU, will grow the power of the trade unions of the labour market. Third, the great migration of the Romanian workers and the wages' decrease, especially in the public sector, supported the lack of specific labour categories. This is balanced by a labour surplus in other industries. The simultaneous occurrence of shortages and surpluses represent not only a characteristic of the transition economies [6], but one of the emergent or low developed economies.

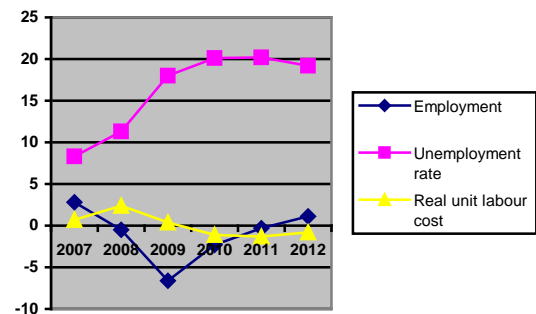
Maybe these imbalances are caused by the labour market rigidity [7]. This is why Romania, with an unemployment rate of 7.5%, and Poland, with 20.1%, in 2010 face to the same lack of trained labour in some specific industries.

The Spanish economy faced to the powerful impact of the crisis. Until 2008, Spain supported a significant development of the constructions and the real estate.

Even that the GDP decreased was only of

0.2% in 2010, the employment decreased powerfully during 2009-2010. The European forecasts talk about a recovery in 2012. The unemployment rate increased during 2008-2010, and it will be high during 2011-2012. Spain faced to constant high unemployment rates still 2007. This evolution of the labour market supported a low decrease of the real unit labour cost (see figure 4).

Figure 4. The employment, unemployment rate and real unit labour cost in Spain (%)



Source: personal contribution using [8]

The tone-alarm is that the unemployment rate in Spain will be high in 2011 and 2012, even that the GDP growth rate will be positive in both years. The new jobs will be created at the end of 2011.

The National Bank of Spain forecasted a gradual improvement of the labour market, especially in the private sector [9].

In 2010, 4.6 million Spanish workers faced to the unemployment. The unemployment affected 800000 Romanians who lived in Spain. Romanians are first ranked among immigrants. The same unemployment rate (20.1%) was achieved only in 1997. As a result, many Romanian workers are forced to return home [10].

The unemployment rate in Romania was better than Spain. Eurostat ranked Romania on the 20th position in the EU under the unemployment rate, in the 4th quarter of 2010. Eurostat talks about 23 million unemployed persons across the EU [11].

4. Conclusions

The great concern about the Romanian economy is that the main pylons from the financing agreement signed with the international institutions were not able to

support the economic growth. As a result, 2011 is the third year of crisis even that the political leaders have another opinion. It will be difficult to grow the labour demand on the market and to ensure jobs for the Romanian workers from abroad.

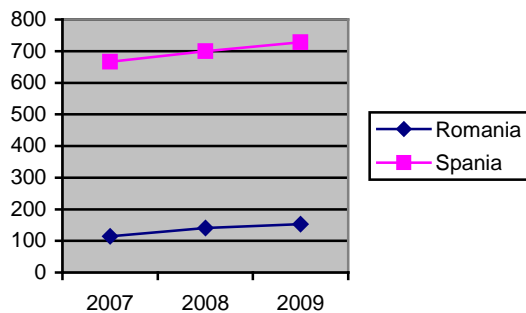
Moreover, IMF agreed the decrease of the unique tax to 12% still 2012. The public gross debt will achieve 33.4% of GDP in 2011, regarding 30.4% in 2010.

IMF considers that Spain will achieve a weak and fragile economic recovery in 2011. But this recovery depends on further deficit reduction plan, pension reform and labour market flexibility growth.

The question is if the labour migration abroad is a solution? Maybe it is a individual solution as long as the minimum wage in Spain was 728 Euros and in Romania only 153 Euros (see figure 5).

The problem is that the minimum wages is more than 1380 Euros in Belgium, Ireland, Luxembourg or Netherland.

Figure 5. The minimum wage in Spain and Romania (Euros)



Source: personal contribution using [12]

The real solution is the economic recovery. The unemployment represents a waste of the most important economic input.

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European Accounting Normalization between Directives and IFRS Standards

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Abstract

The contemporary evolution of accounting can be characterized by large phenomena like: normalization, harmonization and convergence. Thus, it is taking into consideration the improvement and the reducing of the disparities between national accounting practices and regulations, the development of principles and norms that lead to achieving of information and coherent picture on entities, the comparability in time and space of the information drawn from financial statements.

In this article I have given a special attention for the research of initiatives and concerns of the European standardization body, retaining those measures and actions that led to the adaptation of European accounting directives to make them compatible with IFRS.

However the approaching of this issue requires a short review of the normalization process and accounting harmonization in order to coordinate the principles, norms and accounting objectives at international level. This also led to discussion of options in the principles and accounting rules.

Key words: normalization, harmonization, European regulations, IFRS

J.E.L. classification: M41

1. Introduction

The accounting normalization is spread over three levels: national (by general accounting plan), regional (regulation 1606/2002 and directives 4 and 7) and international (by international standards of financial reporting – IFRS).

The next paragraphs will be dedicated to the issue of regional normalization.

From an economic perspective, European integration is based on the unification of national markets and, consequently, the removal of barriers to free movement of persons, services, goods and capital. However, it would be pointless to say that the free movement of capital is possible without a minimum harmonization of accounting standards of the member states, which is essential for rational investment decisions of economic actors.

Normalization of accounting in the European Union (EU) started with the adoption of IV and VII guidelines by the Council of the European Communities. The Directive IV in 1978 which aims the coordination of provisions regarding the structure and content of individual annual financial statements, valuation methods and the publication of these situations and the Directive VII in 1983, which has done the same in terms of conditions to prepare consolidated financial statements.

However, despite ongoing efforts, the European Commission has failed to determine member states to go beyond the minimum harmonization, so that, under the pressure of investors, the companies were forced to adopt accounting standards USGAAP to have access to international markets. Thus, the scandals that occurred in the early 2000s (Enron, WorldCom, Andersen Consulting ...) have shaken U.S. financial sector and stressed, however, deficiencies in the U.S. accounting system through the adopted accounting rules itself. In addition they have evolved, but not enough to take into account the changes in the economy, including the increasing scale of operations and financial instruments. The

accounting rules have not been able anymore to provide a "real picture" of the company. Therefore, the need for new accounting standards, together with the development of financial markets and the opening of national and international economies, occurs as a result of a triple requirement: to ensure better comparability of the accounts of listed companies, facilitating access to international financial markets and improving the reliability of accounting data. It is clear that the IASB and IFRS standards satisfy these requirements.

To align these requirements and to support this way the member states to access international markets with minimal costs, the EU had no other option than to adopt IFRS, which is the only credible alternative to USGAAP adoption. By a strange trick of history, European countries, which held to their accounting sovereignty, were forced to give the supremacy of the accounting standards to an international private body, the IASB (International Accounting Standards Board), on which they had no control.

Therefore, the interest of harmonizing the accounting systems at international and European level has resulted in the compatibility program of EU accounting directives with international accounting standards. International accounting harmonization was a two speeds process: fast for large listed companies and more slowly for others [3]. Discussing about the distinction between standardization and harmonization, Professor Bernard Colasse states that the accounting harmonization is less restrictive than normalization, it establish equivalence between a variety of accounting practices and thus is a modified form of normalization and a first step towards this [3]. Other authors define the harmonization as the process by the components of conceptual accounting framework are related, compatible and standardized [9].

2. Regulation 1606/2002 of the European accounting normalization

2.1. Adapting the European accounting directives to make them compatible with IFRS

The modernization process of European regulations aimed the eliminating possible

incompatibilities with current and future IFRS. Thus, European legislation (Regulation 1606/2002) provides that the accounting directives (IV and VII) will continue to apply to listed companies that publish their financial statements according to IFRS standards. Thus, in 2003 the European Parliament and the Council of European Union adopted the Directive 2003/51/EC which has brought modernization and upgrades to the European accounting texts (Directives IV and VII). These changes concern both compatible with IFRS, as well as the option of Member States regarding the processing of annual accounts for listed companies.

Thus, the main changes brought to directives are related to the adaptation format of the balance sheet and profit and loss account so as to take into account the provisions of IFRS, the possibility of revaluation of all property, the possibility of assessing the assets at fair value (not only of financial tools, as provided in the Directive), the adaptation rules of constitution of provisions for risks and expenses at IFRS standards; the compulsory of consolidation of subsidiaries, presentation of financial statements, annual and consolidated, supplementary; the consolidation of all ad-hoc controlled companies.

The need to modernize the European directives was imposed by the fact of, from their adoption (in 1978, respectively 1983) have not changed in substance, while accounting concepts and principles have evolved significantly.

However, some issues covered by the directive are inconsistent with IFRS standards. Although they have played an important role in the adoption of IFRS, these regulations must ensure „equality of processing between companies that do not apply IFRS standards and those that apply them,, [5].

The process of modernization and updating of the EU accounting texts had the main objective the assurance of their flexibility for integrating the future changes in modern accounting practices. From this general objective, it can be emphasized two secondary objectives: elimination of any discrepancy between these directives and IFRS standards, thus facilitating the preparation and presentation of financial

statements according to IFRS standards by listed companies and the possibility of option of Member States to apply the accounting options offered by IFRS for unlisted companies.

2.2. Other considerations about European accounting mechanism: the abandon of European accounting ambition

Regulation 1606/2002 provides for the applicability of IFRS in Europe, after their approval by the European accounting mechanism consists of: Accounting Regulatory Committee (ARC) and the European Financial Reporting Advisory Group (EFRAG). This adopting mechanism is meant to pronounce on the applicability of IFRS standards in the EU in that they must meet the criteria strictly defined by it, namely: not to be contrary to the real image of the directives, to answer the European public interest and meet the criteria of intelligibility, relevance, reliability and comparability of financial information required.

In the European Commission and European Parliament report on the implementation of Regulation 1606/2002 [13], it is mentioned that by the approval (certification) of IFRS norms by EU it is assured the technical quality, political legitimacy and relevance to business environment. As the European Commission said in its remarks (November 2003) on some articles of Regulation 1606/2002 "in a system based on principles such as IAS, there are always transactions or agreements not covered by explicit rules. In these circumstances, it is specifically required the professional reasoning to define the most appropriate accounting treatment. (...) national law can not, by prescribing specific treatments, restrict or impede the exercise of judgment" [13]. Therefore, "the IAS Regulation is directly applicable, member states should take care not to try to expose the companies to additional provisions of national legislation to prevent, or contradict the compliance of these adopted IAS" [14].

The adoption of this regulation, the delegation of accounting sovereignty, de facto, by the European Union, to a private international organization, was developed on the base of a quasi-generalized indifference

in Europe, probably because it was a far and uncertain perspective, having in view a complex and technical meaning that only a few have understood it. However, the "approval" of IFRS norms gave a precise content which forced these companies to more accurately assess the consequences that involve changing the accounting referential. They are, without doubt, banks that have struggled most to obtain from the European Commission the refusal to "certify" the standards that affect them directly, for example, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and evaluation.

The adoption mechanism involves the following stages: technical evaluation by the EFRAG, adopting by ARC, the application decision taken by the European Commission, the translation in each of the official languages of the EU, publication as a regulation in the European official journal, since January 1, 2003.

Although the European body of accounting regulatory said that it has no material and intellectual resources for elaboration of accounting norms adapted to meet the needs of information in the ongoing development and diversification, however, it considers the accounting normalization too important to be entrusted only to professional bodies (in this case IASB), so that, by means of the mechanism of adopting the IFRS standards, Europe assumes the means of pressure, if necessary, to the international body, where a standard would not sufficiently protect European interests.

Therefore, European accounting directives will remain important, despite the implementation of IFRS standards because, as set out in Regulation 1606/2002, they play an important role in the mechanism of IFRS standards adoption by the listed companies. On the other hand, for listed companies, the directives remain the basic accounting legislation, and besides, for areas not covered by IFRS standards, the directives continue to cover important aspects (e.g. to prepare a report for management, publishing requirements, certification of accounts).

3. Where is Romania in the frame of European normalization?

Regarding the evolution of accounting in our country, Prof. N. Feleaga, in the preface of the book "Financial Accounting - An European and international approach", notes that "against the winds and tides, our country has become a part of the European Union in the context of international events that face: globalization of economies and globalization of financial markets" and "our paradoxical country has never lived in times of a Romanian accounting!" [5].

In Romania, financial reporting and audit requirements continue to suffer changes and make progress towards implementation of standards comparable to those applied in the EU. We note that since 1999, the Ministry of Finance has initiated a project to harmonize the Romanian legislation in the field of accounting and auditing to international standards and European directives which led to some fundamental changes in legislation: OMPF 94/2001 (harmonization of financial reporting in Romania with requirements of International Accounting Standards and Directive 4 of the European Union for companies that do not apply OMPF 94/2001), OUG 75/1999 approved by Law 133/2002 (establishing a body responsible for training and regulation of financial audit, the Chamber of Financial Auditors from Romania); OMPF 1752/2005 (approval of accounting regulations harmonized with European Directives); OMPF 3005/2009 (approval of accounting regulations according to European Directives), OMFP 907/2005 (approval categories of legal entities applying IFRS accounting rules).

Since January 2010, OMFP 1752/2005 was replaced with OMFP 3005/2009 that cover, in a single law the financial reporting applicable to entities, structured in two parts according to the transposed Directives. This legislation brings new elements on the accounting treatment and general framework of preparation and presentation the financial statements. The innovation items aim the highlight, in the balance sheet, of negative goodwill (the un-resumed part of incomes) as distinct position, and separate highlighting of amounts to be resumed from income recorded in advance by 1 year and over 1 year. In terms of profit and loss account,

according to the new regulations, the commercial discounts granted, and received subsequent billing, are shown separately in the turnover, material costs respectively. The resumed part of income from negative goodwill is also recorded as a separate item. The new regulation requires more detailed evidence of certain information such as the separate presentation of research and development expenses incurred in public or private funds, the shares in affiliated entities, as well as short-term investment for residents and nonresidents.

Regarding the adoption and application process of IFRS standards in Romania, it is based on EU legislation relating to the implementation of IFRS in the Community, that the provisions of European Regulation 1606 and the Council on the implementation of International Financial Reporting Standards. But for large businesses and multinational companies the impose by national normalization bodies of local regulations, other than international, appears as a barrier to access to major financial markets. These entities are also required to submit financial statements in accordance with international standards, which generate additional costs for re-treatment information.

We conclude that Romania has aligned itself with European accounting standardization, the conclusion of monitoring by the specialized direction of European Commission is relevant regarding the level of compliance for the Romanian accounting regulations with European Directives 4 and 7 which shows a high degree of compliance with European rules.

What deserves to be emphasized is that has not opted to take over entirely for getting closer the local accounting law to the European and international accounting regulations. This harmonization has been achieved naturally, by adopting those improvements necessary to align with EU directives.

Such guidance is a first step towards a fundamental change of optics in the field of financial and accounting information, the provided data aimed to meet common user requirements.

4. Premises for the future: principles versus accounting rules

The controversy of standards based on principles or rules-based standards has been and is widely debated in the literature.

Therefore, analyzing the reference of internationally recognized accounting we can say that in Europe (Regulation 1606/2002 and IFRS standards) it goes on the concept of accounting principles that leaves significant room for professional reasoning, while the USA is going on accounting rules (U.S. GAAP consists in a work of about 140,000 pages and responds to most issues of interpretation). The process of normalization and global accounting convergence also requires resolving the controversy between the accounting thinking from European and American spaces. This issue has been discussed by several authors: Schipper [11] found that the American normalizers often call the principles in formulating of accounting rules; Nelson [7] highlights that the substantiation of standards on principles, more or less, and the development of rules that would better meet the normalizers requirements, would reduce the accounting options that managers call for tuning the company's image.

U.S. accounting standards have been criticized because they often contain too many rules and too few principles, which led to their complexity. Thus, in an article, Nobes [8] proposed that standards be based on principles and not on rules. The author supports the idea through a number of relevant examples that IFRS standards could be clearer, simpler and better supported. Although considered that the rules can contribute to more relevant comparison and clarification, he notes that sometimes in standards, the principles are either absent or too poor. The author concludes that the existence and application of a proper principle reduces the need for arbitrary and detailed rules.

Experts Federation of Accountants in Europe the promoter of implementation support of IFRS in the EU until 2005, supports the approach based on the principles of IFRS standards [4]. Therefore, clear principles designed to serve the public interest reinforces the rules that show how these principles should be applied in concrete

situations. By this, it promotes firmness and transparency and helps companies to respond appropriately to complex situations to new developments in business practice. At the same time is prevented the issue of too many regulations and diminishing "technical omissions" that can occur where detailed rules are developed in an effort to cover all eventualities that may arise in the accounting practice from an entity. If we consider both principles-based approach disadvantage (the possibility of too much "creativity" can be made to serve a cosmetic accounting information) and disadvantages of the approach based on detailed rules (such as suppression initiatives; creating the false and extremely damaging impressions that if the rules are followed all goes well or creating the temptation and even some mechanisms to bypass the rules) we believe that exclusive choice of either of the two approaches may be proved not to be sufficient to create quality works and accurate reporting.

5. Conclusions

The failure of European accounting normalization requires an exercise of reflection. Even if, by its structure, the EU had to look for consensus among its members, the inability to achieve this goal, and the intellectual, technical and financial failure needed for the production of accounting standards comparable at international level, have forced it to accept an accounting referential prepared by a private international body over which it could not exercise the control.

Looking back, the choice of the European Union - but was it really a choice? – to apply IFRS rules, can hardly be disputed. If it is something to be emphasized, it does not take much of the application of IFRS as a result of the failure of the European Union to develop its own accounting standards, but that it had not negotiated the influence on the IASB and its work program, even if was able to do so.

We believe however that the normalizers' roads tend to meet, there are many attempts internationally regarding the comparability of information provided by financial reporting. We base this statement on the increasing scale that took the consultations and joint

work of American, European and international normalizers. Thus:

- the most significant change was achieved through regional harmonization at EU level through directives and specific regulations;
- Directive IV has produced changes in most EU countries in terms of format and content of financial statements, disclosure and assessment procedures;
- the Directive VII has significant implications for the harmonization of financial statements of the group;
- financial reporting in the EU has been transformed as a result of political changes and economic reforms that have taken place (regulation 1606/2002);
- by harmonizing EU accounting standards and adoption of IFRS standards, the accounting profession is gaining status and influence compared with the period before the normalization process, harmonization and convergence of accounting.

6. Acknowledgement

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Strategies for Tourism Development in Coastal Spas, Nationally and Internationally

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Abstract

Based on the assumptions that Romania is a luxury tourig resort at an European level, it should be adopted a set of strategies for tourism development Spas. Development strategies in coastal resorts vary by national or local level of the resort location in the hierarchy at a country level.

Key words: strategies, tourism, spa, resort

J.E.L. classification: O29

The strategies adopted to develop tourism seaside Spa can be:

1. Product strategy. These strategies should consider setting up tourism product based on the characteristics of spa tourism in our country and coastal area, a competitive product, quality to satisfy as many segments of both Romanian and foreign tourists. In this respect, may be taken four main types of spa tourism products strategies[1]:

- strategies of differentiation, compared with similar European countries competing bids;
- strategies to diversify tourism benefits;
- strategies for flexibility;
- strategies to enhance the quality of tourism products and services.

Differentiation strategy offers compared with countries with which Romania should enter into direct competition to create tourism product based on the original, appealing to refine existing extremely valuable therapeutic resources in coastal areas such as mud, marine factors cleaning etc, but also other categories of tourist resources, the natural and anthropogenic. Not ultimately be valued and experience in the field of medical spa treatment personnel from bases on the coast. Nature of originality, quality assured natural healing factors must completed and by

combining the programs of interest, with other properties, depending on valuable points near the resort for tourists, such as seaside tourists can come visit, according to the spa resort where they are accommodated, and other tourist attractions like museums, archaeological relics, monasteries and churches in the county of Constanta even Tulcea and the Danube Delta area.

Another way is to combine the seaside spa tourism with other forms of travel (within certain limits, of course) in the same programs of interest.

Products and services offered tourists a touch of originality to ensure that all elements of differentiation, service quality provided by a staff of professionally competent but also by implementing quality management system in tourism-facilities. Romanian health tourism should focus mainly on the exploitation of minerals within regimens are unique in the strategy of differentiation. Between existing therapeutic minerals of the Rumanian Black Sea coast that fall into this category is present in lakes and therapeutic peloidele few places in Europe, but whose value is recognized internationally curative. Black occupies a privileged place in the wealth and quality of existing therapeutic mud in the lake Techirghiol and lakes near Mangalia. Experts consider that the lake mud Techirghiol is one of the most valuable, not only in our country but in Europe, is reason enough to exploit its therapeutic properties in Eforie Nord, Eforie Sud and Techirghiol. Foreign tourists who come every year before the mud belt Eforie Nord, Pell-Amar, Gerovital Boicil and could be drawn back here, whether in addition to product differentiation strategy and upgrades offered, mostly carried out at The treatment of complex Europe and Anna Helth Spa Great Star of Eforie Nord, will enhance and

promote actions, supported by a standard pricing strategy combined with low-price strategy. These types of strategies have been implemented by our Bulgarian neighbors, which have attracted a greater number of tourists due to the low correlation with a better quality of service.

Diversification strategy has to satisfy the requirements and needs of as many segments of tourists, particularly through the development of health tourism offer. In addition, for categories of tourists, without medical problems can exploit various forms and activities in the tourist resorts on the coast, given the complexity and variety of existing tourism potential in the area.[1]

Thus, can be developed and promoted by sea and water sports on the lake, rest and recreation, participation in cultural events, arts or sports, other leisure activities (Aqua-parks) and other forms of tourism such as tourism business, cultural, etc.[3]. These forms cover such a wide range of motivations and travel preferences, as well as an extension of tourist season on the coast rather limited, which can and should cover most of the year.

Also, spa tourism products by expanding tourism offer will address both the residence, charged in the increasingly prevalent in the seaside resorts and tourist traffic, requiring interest supplement existing equipment with new additional units accommodation (cottages, campgrounds, motels) and upgrade existing ones (in modernizing and improving the comfort level). With changes in the structure of demand generated by the development of wellness tourism, has become the choice of diversification strategies to adapt and satisfy as many segments of tourists. This type of strategy is considered to be the key to success on the road so that every seaside resort in the country and aims to make it come to market with a competitive offer, comparable to that of other European countries. Can there be such a diversification to meet the travel motivations of people without health problems, young people and adults who choose the course of wellness (wealth) or primary prevention diet to maintain their health, their body composition to ensure preparing the body to resist stress and environmental pollution that can cause problems with some pretty serious

consequences[2]. These disorders can be prevented with successful resorts located in the seaside resorts, which in addition to marine aerosols and other factors are favorable natural treatment that can be used effectively.

Diversification strategies involve the development of wellness centers (wealth), which take priority over high quality medical services and professionalism. Also in the strategy of diversification will be considered as new products offered to tourists to include a minimum of different types of treatment such as: cure to comfort the climatoterapie, physiotherapy, hydrotherapy, dietoterpie balances the nervous system functions leads thermoregulation and balanced diet, cure, "fitness" or "aerobic workout" cure "stress" is one of the most important forms of health courses, known for its relaxing effects. These types of treatment are successfully exploited in the health center Anna Helth Spa in Eforie Nord, and can be achieved in other resorts. Specialists in Balneoclimatology presented as suggestions and other types of "wealth cure" that might include spas, some of them are already practicing in countries with tradition in this form of tourism in Europe. There are straps to prevent aging (geriatric prevention) and weight reduction. Strategy is characterized by flexibility to adjust supply to demand permanent tourists and is based on knowledge and market research, forecasting a tourist flows, the motivations and needs of consumers. Spa tourism offer flexibility can be achieved by developing and promoting tourism programs appropriate to each market segment, through their continuous adaptation to changes in demand. To this end of the season, guests can enjoy special offers from programs: "Decade of bathing," "Black for all", etc.. If the offer is built rigid packages of services can be complemented by other types of recreational activities combined with other forms of tourism so as to satisfy the requirements of various categories of tourists.

Quality Growth Strategy has an important role for the competitiveness of Romanian spas offer. All that means tourist accommodation facilities, catering to the medical spa treatment to be superior standards of quality to provide a maximum degree of comfort to tourists. A key role in this respect is to staff employed in tourism,

which should behave properly, an open attitude towards helping to attract its clientele, but the bases and medical personnel to provide professional treatment, patients tourists.

2. Price and distribution strategies.

Pricing tourism products and services will be based on the quality and structure of services offered, product life cycle, the elasticity of demand, and the objectives pursued. The seaside spa tourism can adopt the following pricing strategies:

- low price strategy, used to facilitate penetration of foreign markets to customers with modest incomes (Hungary, Ukraine, Moldova, Serbia, Croatia etc. and win in markets with strong competition[4];
- high price strategy, which may be adopted for some very unique products or better quality, such as sludge and Techirghiol of Mangalia. Of course, the critical factor in ensuring the competitiveness of such products is to establish an optimum value for money in terms of tourism benefits;
- travel arrangements applicable standard price strategy (marketed under the formula "all inclusive"), which could be used for stays longer active.
- price differentiation strategy adopted in the characteristics of demand, seasonality, consumer segments, way of organizing the trip;
- price flexibility strategy always correlated with fluctuations in demand, changing economic conditions of the health tourism market, the competitive situation;

In the field of spa tourism, pricing should be made taking into consideration their psychological edge because prices are too low can lead to distrust in the quality of services and prices are too high can destroy demand. Also, pricing should take into account the different market characteristics: a high price for the Romanian tourists can be a very low price for the German and Israeli tourists.

3. Spa tourism promotion strategies aimed at the main promotional activities aimed at this form of tourism. Promoting tourism product is very important in creating the image quality of the product offered as a tourism product market success depends to a large extent on how the one who made that product fails to effectively communicate to

potential clients and brokers to offer their qualitative dimension[5].

The seaside spa tourism promotion activities may include: printed or broadcast advertisements in different media: television, radio, catalogs, brochures, leaflets, posters and leaflets, printed material sent by mail, billboards, Internet, audiovisual materials (CDs, cassettes, video presentations of tourist destinations, direct marketing methods: games, contests, sweepstakes, lotteries, gifts, participation in fairs, exhibitions and tourist events, excursions familiar, Group sales, price reductions, press conferences, seminars, directories, sponsors, their own media: the magazine business, special events, presentations and business meetings, incentive programs.

Recovery spa insufficient resources and natural healing factors, lack of funds and investments in technical and material base stations, lower purchasing power due to the current economic climate, poor management that characterizes some of the seaside resorts, the lack of legislation are the main causes of the state of degradation and lack of interest from both tourists facing seaside resorts in the area but also in other parts of the country. Among existing resorts on the Black Sea, Eforie Nord and Mangalia are resorts that attracted national and international interest in recent years a large number of foreign tourists and therefore efforts must be made for these to regain his position in the international circuit. Also, the adoption of strategic objectives to target the other spas on the coast, because they play an important role in the development of spa tourism in the coastal zone.

The main strategic objectives of these states could be following:

- spas offer their competitiveness;
 - Strengthen position in domestic and international tourism market;
 - increase employment, economic efficiency and mitigation activities seasonality;
- To achieve these goals may adopt different strategies, namely: strategy for construction, refurbishment and retrofit of foundations and treatment centers. It will be focused on building new treatment centers in or near a hotel, as SPA example, in the Neptun-Olimp and Anna Helth Centre Spa in Eforie Nord, or the modernization of existing treatment, both

through provision of modern medical technology to cure fever, and by carrying out maintenance centers in physical shape, stress, and beauty, health tourism specific. The coordinates of such a strategy will cover:

- selection of areas with potential high Spas, to build new centers and bases of Treatment;
- selection based on functional zoning, the premises of the treatment that will be subjected to modernization and spaces through redeployment could be allocated to health tourism;
- realignment and modernization of the destination spa facilities, which are characterized by a high degree of physical and moral wear;
- the acquisition of modern medical facilities and equipment, the latest generation;
- Selection, staff training will also provide assistance for new services to be offered;
- to conduct an economic analysis, costing estimates for both the construction of new centers, as well as in the case of upgrading existing ones;
- preparation of a feasibility study to obtain the amounts needed for the program.

Given that the vast majority of tourist reception and catering on the coast are old enough, before 1989 is designed for mass tourism, but in the last 20 years have made little investment is than necessary to achieve modernization programs and raising the level of comfort. Although requiring a significant investment effort these programs should be implemented in order to be competitive on the EU similar to that in recent years have shown a trend of increasing demand by firms with a high degree of comfort, classified in four -5 stars.

The situation may improve in a short time if the villas, which both in size and as proportions (20.20% of total accommodation of the spa) are smaller and thus require a lower investment level. The total number of existing accommodation in the seaside resorts, it can be appreciated that in the first instance at least 30% should be upgraded and provide higher comfort category, which would satisfy the preferences of a more demanding clientele and greater purchasing power[6].

In addition to the accommodation, the catering should provide, in addition to a higher category of comfort, a more broad and diverse range of menus, from traditional

Romanian from the European or Asian cuisine, without neglecting the importance of vegetarian menus low calorie dietary spot established with personnel trained in this area. This aspect should be taken into account especially in catering establishments that serve basis and treatment centers. Another major problem facing the spa offer is the seaside resorts and entertainment. Far from the application requirements and what is offered in European countries with similar resorts tradition, Romanian and entertainment resorts have "reshaped" by:

- creating and equipping the premises clubs tourist complexes;
- establishment where conditions permit, recreational centers of projection and performance halls, bowling, billiards, table tennis, pool and small food establishments such as: cakes, pastries, coffee bar
- refurbishment and upgrading old recreational facilities: mini-golf trail, golf or protected spot outdoors, fun, game rooms, mechanical and electronic games etc.
- Creating Aqua Parkuri, complementing some resorts offer recreational, following the example of Aqua Park Mamaia resort Ballad of Saturn[6];
- in the vicinity of certain internationally known resort, you can find great locations for setting up golf courses, which over time would become points of attraction for foreign tourists, amateur or professional, with significant economic benefits for these areas;
- modernization riding centers, as one example of Mangalia[6].

Conclusions

Recreational services for each tourist reception facilities will be prepared with the highest requirement, and staff to provide these services will have to prove, in addition to appropriate qualification, kindness and interest in meeting the growing demands of tourists.

Romanian specific product development strategy is a way to relaunch the Romanian health tourism product in the international market. Are recognized and appreciated products abroad "Gerovital" for the treatment of rheumatic diseases, nervous and anti-aging, "Aslavital" to treat nervous disorders and anti-aging, "Boicil" for rheumatic diseases and blood disorders. In Eforie Nord,

Mangalia, Saturn, Neptune are offered cures like Gerovital, Aslavital, Boicil but it would be most successful if complemented by an aggressive promotion on the market in European Union countries, the results of treatment with these products. For this type of treatment we might introduce Gerovital products companies, Hofigal, Plant extracts that have registered good results in treating certain diseases by natural means. Efforts to attract demand through strategies presented, require creating and sustaining an image of the coastal resorts.

It should also promote foreign markets and resort area, with the offer spa and other local tourist attractions, at specialized fairs abroad and the media.

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Country Risk - an Externality of the Globalization Process

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Abstract

Global economy generates conflicting issues regarding timeliness and relevance of the protectionist theory and also on interpreting country risk. Forasmuch, protectionism is seen as a tool for stimulating domestic industry and a means of defense against foreign competition, while economic globalization is assessed in terms of free movement of capital.

Analysis of concepts like protectionism, globalization, economic patriotism and country risk, and also the eco-socio-political correlations arising from the dynamic evolution of these dimensions, requires updated interpretation of the Romanian economist Mihail Manoilescu's ideas. Therefore, his question: "Do we have the right to force nature and make it enter into certain intellectual aesthetic frameworks like the "Procrustean bed"?" leads us to conclude that it requires constant adaptation of theories to reality.

Without taking any scientific risk, we consider that, so far, the development of economic science was within this trajectory. It remains for the future to confirm further this trend.

Key words: globalization, protectionism, country risk, externality, the eco-socio-political integration.

J.E.L. classification: F01, F20, F41

Harmonizing the theory with the reality is based on new objectives imposed by the diversification of the international economic flows and adapting the role of the state to the new situation requires the reformulation of the protectionist vision.

As a consequence, in order to be consistent with the real life, the traditional concepts were adapted, however in parallel, new concepts have emerged. They express (qualitative-quantitative) the socio-economic status of the globalizing economies and of the globalized ones.

1. Changing theoretical levels

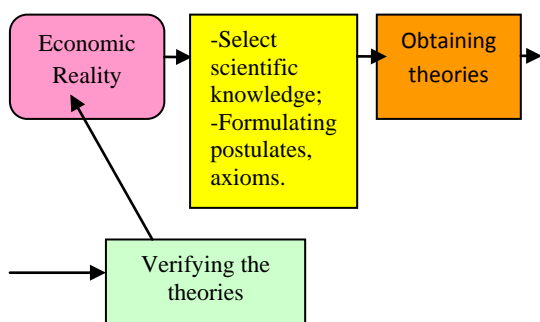
The economic patriotism of the global economic agents is the formula by which the protectionist practice continues. The years 80-90's represent the beginning of the approaches regarding country risk concept as a result of economic globalization.

Initially the country risk indicator was used exclusively in the banking sector having regard only to foreign loans (public and private). Its scope has increased due to expansion of risk also on other international business. Foreign direct investments, foreign portfolio investments, commercial transactions, insurance and licensing area have become areas of risk.

Given the theoretical evolution, but also the practical one of these concepts (protectionism, globalization, economic patriotism and country risk) well know and currently in discussion, once again it has been proven the still standing principle according to which the economic science is adapting and growing in time. And as science needs theoretical foundation, the theory must be the result of knowing the new reality.

The next logical approach describes very well this point of view: [1]

Fig.1 Theory-practice report



In light of the foregoing, the globalization process requires constant readjustment and reformulation of the economic theory, in such a way that we are able to speak, equally, about “globalization theory” and “globalization of the economic theory”. Alongside the theoretical approach, the mathematical approach is gaining ground in the quantification area.

Given that “theories without facts can be barren, but facts without theories are meaningless” the merger between the factual and theoretical approach of the economic phenomena becomes inconceivable. [2]

The socio-economic dynamics led to the perception of new dimensions of risk. For example the concept of political risk emerged in 1956, during the nationalization of the Suez Canal. Sovereign risk has been formulated as a result of the payment default of some Latin American countries in the 70’s, and regarding the foreign loans, unsecured by the government, have defined the transfer risk.

Together with the multiplication and the diversification of the independencies in the global economy the role of the country risk indicator has exceeded the banking environment. It has become (according to some opinions) a consumer economic good of basic necessity in taking expanding business decisions outside the borders.

Currently, the country risk indicator, most often used as a sovereign risk has also a political dimension although, political risk is treated mostly separately. The global market challenges impose upon the adjustment of the indicator to the risks involved in globalization.

If globalization is a multidimensional phenomenon that is difficult to quantify, its implications for quantitative and qualitative perception of life can be measured.

Currently, aggregate indices were created with which annual rankings are prepared and published, according to the intensity of globalization of the national states: KOF Index of Globalization, AT Kearney Globalization Index, study of Globalization and Regionalization.

Composite indices of globalization follow three paths:

- *Economic globalization*
- *Social globalization*
- *Political globalization.*

The differences occur in the calculation methodology because the weighting coefficients, the data used, the number of countries examined are different.

Regarding the quantification of the economic globalization several indicators can be used. Organization for Economic Cooperation and Development has developed a “handbook for assessing the economic globalization degree” according to the methodologies used by several international institutions (U.N.O., European Commission, etc.). According to this handbook, the standard method is based on analysis of the share of gross capital flows (Using gross flows is more relevant because they capture in terms of value all external financial transactions in a given period of, usually, 1 year) and trade in GDP (foreign direct investments in GDP and imports plus exports in GDP).

2. Quantification deadlock

In general, however, studies on this issue are related to two of these statistical tools: Kearney index, the 1st attempt to assess the degree of globalization of a country and KOF index, the most recent developed index. The latter enables knowledge and comparison of the degree of integration in the global environment in all aspects of life.

Economic integration is measured by combining data on external trade and foreign direct investment. In order to estimate the index of personal contacts combine data on international travel and tourism, international telephone calls, international remittances and private transfers (remittances wage, salary

and other compensation for personal and non-governmental transfers).

To quantify technological connectivity we refer to the number of users and of suppliers of internet and the number of servers with high safety standards.

The subindex of the political commitment includes data on participation as a member state in representative international organizations, personnel and financial contributions to U.N.O.'s missions, the number of treaties ratified and government transfers (receipts or payments).

The final score is obtained by adding the four scores of the weighted subindices, as follows:

- $\frac{1}{2}$ for economic integration
- $\frac{1}{4}$ personal contacts
- $\frac{1}{4}$ technological connectivity and political engagement.

This methodology allows a comparison of the country risk index evolution, from year to year, therefore an analysis on the globalization dynamics of a state, and at the same time, enables the comparison of the globalization degree between states.

The increased interest and the researches made in this area of study led to the emergence of a new composite index of globalization.

The result of the research of Axel Dreher is the index of Axel Dreher [3]. It comprises 3 subindices, with different weights:

A. **Economic globalization** 36% which comprises : 50% of current flows, trade (percentage of GDP) 18%, foreign direct investment flow (percentage of GDP) 21% stock of foreign direct investment (percentage of GDP) 22%, portfolio investment (% of GDP) 19% , income paid to foreigners (% of GDP) 20%, tightening 50%, hidden import barriers 24%, average tariff rate 28%, taxes on international trade (% of current revenue) 27%, capital account restrictions 20%.

B. **Social globalization** 38% which comprises: 30% data for personal contacts, telephone charges (traffic-output) 13%, transfers (% GDP) 6%, 28% international tourism 28%, foreign population (% of total population) 26%, correspondence (letters) International (per capita) 28%, international data flows 35%, Internet users (per 1,000 inhabitants) 25%, cable television (per 1,000 inhabitants) 25%, newspapers trade (% f

GDP) 21%, radio (per 1,000 inhabitants) 29% , data on cultural proximity of 35%, number of McDonald's restaurants (per capita) 40%, number IKEA stores (per capita) 41%, trade with books (% from GDP) 19%.

C. **Political globalization** 25% which comprises: embassies within the country 35%, member in international organizations 36%, participation in missions of the UN Security Council 29%.

The index measures the globalization on a scale from 1-100, and the ranking it is published annually for 122 countries. The elevated values express a greater degree of globalization. Starting with 2007 the initial methodology for evaluating the degree of globalization has been revised. The new conditions and also the involvement of country risk as one of the components from which globalization is forced to take into account have complicated the corresponding materialization of the two phenomena.

If globalization means opening, expansion of the international economic relations and the country risk indicator generates some limits or adjustments of the external activities, the place and role of country risk in this process are in question.

In the above context, two points of view have emerged, and apparently are in contradiction.

According to the hyper-globalists, as a result of globalization, the traditional nation-states are in decline. Being replaced by a single global market based on the global competition mechanism, the assessment of country risk no longer has economic interest.

According to skeptics, the nation-states lose a part of the prerogatives regarding the influence of the macroeconomic results, implementing the social programs, the consolidation of the strategies for economic coordination, while country risk is related to socio-political and economic events, partially under the control of the government of the receiving country.

From this perspective, country risk assessment is no longer subject to the study. The reality, however, disproves the hyperglobalists' theory. Globalization has reduced the leeway for maneuver of the governmental politics, but it didn't cancel them. For example:

- stock markets had become highly interdependent in their daily variations depend on national conditions (cycles of pessimism and optimism about national politics);

- the economic policies have adapted to the economic changes which occurred within international finance, without losing their national character;

- the monetary policy reacts to interest rate developments abroad differently from country to country, with no overall convergence rate;

- budgetary and fiscal policy bears the national imprint;

- the competitiveness of its domestic businesses depend on the public infrastructure, transportation, telecommunications, education, encouraging innovation.

3. Country risk a globalization externality ?

Therefore, the national character subsists, inclusively in the highly integrated countries in the global system. As a result, the globalization does not represent the expansion of the international economic relations without an appropriate analysis on the opportunities and risk they entail.

Under these circumstances, the country risk assessment becomes essential for decisions on the conduct of international operations.

If between the country risk and globalization there is a mutual causal relation, varying inversely, any decision regarding international operations must take into consideration the country risk indicator. But equally important is the other sense of the relationship because country risk is in fact an externality of the globalization process (positive or negative, depending to the degree of integration into the global economic circuit and the states capacity to absorb and capitalize the emerged opportunities).

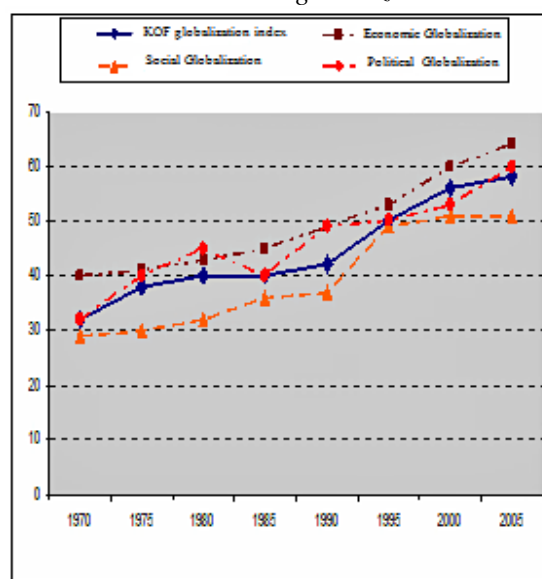
In this explanatory context, country risk is a consequence of the globalization and one of the factors that support it, because, knowing the risks, the economic agents will seek the most effective international activities, and will adapt the strategy to the

specific economic, social and locally political environment.

If initially, the two terms seem to be incompatible, and globalization represent an opening based on liberalization of international economic relations, country risk establishes certain limits and restrictions. However, the country risk level influences the attitude of foreign agents, but at the same time, their confidence in the receiving economies affects the country risk indicator.

We present and analyze further the globalization index and its correlations with the eco-socio-politic framework.

Chart no.1. KOF globalization index



Source: KOF Swiss Economic Institute - 'KOF Index, Globalization 2008 ', Press Release

Chart no.1 clearly shows the difference between the three components of the KOF index and also the different trends.

It is noted that the KOF globalization index is surpassed by the economic globalization (EG) and in some areas (the period centered on 1990) is surpassed also by the index of political globalization (PG).

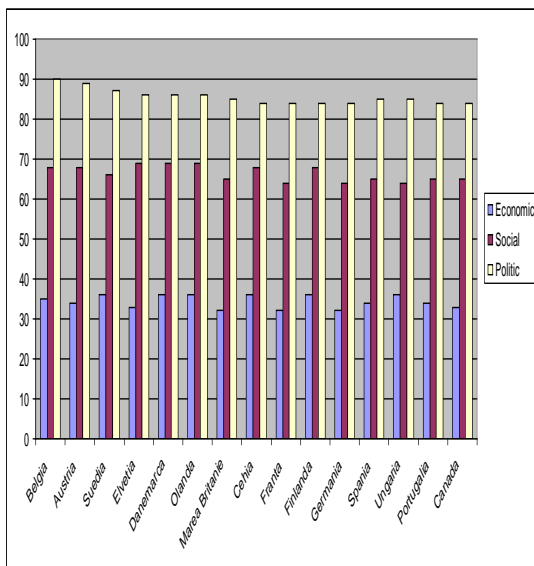
There may be two explanations: a) on the one hand the economic interest of the investment expansion force in geo-economic profitable areas, and b) on the other hand, the wave of key policy changes (collapse of communism and the transition to a market economy) which has opened new opportunities for the globalizing countries toward countries and emerging markets in the South-eastern Europe.

In the same context we mention the opening of the European market for the eastern European countries, a process that was completed and sustained by creating a new institutional framework, suitable for the political, economic and social changes.

Although the interest for economic globalization is visible, preponderant, although as a result of the economic globalization, social globalization has been also recorded, nonetheless the data undermine this normative. Why? One explanation could be the reluctance of the population regarding the penetration of new social patterns (even if they are benefic for the growth of civilization degree, and of the qualitative standard of the living conditions. Here we can comprise mentality, customs, and traditions specific to the local-national framework.

Based on KOF ranking for this year, the situation of the most globalized countries as well as of the least globalized can be illustrated as follows. [4]

Chart no. 2 Top 15 countries in a globalized world



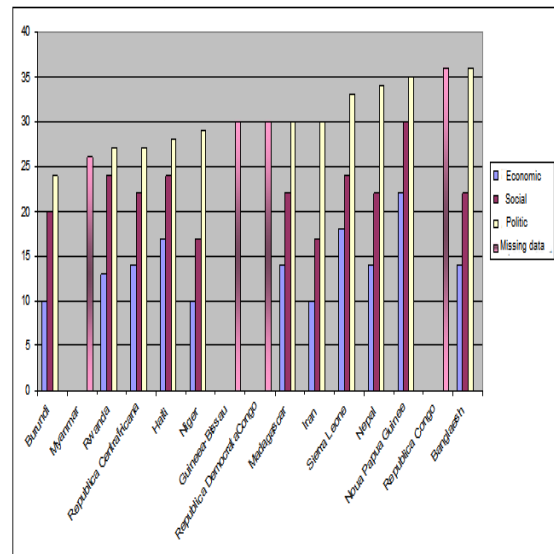
Source: KOF Swiss Economic Institute – “KOF Index, Globalization 2008”, Press Release

Figure 2 illustrates the hierarchy of the globalizing states. It is noted that the economic segment is exceeded considerably by the political one; we appreciate, in this direction, the community between the political interests of international organization as forms of international support of globalization. Moreover, the

almost maximum share of politic globalization has a suggestive significance regarding the recognition of the democratic framework necessary for globalization. We are not questioning the hypothesis of interdependence between United Nations by respecting the same qualitative values and with the proximate development levels, which contributes to similar levels of political globalization.

Naturally, as a reply to this timetable emerges the situation of the least globalized countries.

Chart no. 3 Last 15 countries in a globalized world



Source: KOF Swiss Economic Institute – “KOF Index, Globalization 2008”, Press Release

The graphical representation illustrates the considerable difference both in terms of economic globalization (low interest from some countries) and sustained efforts for an extremely necessary social globalization for these countries underdeveloped or in full process of development. Even though the globalization seems low, it triggers, however, social and political effects.

4. Key-conclusions

Comparative analysis of methodologies and classifications presented leads to the conclusion that currently there hasn't been yet formulated a unique method for measuring the intensity of the globalization process. This conclusion is based on the fact that the economic dimension is evaluated

quantitative as well as qualitative, having interpretative crossroads with the social globalization.

If we consider that the rating is based on indicators which characterize the economic, social and political situation of the states, it becomes obvious the positive correlation between the degree of globalization and country risk.

Thus, a good rating therefore creates the attractiveness of international flows, as a result increasing the degree of globalization; this way a country placed in a low risk class shall be more easily integrated into the global economy, being more attractive to foreign creditors and investors.

Country risk is therefore not an obstacle to globalization, to the expansion of international economic flows, but can be considered one of the factors that have led to polarization, to the marginalization of poor countries and thus, poorly rated in risk rankings.

A high degree of risk doesn't mean the expulsion from a global market. The low participation of foreign entities will influence very little the international environment. A receiving economy with high risk will practice exports, leasing, licenses, and then, after lowering the risk, the involvement degree of foreign capital will grow.

In conclusion, as the country risk level is lower, the higher the degree of involvement of the foreign businesses on the domestic market.

At the same time, it is recognized the fact that an open economy, with a high volume of foreign trade and of foreign direct investment, beneficiary of foreign loans (public and private) used effectively, ensures socio-economic positive conditions and thus improving the country rating. It is considered that long term imports have a role as important as the one of exports in stimulating growth. [5]

Comparative analysis of the ratings given to the states and their position in the globalization rankings constitutes an additional argument to support the link between country risk and the degree of globalization.

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The Impact of the Economic Crisis on the Public Debt of Romania

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Abstract

This work proposes to remove the current impact of the financial crisis in Romania, the current public debt, and a perspective of its next years. Also the structure of the public debt is analyzed on types of instruments, i.e. state loans, bonds, the bonds, eurobonds. Their is even risks detailed on what rhythm they entail with growing public debt in Romania, not only in terms of debt level itself, as the pace in the place, taking into account the fact that more than a third of the loans of authorities are contracted in the short term, and the reimbursement will be carried out in the period 2012-2015.

Key words: debt and loans, domestic Gross Product (GDP), domestic financial obligations, external financial obligations

J.E.L. classification : G01, G 01, G 31, H 62.

The financing of public expenses, as a expression of the needs of society, is achieved through:

- Public financial resources taken from taxpayers and shown in the general budget consolidated on its components;
- Non-reimbursable foreign funds
- Internal or external loans, guaranteed directly or indirectly by the administration, both central and local.

All direct and indirect financial obligations assumed by the central and local administration with the domestic market and/or foreign capital highlights public debt.

Direct financial obligations are the outcome of direct contracting by public authorities central and local of loans from various creditors, natural and legal resident or

non-residential in the country debtor. In contrast, indirect financial obligations are generated by granting guarantees by the central government and the local borrowing on the domestic market/or foreign capital by the authorities and public institutions, legal persons whose activity is the national interest or local.

The distinction between its financial obligations of central and local authorities public is:

- Debt governmental, expresses all internal and external financial obligations of the state, at one moment, from borrowing directly guaranteed by the government or by the Finance Ministry, on behalf of Romania, in the financial markets.

- Local debt, which highlights the whole financial obligations and domestic affairs of local public authorities, at one moment, from loans obtained directly or guaranteed by these in the financial markets.

Financial obligations are the result of contracted loans on:

- The intern market, by the authorities of the local/central administration which forms the intern public debt, on it's governmental and local components;
- The external market, by the authorities of the local/central administration, which expresses the external public debt , on it's governmental and local components.

So the governmental public debt is formed from two components, respective the internal governmental public debt and the external governmental public debt;

Total public debt represents the whole of obligations pecuniary of the state (government, public institutions, administrative-territorial units) at one moment, resulted from internal and external loans (in lei and currency) contracted in

short, medium and long term, and the obligations of the state towards its own treasury for the temporarily advanced amounts in order to cover budget deficit.

The public debt of Romania reached in January of 2011 to 190,4 billion lei (45 billion euro), dropping with 3,5 billion lei with the registered level at the end of 2010.

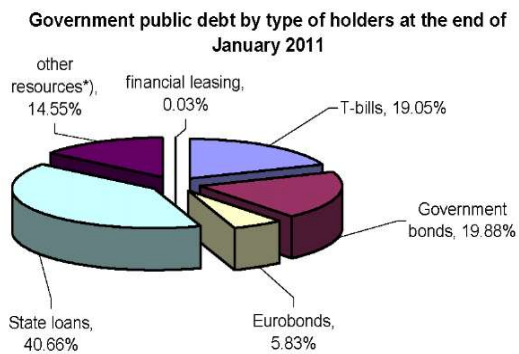
The sharing of debt in GDP dropped to 34,97%, from 37,75% in december 2010.

Practically, it seems to repeat the evolution from the beginning of 2009. And in January of 2010 , it has been registered a drop of debt by 4 billion lei, in comparison to december of 2009, at 148 billion lei. But, in the months that followed , the trend was ascending.

Analysing the structure of public debt on currency, it can be observed that in january of 2010, most of it is in lei and euro, with shares of 44,76%, respective 43,4% of total.

On types of instruments, state loans have a share of 40,6% from the public debt, obligations 19,8%, and treasury certificates 19%. Eurobonds have only 5,83% of total.

Figure 1



The average yield paid to post the titles has slightly increased rising from 7.35% to 7.4%.

Last year, the public debt has risen in a increasing rythm of 32%, in the conditions in which the state state has borrowed massively and has reached a new historic peak of 194 billio. lei (46 billion euro). Practically, the public debt has increased from 35 to 46 billion euros in 2010, i.e 1 billion euros a month.

The treasury has fortified issuance of governmental bonds with maturity in 2017, borrowing a total 412 million lei (100 million euros) from banks, compared with 300 million lei, as proposed initially. The average

yield paid on the net titles has been in a slight increase from the auction of februarie, climbing from 7.35 percent to 7.4 percent.

In the year 2011 Romania will have to borrow about 9.1.4 billion euros to cover the deficit, which means an average of 460 euros per second.

The Romanian state will take with 1.2 billion more than in 2010, when I reached the level of 420 euros per second, from International Financial Institutions, from banks or from foreign investors. Raising the level of debt is not caused by budget expenses, as the fact that the state should pay even the older loans.

Public debt will amount to 35 billion euros in 2009, as reported by Ministry of Finance, and 48 billion euros in 2010 to 54 billion euros in the year 2011.

Worrying for Romania isn't the fact that the public debt will reach 41 percent of gross domestic product, the level is 50 percent below the EU average, but that the level of debt has increased dramatically, practically doubled compared to 2008, when it was located at 22 percent.

The big problem was that loans contracted in recent years have gone into social security costs, instead of going into investments, which would have helped the development of the economy.

Public debt of Romania has increased by 10 billion in March 2011 to february 2011, amounting to 30.6 percent of GDP. Increasing debt has been determined significantly since the launch issuance of its worth one billion euros. Public debt reached 165 billion lei at end of the first quarter, compared with 155 at the end of February, when represent 28.7 percent of GDP.

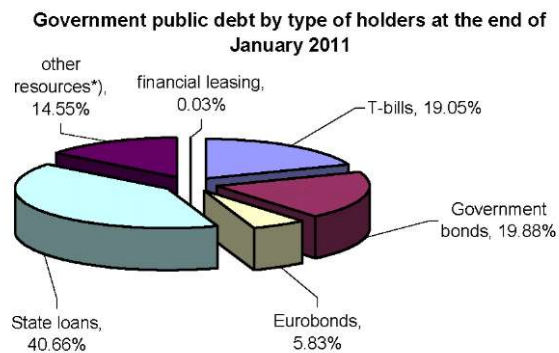
Table no.1

A. Public Debt*		
Public debt composition (RON mln)		
	31 December 2010**	31 January 2011**
Outstading public debt	193,894.4	190,381.7
% GDP	37.75%	34.97%
out of which:		
A. Government public debt	94.03%	93.88%
Local public debt	5.97%	6.12%

B Government direct debt	91.92%	91.90%
Government guaranteed debt	8.08%	8.10%
C.Negotiable	41.33%	46.59%
Non-negotiable	58.67%	53.41%
D. RON	46.21%	45.69%
EURO	42.58%	43.19%
other currencies	11.21%	11.12%

GDP: for 2010 RON 513.641 mln and for 2011 RON 544.426 mln * including the state and local authorities guaranteed debt according to EOG 64/2007 ** revisable data

Figure 2



*) loans from the availabilities of the Treasury General Accounts

In the 165.07 billion public debt, governmental occupies a weighted by 93.6 percent, while local debt represented only 6.36 percent. An important contribution to increasing public debt has had it with loans of the Finance Ministry, carried out by the sale of bonds.

Loans of state have a weighted by 40.6 percent of public debt structure, while broadcasts of bonds had a combined contribution of nearly 34 percent of the total. In total, the Finance Ministry has borrowed from the beginning year a total of 19.82 billion. In early may, however, the Finance Ministry refused four times all offers banks for the sale of bonds.

The lack of a financial package from the IMF and the European Commission, the public debt to Romania will reach 70.4 percent of GDP in 2013, exceeding by more than 10 percent one of the criteria of

Maastricht, necessary for joining the euro zone.

According to data transmitted by the government, in the context abandonment of the IMF accord and, consequently, the financing related understanding public debt, governmental increased from 45.2 percent of GDP in 2010, to 55.1 percent in 2011, to 63.6 percent in 2012 and, finally, at 70.4 percent of GDP in 2013.

Otherwise, the situation continuing stand-by agreement, the public debt will reach 30.1 percent in 2011, growing up to 40.9 percent in 2013, with about 19 percent below criterion reference Maastricht (60 percent of GDP).

Under pressure of a budget crisis poorer and the need to pay pensions and salaries, the government has become indebted more and more on last year. Loans from IMF, the European Commission and the banks of the local market, in large part in the short term, we have public debt doubled in the past two years, according to data published by the Finance Ministry (MFP). The government has borrowed about 1.3 billion euros a month to cover current expenses.

Thus, from a debt of 109.1 billion dollars, equivalent to 21.6 percent of GDP, the end of 2008, Romania has come to record a debt of 193.89 billion lei (37.9 percent of GDP), 31 decembrie 2010.

At the end of 2009, the debt of the government and local authorities was 147.3 billion dollars, equivalent to 29.99 percent of GDP.

Economic analysts have warned repeatedly on the risks it involves rhythm galopant with growing public debt. In this moment, worrying is not the debt level itself, but the pace. And over one third of the loans of authorities are contracted in the short term, 64 billion, requiring more new refinancing. Other 42.7 billion are debts in the medium term and 75.4 billion in the long term.

Romania's debt has increased by 46.5 billion during the year 2010. In total debt, the share of the government has increased from 92.65 percent in 2009 to 94.03 percent in 2010. Practically, government debt rose to 45.31 billion, from 137 billion in 2009 to 182.31 billion in 2010.

The new loans contracted by the government last year were worth 66.3 billion. In other words, the Romanian government

lent the average per month as many as 5.52 billion lei (1.3 billion euros) to cover current expenses.

Most of public debt is under contract for the most expensive creditors, i.e from banks. At the end of last year, loans taken by the State of the private banks are state budget amounted to 129.48 billion, i.e 66.7% of total debt.

The largest loans were incurred by the state lei, the euro and SDR (Special Drawing Rights, foreign currency in which turns IMF money). The debt in lei amount to 82.6 billion, euro at 77.97 billion dollars, followed at a distance of SDRs to 9.64 billion.

The loans taken so far by the Romanian state of the IMF and the European Commission will begin to be returned in 2012. Until then, only pay interest on these loans. Thus, in 2012 will return 124.13 million euros, and in 2013 almost 968 million euros to the IMF, following the 2014 to send in international financial institution accounts over 1 billion euros.

Table no. 2

*) The tranches drawn by MPF at January 31, 2011

Period	IMF		EC (mln Eur)	WB (mln Eur)
	(mln DST)	(mln Eur)		
2012	107.38	122.41	-	-
2013	837.31	954.53	-	-
2014	865.87	987.09	-	-
2015	135.93	124.96	1,500.00	-
2016	-	-	-	-
2017	-	-	1,150.00	-
2018	-	-	-	-
2019	-	-	1,000.00	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	300.00
TOTAL	1,946.49	2,218.99	3,650.00	300.00

Year 2015 will be one difficult, since comes maturity to 157 million euros by the IMF, but also for a tranche of 1.5 billion euros from the EU. The loan from the Commission will be repaid and the 2017 (1.15 billion euros), and in 2019 (1 billion euros).

For that reason will increase interest companies and citizens for the bonds, treasury bonds in lei currency worth almost 1 billion of them are in possession of

individuals from Romania. They were at the end of last year, state bonds worth 948 million lei. Foreign nationals held bonds of 3.5 million lei. The Romanian companies had state bonds worth a total 10 billion dollars, while foreign companies held bonds of 5.4 billion.

In total, at the end of 2010, companies and individuals held 31.68 percent of the bonds in lei currency. In last year, the interest companies and individuals for the bonds rose after the end of 2009, the share these price was 24.82 percent, according to data MFP.

But still most of the securities is owned by state banks. We can conclude that the budget deficit of 2011, was financed mainly from external sources. That never until now, the Finance Ministry have proposed that over half (56.5 percent of the budget deficit to be covered from external sources.

According to the report for last year, for 2011 is scheduled as from domestic sources to be covered only 41.8 percent of the budget deficit under 2 percent will be covered from income from privatisation and recovery AVAS.

The government pledged to creditors outside that the budget deficit this year will not exceed the limit of 4.4 percent of GDP.

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Fiscal Levers Meant to Attenuate the Effects of Crisis and to Support Economic Revival under the Conditions of the Financial Markets Imbalance

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Abstract

A good planning of the economic development also implies the insurance of money funds needed for financing from internal sources (banks, investment funds, cooperative institutions of credit, factoring and insurance companies, credit agencies, governmental and non-governmental organizations) or from external sources (World Bank, International Monetary Fund, The European Bank for Reconstruction and Development (EBRD, European Bank of Investments).

Taking into consideration the several challenges which the Romanian economy must get through, it is absolutely necessary the adequation of the macro-economic policies mix to the changes occurred in economy.

Key words: Value Added Tax deductibility, taxable profit, deductible expenses, lump-sum tax

J.E.L. classification: H20, H21, H30

1. Introduction

Whatever how much the economic agents would be to the idea of fiscality, legal and long-lasting existence of a firm on the market imposes knowledge and observance of legislation of the country where it develops its activity.

Practically, apparition of taxes is bound to the apparition of exchange economy. The concept regarding the role of the state in economy experienced important modifications especially after the crisis from 1929 – 1933. The need of solving the big economic problems

that the world market encountered in that moment, determined the radical change of the concepts regarding the role of the state in economy and implicitly of the role of taxes, which become firstly economic-financial factors, by means of which the state aims stimulation of the economic interest of the entire collectivity.

Romania experienced a difficult evolution regarding fiscality, determined by the evolutions from the real economy.

During this article I shall mainly insist upon presentation of the main aspects regarding the taxes and rates, the possible distortions which these might create upon the activity of the Romanian firms, also offering some ideas of fiscal optimization at micro-economic level. In present conditions, of disequilibrium on the financial markets there becomes very important finding of some optimum solutions regarding fiscality, not to overburden more the Romanian firms, already affected by the crisis.

2. Short presentation of the existing situation on European level

European Commission (EC) outlined several initiatives regarding a better coordination of the national systems of direct fiscality in the Union. This aims elimination of discrimination and of double taxation of the enterprises benefit, fact that would lead to decrease of costs determined by obligation of complying with more fiscal systems.

Likewise, the European Commission shows the interest to help the member states to define their principles that shall allow to order some coordinated solutions and thus to attenuate practical modalities of administrative cooperation. The coordinating initiative of the fiscal systems is

complementary to the initiatives created by the Commission regarding the direct fiscality. It is estimated that the only systematic means to fight against fiscal obstacles that the enterprises encounters and that affects the operations in more than one member state, is to allow the multi-national corporations to be taxed for the activities developed in the European Union, on the basis of a common tax assessment for the profit taxation.

The plan of economic revival of the European Community comes as a response to the economic and financial crisis in which Europe is situated. Jose Manuel Barroso asserted long time ago that the package of measures destined to the fighting with the crisis effects and supporting the economic revival must be "enough wide and enough daring to have results on short term, but also strategic and sustainable to transform the crisis in an opportunity on long-term. We must make sure that the help is received by those who need it the most".

Thus, for fighting the crisis effects, the European Commission lays on a fiscal system based on a coordinated action of the member states, based on proposals of acceleration of the structural reforms, but also on helping measures of the Small and medium Sized Enterprises.

One of the main elements of the plan of economic revival takes into consideration "a fiscal incentive at the right moment, temporary and well-aimed". Thus, the measure of decreasing taxation in the present international economic context is considered opportune.

Likewise, the decrease of social contributions paid by employers is one of the recommended measures, that aims maintenance of jobs, concomitantly with a decrease of the income tax meant to contribute to the increase of purchasing power.

As far as the business environment is concerned, it is proposed the allowance of some guarantees to the Small and Medium Sized Enterprises, so that to obtain an immediate release of the funds from the banks, rapid loans and money to help the companies to invest in ecological technologies even in the present economic situation. A special importance to sustain the economic revival is the diminishing of the

business cost by decreasing the administrative and fiscal burden.

Having a look at the anti-crisis fiscal measures adopted in several European states, we state that they mainly aim decrease of taxes and rates as viable solutions for supporting the enterprises to overstep the present financial problems.

Thus, in Austria it has been decided the decrease of taxation on the re-invested profit, but also the applicability of accelerated depreciation on physical fixed assets.

In the Check Republic, it has been decreased the taxes on companies income, but also the level of contributions to the social insurances of health both for employers and for employees.

Our neighbors from South, the Bulgarians announced the profit tax exemption for 5 years for the companies which invest in disadvantaged areas.

Whatever form it takes, the anti-crisis measures represent at present the zero priority for the authorities from all countries from the European Union.

3. The impact of fiscality upon treasury of Romanian firms

Each tax that the Romanian firms are forced to pay make a double impact upon these. On one hand, it is about an administrative cost connected with the action of taxes and rates which the firm bears in capacity of tax collector, and on the other hand, it is about a cost of treasury. The latter appears as a result of the existing gap between the moment when the obligation of payment appears and the collection of taxes. Also, there are important the differences that interfere between the moment of tax accounting and the moment of the proper payment.

For the economic agents, one of the most important taxes is the tax on profit, respectively the tax on income for micro-enterprises which chose the payment of this type of tax.

Financial logic of the existence of a firm imposes the completion (periodical) with profit of the developed activity, from which it shall be insured the future economic growth of the firm. Taxation of this profit can draw contrary reactions from the taxpayer: on one hand, he wants to get a bigger profit and on

the other hand, he tries to identify the most "legal" modalities to decrease the incomes or to increase the expenses so that the gross profit to be as low as possible and in accordance with this, the paid tax to the state to be as reduced as possible. The ideal solution is identification of a middle way so that the firm to operate legally, the treasury to be less affected by the payment of these taxes and to exist effectively a profit sufficient for the economic agent to exist and to develop further on.

In the present economic situation, the provisions of the Fiscal Code regarding the profit tax can have an impact upon the decision of investments by the regulations regarding deductibility of expenses with interests.

The degree of indebtedness is one of the most important restrictions regarding expenses deductibility with interests, being considered as a percentage report between the borrowed capital and the proper capital. The deductible character of expenses with interests have influences upon the available cash-flow, upon the indicators used in decision of investments, founded on the basis of the available cash-flow, upon the gap between the value of the indebted firm and non-indebted firm.

Introduction of some restrictions in allowance for expenses with interests and indirectly upon the degree of indebtedness shall determine some distortions at the level of the firm. Thus, the fiscal savings shall be decreased with unfavorable impact upon the value of the firm or upon the degree of attractiveness for a project of investments and possibly upon the value of the indebted firm in comparison with the one of the non-indebted firm, by reduction of the advantage generated by existence and dimension of the analyzed fiscal savings. However, it is possible that this decrease of the value of the indebted firm to be compensated by the decrease of the risk of bankruptcy, if the firm reduces the value of loans which it would have contracted in another way in the conditions of some legal restrictions.

Depreciation expenses belong to another category of expenses with many influences upon more indicators and also upon the decisions of investments and financing.

Allowing the right of direct option for the accelerated depreciation, without

supplementary approval from the territorial fiscal bodies, as well as the alternative to this solution, respectively allowance of some supplementary expenses of depreciation, create several advantages for the firm. Thus, it is being offered the possibility of a faster recovery of the funds invested in fixed assets, especially in case of equipments with high moral wear and tear (for example the computers). The resulted surplus of fiscal economy shall contribute to the increase of available cash-flow proper for the first year, which can increase respectively the attractiveness of investment project. Likewise, there shall be increased the depreciation fund created at the level of the firm, that shall lead to increase of the internal financing sources at its disposal. The firm shall not need to indebt or to issue new actions to identify supplementary sources of financing.

Liability of tax payment until 25th of the month of the next semester for which it has been calculated, it offers to the firm a temporary excess of treasury for the period between the end of the last month from the trimester for which it is calculated and 25th of the next month. In the same time, if the firm does not dispose at the end of the trimester of the amount needed for paying the tax, than this shall dispose of 25 days from the next month to make incomes from which to pay fiscal liabilities without bearing penalties. Less advantageous for firms was the regulation according to which the tax for trimester IV must record the same value as the tax on profit for trimester III of the same year. In case that the firm registers a loss or a decrease of the rhythm of economic growth in the last semester of the fiscal year, and which does not finish the previous financial year until 15th of February of the current year, shall pay a tax higher than it would be according to the developed activity effectively in trimester IV, so it shall record a shortage of treasury, respectively a cost of opportunity of the sums paid in addition in the account of the tax on profit.

Advantages and disadvantages regarding the incidence of the taxed paid by firms upon their treasury can be identified also in the case of the other taxes and rates, as it is the case of liabilities regarding the insurance and social protection, of the excise taxes or of the VAT.

Regarding the VAT, for example, we could talk about a financial incidence given by the operations of sales and respectively of purchasing.

Financial incidence of the collected VAT depend on the duration of credits allowed by the firm to its customers. If these have a duration that exceeds payment deadline to the state budget, than the firm shall pay to the budget a sum which they haven't cashed yet and shall confront with a temporary shortage of treasury, until they cash the debits from the customers. If on the contrary, the firm establishes the contracts with the customers so that the duration of debits to be shorter than the term of acquaintance of VAT, than the firm shall dispose of a financial source.

Financial incidence determined by an operation of purchasing is given by the duration of the credit allowed by providers. If this is shorter than the payment date of the VAT to the budget, than, the firm shall register a shortage of financial resources, while, if this duration of the credit allowed by the providers is bigger than the payment date of the VAT, than, it is created a plus of financial resources.

Without having the pretence to have analyzed all financial implication generated by the payment of taxes and rates owned to the state by economic agents, we have tried to frame an image of the way in which any firm can administer its relationships with the state, so that the earnings to be as high as possible, and the costs of opportunity to be as low as possible.

4. Fiscal measures meant to decrease the crisis effects upon the Romanian companies

In the present conditions in which the profit of the Romanian firms register a strong descendent trajectory, burdening them with masked taxes and rates under different forms drives an impressive number of firms towards bankruptcy.

Increase of the VAT quota to 24%, increase of local taxes, increase of the contribution to Health Insurance House, increase of the excise taxes on tobacco and alcohol have already invaded the business environment. Instead of stimulating the cashing to the budget, these measures, considered anti-crisis, shall determine a decrease of the

budgetary incomes because, once being tightened the fiscal "shrew" in the absence of a clear and unitary legislation, the firms shall search "artifices" to avoid payment of the contributions towards the state.

In case the sales decrease on the basis of the high diminishing of living standard, and the increase of the prices, practically become an impossible mission, many shall chose the solution of producing on the black market, not to pay taxes and rates.

The accelerated increase of the excise taxes on tobacco shall lead to the proper increase of the prices, and this thing shall lead to increase of the black market, supplied by the networks of tobacco traffic from Bulgaria or the ex-soviet area.

Likewise, the increase of alcohol excise tax shall drive many economic agents from this sector towards fiscal evasion, without which in current conditions, would disappear from the market. The value of the alcohol excise tax is 750 Euro per hectoliter in Romania, in comparison with 550 Euro per hectoliter in the rest of Europe.

In most of the European states, the adopted anti-crisis measures aim the decrease of taxes and rates as a main solution of supporting the economy.

Is Romania capable to administer the crisis so that not to reach a situation without precedent of distinction of all mechanisms which might support for the future the economic revival? Certainly, this thing shall not be realized by the actual tendency, oriented towards the increase of the taxes and rates level owned to the state by the Romanian firms.

Likewise, in accordance with the specifications of the Convergence Program of the European Commission, it is intended the outrun of the calendar of increasing the excise taxes, actualization of the taxable value for buildings and lands and return to the level of fiscal contributions from the first part of the last year.

5. Conclusions

Economic experience during crisis shows that rate relief is opportune for stimulating the firms to employ, to tax the incomes. A decrease of the taxes would generate a higher liquidity for companies which might lead to an increase of investments. But in Romania

the signals from the authorities announce an intensification of fiscality instead of fiscal stimulation for which it has been decided in the rest of Europe.

One of the financing sources, at least discussable, is the increase of taxes with the most regressive character: the excise. Analyzing the fact that from the total of yearly public incomes, 10% represent excise revenue from which half of them are the ones on alcohol and tobacco, decision of the Finance Minister seems justified. Only that in countries as Moldavia or Ukraine, the prices are much more smaller, and the majority of excises is favorable to intensification of the activity of smuggling which shall determine a considerable decrease of the state incomes.

Another industry specially aimed at by the Fiscal Code is that of gambling. But this is already a supra-taxed industry, that's why the effect in GDP (Gross Domestic Product) shall be only 0,004%. For these firms, there is established a minimum quota of at least 5% applicable to the earned incomes, but also the liability of collecting and transfer to the National Fund of Solidarity of the social stamp tax of 10% on each participation in gambling.

Super-taxation of the luxurious products also belongs to the category of penalty of vicious persons. Though, to support the domestic industry, but also to offer an alternative of collecting the income to the budget during crisis time, it would be a good idea introducing an automobile tax not only for the old automobiles but also for the new luxurious automobiles from the import, starting from the premise that the ones who afford purchasing of such an automobile in the actual conditions, dispose of necessary liquidities to do this thing. In this way, the ordinary citizen who weigh so little money harder and harder, wouldn't be penalized by introducing the pollution tax for all vehicle owners.

Regarding the possibility of compensating the VAT to be collected with the VAT to be paid or with other taxes owned to the stat budget in the next months following the month for which it has been laid down an application of restoration, as well as after expiration of the legal term of 45 days, a solution meant to support the Romanian firms would be the payment of the VAT at the invoice cashing, not before, because in

present conditions where the interests on credits reached alerting quotas, many companies cannot afford to finance the budget.

To reduce as much as possible the impact of the economic and financial crises on the Romanian economy, there is the moment to give up to the periodical fiscal measures, of circumstance, which overturns the business environment and there must be created a Fiscal Code on medium and long term. Lacking a coherent plan, the underground economy shall continue to develop in Romania, as I have tried to prove in the above lines.

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Concept of Web Usage Mining

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Abstract

Web mining is the use of data mining techniques to automatically discover and extract information from World Wide Web documents and services.

This article considers the question: is effective Web mining possible? Skeptics believe that the Web is too unstructured for Web mining to succeed. Indeed, data mining has been applied to databases traditionally, yet much of the information on the Web lies buried in documents designed for human consumption such as home pages or product catalogs. Furthermore, much of the information on the Web is presented in natural language text with no machine-readable semantics; HTML annotations structure the display of Web pages, but provide little insight into their content.

Some have advocated transforming the Web into a massive layered database to facilitate data mining, but the Web is too dynamic and chaotic to be tamed in this manner.

Key words: web mining, web usage mining, data preprocessing.

J.E.L. classification: M

1. Introduction

The overall process of usage-based Web personalization can be divided into two components. The offline component is comprised of the data preparation tasks resulting in a user transaction file, and the specific usage mining tasks, which in our case involve the discovery of association rules and the derivation of URL clusters based on two types of clustering techniques[1].

The recommendation engine is the online component of the Web personalization system based on usage mining.

Web usage mining refers to the automatic discovery and analysis of patterns in click stream and associated data collected or generated as a result of user interactions with Web resources on one or more Web sites.

The goal is to capture, model, and analyze the behavioral patterns and profiles of users interacting with a Web site. [2]

The discovered patterns are usually represented as collections of pages, objects, or re-sources that are frequently accessed by groups of users with common needs or interests.

The increasing interest in the Web Usage Mining domain, from both research and business communities, is explained by the high number of its possible applications.

Although an interesting topic, the application of WUM results goes beyond the subject of our thesis. We enumerate some of the most important applications, but the interested reader may refer to for detailed surveys of the domain [3]:

- *Web Personalization* groups the techniques that deliver personalized Web content (pages) depending on the user people (or previously visited pages). It can have different forms, such as a recommender system or an intelligent/adaptative Web site.

A recommender system will propose links of possible interest to the user. For instance, if a visitor requests a paper about Web Usage Mining on INRIA's Web site, the system may suggest him/her to visit the home page of the AxiS research team.

The intelligent (adaptative) Web site is based on an idea proposed by Perkowitz and Etzioni [PE98]: a Web site may adapt its content to each user visiting the Web site in order to deliver personalized information.

- *Site improvement* that may be achieved either by modifying the logical structure (by adding new links) or the physical structure (modifying the organization of the Web pages in sections) of the Web site. The modification will be done depending on the

access patterns of the Web site users.

- *Intelligent Web caching* represents another possibility for improving the quality of service for a Web site as the pages are delivered faster to the visitor when using this kind of system. It is well known that users are less likely to spend time on a slow Web site. By using the results of a WUM analysis, an Intelligent Web caching system is capable of predicting the next request for a user and, therefore, to anticipate and load in a cache (or buffer) the Web page to be requested.

In this way, the user will not have to wait for the page to be loaded from the disk and the speed of the Web site is improved.

The number of WUM applications is growing continuously, especially due to the business interest in e-commerce Web sites and the related Web-marketing applications[4].

Moreover, the growing interest in the Web semantic field and the recent field of Web semantic mining will bring new perspectives for the WUM-related applications.

Web personalization can be described as any action that makes the Web experience of a user customized to the user's taste or preferences.

Principal elements of Web personalization include modeling of Web objects (such as pages or products) and subjects (such as users or customers), categorization of objects and subjects, matching between and across objects and/or subjects, and determination of the set of actions to be recommended for personalization[5].

Web usage mining is the third category in web mining. This type of web mining allows for the collection of Web access information for Web pages. This usage data provides the paths leading to accessed Web pages.

This information is often gathered automatically into access logs via the Web server. CGI scripts offer other useful information such as referrer logs, user subscription information and survey logs.

This category is important to the overall use of data mining for companies and their internet/intranet based applications and information access.

This web mining also enables Web based businesses to provide the best access routes to services or other advertisements. When a company advertises for services provided by other companies, the usage mining data

allows for the most effective access paths to these portals. In addition, there are typically three main uses for mining in this fashion.

The first is usage processing, used to complete pattern discovery. This first use is also the most difficult because only bits of information like IP addresses, user information, and site clicks are available. [6]

With this minimal amount of information available, it is harder to track the user through a site, being that it does not follow the user throughout the pages of the site.

The second use is content processing, consisting of the conversion of Web information like text, images, scripts and others into useful forms. This helps with the clustering and categorization of Web page information based on the titles, specific content and images available.

Finally, the third use is structure processing. This consists of analysis of the structure of each page contained in a Web site.

This structure process can prove to be difficult if resulting in a new structure having to be performed for each page.

2. Related Works in Web Usage Mining Preprocessing

In recent years, Web usage mining (WUM) has emerged as a new field of data mining and gained increasing attention from both the business and research communities.

A particular area of importance is data preprocessing for Intersites WUM. The proposed methodology for this process has two main objectives.

The first is to use classical preprocessing (data fusion, data cleaning, and data structuration) to significantly reduce, but in a relevant manner, the size of the Web servers' log files.

The second is to use advanced data preprocessing, which employs an extra step called data summarization to increase the quality of data obtained after classical preprocessing. To validate this methodology's efficiency, an experiment joined and analyzed log files from four related servers[7].

After illustrating the use of our WUM preprocessing methodology through different WUM processes, we will present in this section the main related works in this

domain. In the recent years, we have seen much research on Web usage mining.

However, as described below, data preprocessing in WUM has received far less attention than it deserves.

a) Main Related Research Works in WUM Preprocessing

In this section, we describe and compare our methodology with the most significant works in this domain.

Cooley presented methods for user identification, "sessionizing" (i.e. constructing or reconstructing sessions), page view identification, path completion, and episode identification. However, some of the heuristics proposed are not appropriate for larger, more complex Web sites.

For example, they propose to use the site topology in conjunction with the ECLF file for what they call the "user identification" (in our research, this is addressed under the term "user session"). The proposed heuristic aims to distinguish between users with the same IP address by checking every page requested in a chronological order.

If a page requested is not referred by any previous page requested, then it belongs to a new user session.

The drawback of this approach is that it considers only one way of navigating in a Web site, by following links. However, in order to change the current page, the users can, for instance, type the new URL in the address bar (most browsers have an autocompletion feature that facilitates this function) or they can select it from their bookmarks.

Moreover, the sessionizing heuristic is complex as it defines the session boundaries according to five categories of Web pages (e.g. "head", "media", "navigation", "look-up", and "data entry"). Classifying Web site pages is not a simple task, due to their large number and because sometimes a page does not fit in just one of these five categories.

Berendt use the service-based conceptual hierarchy for modeling the query capabilities of an online catalog (SchulWeb). This Web site offers browsing and searching services for schools worldwide.

The authors wanted to evaluate the queries rather than the content of the Web pages generated, hence their service-oriented conceptual hierarchy. Concerning the preprocessing step, the authors propose three

heuristics including one similar to the "Browsing Speed".

The other two heuristics refer to the number of requests without the referrer field and to the requests repeated for the same resource from the same host. However, we believe that the later one should be tested against other heuristics to validate its effectiveness.

In another work, the authors compared time-based and referrer-based heuristics for visit reconstruction.

They found out that a heuristic's appropriateness depends on the design of the Web site (i.e. whether the site is frame-based or frame-free) and on the length of the visits (the referrer-based heuristic performs better for shorter visits).

Huysmans analyzed the Web log data from an online wine shop (eshop). They developed a tool for preprocessing (in Delphi) and implementing some of the operations already described in this chapter.

They mentioned that the preprocessing of this data, and especially the images removing, reduced its initial size by a factor of 10. This was obviously due to the type of the Web site analyzed, as e-shops and e-commerce Web sites, in general, have many images in order to display the products sold.

Another interesting remark made by the authors is that by using a classical log analyzer program (Analog in their case), the size of the log file was reduced only by 15%, which shows again that appropriate tools are essential for an effective preprocessing step.

Marquardt addressed the application of WUM in the e-learning area with a focus on the preprocessing phase.

In this context, they redefined the notion of visit from the e-learning point of view. In their approach, a learning session (LS), visit in our case, can span over several days if this period corresponds to a given learning period.

A learning session may also correspond to the set of accesses made to accomplish a given task. The authors also identified episodes similar to by classifying Web pages into three page types (auxiliary, content and resource) based on the existing knowledge about the Web site.

Bonchi also developed a data warehouse for storing Web log files. Unlike our relational model, their model does not

contain structured information about the usage (sessions, visits, etc.), users or aggregated variables.

The objectives of their work was Web caching, therefore, the data warehouse, implemented in Microsoft SQL Server, was populated with Web logs from several Web servers. For Web caching applications, all the requests present in the Web logs are important and have to be stored, thus, the preprocessing step is different from other WUM tools because almost all requests are kept.

Regarding the user and the session identification, the authors only use the notion of "user", identified using the IP heuristic.

As shown, the preprocessing step is important and should be present in all WUM analysis.

Therefore, we compared our preprocessing methodology with the preprocessing described in other general WUM research works.

b) Comparison Criteria for WUM Preprocessing

The comparison table focuses only on the data preprocessing step and the table shows how different preprocessing features were implemented in the main related works. We enclose below a brief description of these features grouped by the preprocessing step[8]:

- Data Source - represents the data used as input in the WUM preprocessing.

- Data Preparation - includes the operations carried out when several log files are being preprocessed and when the analyst intends to "de-personalize" the log file through anonymization.

- Data Cleaning - contains the main filtering operations used for eliminating: images, Web robots' requests and requests for other non-analyzed resources.

- Data Structuration - includes all the processes used for grouping the requests (in sessions, visits, etc.).

- Data Reduction - represents the final step of the preprocessing and contains all the operations that are designed to reduce the size of the data, like data generalization and data summarization.

In conclusion, our methodology is more complete because:

- It offers the possibility of analyzing jointly multiple Web server logs;

- It can define a hierarchy of semantic page topics that can also serve to generalize pages and identify episodes;

- It employs effective heuristics for detecting and eliminating Web robot requests;

- It proposes a complete relational database model for storing the structured information about the Web site, its usage and its users;

- It uses an advanced preprocessing step for enriching the structured information by calculating different statistical measures for the objects stored in the database and it also facilitates the addition of new user-defined measures (that will be used as parameters in the data mining step).

3. Conclusion

In theory, the potential of Web mining to help people navigate, search, and visualize the contents of the Web is enormous. This brief and selective survey explored the question of whether effective Web mining is feasible in practice. We reviewed several promising prototypes and outlined directions for future work. In essence, we have gathered preliminary evidence for the Structured Web Hypothesis; although the Web is less structured than we might hope, it is less random than we might fear.

In this paper emphasis is placed on Web usage mining. The reasons are very simple: With the explosion of E-commerce the way in which companies are doing businesses has changed. E-commerce, mainly characterized by electronic transactions through Internet, has provided a cost-efficient and effective way of doing business.

Unfortunately, to most companies the web is seemingly nothing more than a mysterious place where transactions take place.

They perhaps do not realize that as millions of visitors interact daily with Web sites around the world, massive amounts of data are being generated. And it is arguable that with the exception of the major players in electronic commerce, most businesses do not realise the value that this information could be to the company in the fields of understanding customer behaviour, improving customer services and relationship, launching target marketing campaigns and measuring the success of

marketing efforts.

The Web is providing a direct communication medium between the vendors of products and services, and their clients. Coupled with the ability to collect detailed data at the granularity of individual mouse clicks, this provides a tremendous opportunity for personalizing the Web experience for clients. In e-commerce parlance this is being termed mass customization.

Web usage mining has emerged as the essential tool for realizing more personalized user-friendly and business-optimal Web services. Advances in data pre-processing, modelling, and mining techniques, applied to the Web data, have already resulted in many successful applications in adaptive information systems, personalization services, Web analytics tools, and content management systems. As the complexity of Web applications and user's interaction with these applications increases, the need for intelligent analysis of the Web usage data will also continue to grow. Usage patterns discovered through Web usage mining are effective in capturing item-to-item and user-to-user relationships and similarities at the level of user sessions. However, without the benefit of deeper domain knowledge, such patterns provide little insight into the underlying reasons for which such items or users are grouped together. Furthermore, the inherent and increasing heterogeneity of the Web has required Web-based applications to more effectively integrate a variety of types of data across multiple channels and from different sources.

Thus, a focus on techniques and architectures for more effective integration and mining of content, usage, and structure data from different sources is likely to lead to the next generation of more useful and more intelligent applications, and more sophisticated tools for Web usage mining that can derive intelligence from user transactions on the Web.

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Web Mining Techniques for E-Commerce

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Abstract

Recently, the web is becoming an important part of people's life. The web is a very good place to run successful businesses. Selling products or services online plays an important role in the success of businesses that have a physical presence, like a retail business. Therefore, it is important to have a successful website to serve as a sales and marketing tool. One of the effective used technologies for that purpose is data mining. Data mining is the process of extracting interesting patterns from large databases. Web mining is the usage of data mining techniques to extract interesting information from web data. This paper presents the three components of web mining: web usage mining, web structure mining and web content mining and the main data preprocessing tasks for web usage mining.

Key words: E-Commerce, Data mining, Web mining.

J.E.L. classification: M

1. E-Commerce and Retail websites

In e-commerce instead of having your business in a limited physical place and a limited sector of customers who are usually near to your store or business, you have it in the web. In e-commerce websites you have the ability to sell, advertise, and introduce different kinds of services and products in the web. E-commerce websites have the advantage of reaching a large number of customers regardless of distance and time limitations. Furthermore, an advantage of e-commerce over traditional businesses is the faster speed and the lower expenses for both e-commerce website owners and customers in completing customers transactions and orders.[1]

Because of the above advantages of e-commerce over traditional businesses, a lot of industries in different fields such as retailing, banking, medical services, transportation, communication, and education are establishing their business in the web. But creating a successful online business can be a very difficult and costly task if not taking into account e-commerce website design principles, web engineering techniques, and what e-commerce is supposed to do for the online business. Understanding the requirements of both e-commerce website owner and customer is an important aspect in building a successful e-commerce website. There is a lot of information need to be defined before starting building the e-commerce website such as identifying business goals and how the website will target those goals, if the website supposed to attract new customers or increase the sales of current customers, identify if the proposed website will increase the business overall profit, and identify the most suitable tools and techniques need to be used/ followed in order to target those requirements.

Retail websites aim to inspire, reflect a good image about the business and improve it online. An important factor in having a successful retail website is to know your competitors. On one hand, by identifying their points of strongness and trying to get benefit of them by improving those strongness points and adopting powerful strategies. On the other hand, identifying weakness points of your competitors and avoid them is a good practice in having a successful retail website.

2. Web mining

The usage of data mining to maintain websites and improve their functionality is an important field of study. Patterns extracted from applying data mining techniques on

web data can be used to maintain websites by improving their usability through simplifying user navigation and information accessibility and improving the content and the structure of the website in a way that meets the requirements of both website owner and user which will consequently increase the overall profit of the business.[2]

Web mining is the use of data mining techniques to extract useful patterns from the web. Those extracted patterns are used to improve the structure of websites, improve the availability of the information in the websites and the way those pieces of information are introduced to the website user, and to improve data retrieval and the quality of automatic search of information resources available in the web. Web mining can be divided into three major categories: web usage mining, web content mining, and web structure mining.

2.1 Web Usage Mining

Web usage mining or web log mining is the process of applying data mining techniques to web log data in order to extract useful information from user access patterns. Web usage mining tries to make sense of the data generated by the web user's sessions or behaviors. The web usage data includes data from web server access log, proxy server logs, browser logs, user profiles, registration data, cookies, and user queries. Web usage mining tries to predict user behavior while user interacts with the web and learns user navigation patterns. The learned knowledge could then be used for different applications such as website personalization, business intelligence, usage characterization and adaptive websites. There are two approaches for web usage mining process:

- Mapping the log data into relational tables before an adopted data mining techniques is performed.

- Using the log data directly by utilizing special preprocessing techniques[3].

The Web usage mining process consists of three phases: data preprocessing, pattern discovery, and pattern analysis. Pattern discovery is that set of methods, algorithms, and techniques used to extract patterns from web log file. Several techniques are used for pattern discovery such as statistical analysis, clustering, classification, and sequential pattern mining. After patterns are discovered

they need to be analyzed in order to determine interesting and important patterns, besides the removal of redundant patterns. Pattern analysis has several different forms such as knowledge query mechanism, visualization techniques, and loading usage data into a data cube in order to perform Online Analytical Processing OLAP operations.

A web server log file records users transactions in the web. Usually, the web log file contains information about the user IP address, the requested page, time of request, the volume of the requested page, its referrer, and other useful information. The web log file can have different format, but there is a common log file format that is mostly used. The common log file has the following format:

```
remotehost rfc931 authuser [date]  
"request" status bytes
```

where *remotehost* represents remote hostname (or IP number if DNS hostname is not available), *rfc931* represents the remote logname of the user, *authuser* represents the username as which the user has authenticated himself, *[date]* represents date and time of the request, *"request"* represents the request line exactly as it came from the client, *status* represents the HTTP status code returned to the client, and finally *bytes* represents the content-length of the document transferred. The WWW Consortium (W3C) presented an extended format for web server log file that is able to record a wide range of data to make an advanced analysis of the web log file. Web log file is the main source of data analysis in web mining but a lot of preprocessing efforts need to be performed in order to prepare the web log file to be mined.

2.2 Web Content Mining

Web content mining is mining the data that a web page contains. The contents of most of the web pages are texts, graphics, tables, data blocks, and data records. A lot of research has been done to cover different web content mining issues for the purpose of improving the contents of the web pages, improving the way they are introduced to the website user, improving the quality of search results, and extracting interesting web page contents[4].

Web content mining is still a large field. It contains:

- structured data extraction;
- sentiment classification, analysis and summarization of consumer reviews;
- information integration and schema matching;
- knowledge synthesis;
- template detection and page segmentation.

A large amount of information on the Web is contained in regularly structured data objects which are data records retrieved from databases. Such Web data records are important because they often present the essential information of their host pages, lists of products and services.

Two of the most used methods for extracting structured data are *wrapper induction* (given a set of manually labeled pages, a machine learning method is applied to learn extraction rules or patterns) and *automatic extraction* (given a set of positive pages or given only a single page with multiple data records, generate extraction patterns).

2.3 Web Structure Mining

Links pointing to a document indicate the popularity of the document, whereas links coming out of a document indicate the richness or the variety of topics covered in the document. Web structure mining describes the organization of the content of the web where structure is defined by "hyperlinks between pages and HTML formatting commands within a page"[5],[6].

Understanding the relationship between contents and the structure of the website is useful to keep an overview about websites. One of the approach allows the comparison of web page contents with the information implicitly defined by the structure of the website. In this way, it can be indicated whether a page fits in the content of its link structure, and identify topics which span over several connected web pages. Thus supporting web designers by comparing their intentions with the actual structure and content of the web page. Other studies deal with the web page as a collection of blocks or segments. By partition the web page into blocks and by extracting the page-to-block, block-to-page relationship from link structure and page layout analysis, a semantic graph can be constructed over the WWW such that each node exactly represents a single

semantic topic, this graph can better describe the semantic structure of the web. Structure within a web page can be used to help machines understand pages.

3. Web Usage Mining Techniques

In this section, we discuss data mining techniques that are mostly used in web usage mining such as *statistical analysis techniques*, *clustering*, *classification*, *association rule mining*, and *sequential pattern mining*[7],[8].

Statistical analysis is the process of applying statistical techniques on web log file to describe sessions, and user navigation such as viewing the time and length of a navigational path. Statistical prediction can also be used to predict when some page or document would be accessed from now. It makes use of the N-grammer model which assumes that when a user is browsing a given page, the last N pages browsed affect the probability of the next page to be visited.

Clustering is the process of partitioning a given population of events or items into sets of similar elements. In web usage mining there are two main interesting clusters to be discovered: usage clusters, and pages clusters. An approach is to cluster web pages to have a high quality clusters of web pages and use that clusters to produce index pages, where index pages are web pages that have direct links to pages that may be of interest of some group of website navigators.

Classification is dividing an existing set of events or transactions into another predefined sets or classes based on some characteristics. In web usage mining, classification is used to group users into predefined groups with respect to their

navigation patterns in order to develop profiles of users belonging to a particular class or category.

Association rule mining is the discovery of attribute values that occur frequently together in a given set of data. Association rules mining techniques are used in web usage mining to find pages that are often viewed together, or to show which pages tend to be visited within the same user session. A re-ranking method with the help of website taxonomy is to mine for generalized association rules and abstract access patterns of different levels to improve the

performance of site search. Another approach for predicting web log accesses is based on association rule mining. Association rule mining facilitates the identification of related pages or navigation patterns which can be used in web personalization[9],[10].

In *sequential pattern mining* a sequence of actions or events is determined with respect to time or other sequences. In web usage mining, sequential pattern mining could be used to predict user's future visit behaviors. Some web usage mining and analysis tools use sequential pattern mining to extract interesting patterns such as SpeedTracer and Webminer.

4. Discussion

From previous, it is clear that making changes and adaptations to websites with the help of extracted patterns using different data mining techniques is very effective, but doing that in the maintenance phase can be costly and time consuming and suffers from different drawbacks. In commercial companies which are companies that sell different kinds of products on the web, in order to make an effective maintenance to their websites, the companies have to wait some period of time, for example one year, in order to have a representative log file that reflects customers transactions in their website and can give a clear image about their behavior. This amount of time is considered very big especially for the companies in which the time factor plays an important role in their success strategy, and has many competitors who can attract their customers if they have no solid marketing strategies in order to keep their customers as loyal as possible[11],[12].

On the other hand, most businesses gather information about internet customers through online questionnaires. But, many customers choose not to complete these questionnaires because of the amount of time required to complete them as well as a lack of a clear motivation to complete them. Several companies use cookies to follow customers through the WWW, but cookies are sometimes detected and disabled by web browsers and do not provide much insight into customer preferences. This is because customers are feeling that their profiles are not secure so a number of customers choose

to give incorrect information about themselves.

Furthermore, in web mining different strategies are implemented to identify sessions such as defining a time threshold that a session should not exceed or assuming that consecutive accesses within the same time period belong to the same session. In some cases, it is difficult to identify users, for example, when two users use the same machine and the same browser with the same IP address and look at the same set of pages. We can conclude from that, that those session and user identification strategies cannot give a guarantee that those identified users and sessions represent the actual users and sessions.

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Opinions and Controversy regarding Fair Value

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Abstract

The concept of fair value challenged the interest of both the accountant normalizers and that of professional accountants, being an omnipresent notion in all established articles to the subject by the IFRS. The actual concerns of organisms that emits accounting standards are focused over norms improvement, regarding financial instruments evaluation based on their liquidities and of holding time horizon, debates having as central pillar the fair value and accounting at fair value.

Key words: historical cost, fair value, market to market, market to model

J.E.L. classification: M4, M41

1. Introduction

For accounting information to be relevant and credible, are necessary more conditions: the information has to be appropriate for decision making by users, benefits as result of information has to exceeds its cost, to establish a balance between the qualitative characteristics of financial information.

The entry value in accounting based on historical cost is a reliable and verifiable value, registered into a document that certifies asset ownership law, a claim law or a debt. It reflects the correctly value at the moment of their initial recognition, being a fair value as at that date. Referring the fact, that the modern economies are characterized by inflation, the question that arises is related to the great disadvantage of the historical cost. The answer to this question is: the inflation that makes obsolete the historical

cost value. In terms of inflation, information furnished through historical cost observance has no longer value. Therefore, must be made corrections of historical costs either by reassessment or by using the accountancy indexed at inflation, but these are insufficient for a faithful image [1].

Assessment at fair value opposes prudence principle one of fundamental principles of French accounting law (taken over by the Romanian accounting standards), through which account possible losses but not the potential profits. The problems that appear relate to the impact at fair value over enterprise accounting information and especially over the balance sheet and respectively to the profit or losses account drawn up on the base of fair value registration. At the same time, the fair value measurement established organization on new bases of reporting enterprise performance. Hence appears the question „is it closer by truth and more credible a result calculated on the base of fair value than one established on the base of historical cost?”.

2. Historical cost versus fair value

2.1. Historical cost

Evaluation at historical cost is an older accounting principle. Its first appearances date back to June 1979, in a project of the French accounting plan, after numerous theoretical debates. The historical cost can be defined as the original cost, evaluated, measured and recorded at the entry of assets and debts creation [2]. Historical cost is a value that comes from the past, reason for which it was established in accounting evaluation principle at historical cost, which

has the quality to be verifiable and objective. If evaluation method at historical cost carries a guarantee of reliability it tends to undervalue assets related to market tendencies. In the evaluation of assets at year end, the enterprises have a relative freedom of choice. Some of them abuse of this freedom for understatement or overstatement of assets, playing with depreciation (the choice of duration assets, depreciation methods) and provisions [3].

The historical cost can be defined like the "sacrifice that was accepted to bring the good in the enterprise at its entry date" [4]. Considering that any cost or sacrifice accepted is, in the conditions of entering in role of alternative costs, an untapped opportunity, as in order to assure its functioning, the enterprise must abandon certain choices (its resources are not available for alternative uses), we can conclude: historical cost used in measuring the real value, can be defined like the voluntary sacrifices (costs incurred) plus the cost associated with untapped opportunities (lost revenues). We can assimilate historical cost with opportunity cost, that appears as an alternative cost or giving up cost, any option leading to giving up of another solution had in consideration. From accounting point of view such cost represents a conceptual incompatibility, as accounting records what is it, not what could be. As a conceptual similarity, the opportunity cost is reflected in decision-making situations and at statistician L.J. Savage, who formulated the rule of regrets minimization recommended to adopt the decisions in uncertainty conditions. According to Savage's analysis, the decider must to be concerned about continuing to minimize regret not to has been chosen optimum decision [5].

Over time, it was found that in times of inflation, historical cost furnishes a distorted representation of economic reality. This fact has a negative influence on enterprise performance that cannot be properly assessed because of the overstatement of profit, the enterprise incurring a tax over inflation and distributing the fictive dividends, which actually means the distributions from the capital enterprises. The company result established on the base of historical cost reflects less the real potential, especially in service sector companies and high

technology, that invest an important part of resources in intangible assets (intellectual capital). For these companies, traditional accounting model based on historical cost does not reflect the real value of the company. Also, by applying the prudence principle, which considers that an asymmetrical approach potential pluses and minuses value, perhaps by recording probably expenses, but non recognize of value of latent pluses, enterprise accumulate accounting losses, which do not reflect their real potential. At this is added the development of various financial engineers at which companies resort to assure financing needs in increase and for risks management connected by modern businesses.

It can be concluded that, in the new business context, accounting model based on historical costs do not assure the reflection of reality. Once with losing pertinence of evaluation in historical cost, the question that arises is: "What will replace the historical cost, if this accounting recording model is no longer suitable in future, characterized by the triad: globalisation – technology - complexity?"

2.2. Fair value

Appeared for the first time in 1953 in publications from Accounting Research Bulletins regarding to balance sheet revaluations, fair value notion, was then introduced by the IASB in 1998 for evaluation of financial instruments (IAS 39) and responds to a logical evolution of accounting. The concept of fair value is reflected in context of international accounting standards elaborated by the IASB: „fair value is the amount at which an asset could be exchanged or a liability settled, willingly, between the parties informed, in a transaction where the price is determined in an objective manner”.

Accounting experts have sought to know the relationship between fair value and market value, in conditions in which market value indicates that the price must be looked for on a market.

Summarizing the opinions presented by François Mousel [6] regarding to the fair value can be said that fair value is a concept

with evolving and multifaceted character. This assertion is justified by those listed below. The market value may be the fair value when there are active markets, quoted, liquid, organized, etc. (a situation particularly common in anglo-saxon accounting model). For revaluations regarding an asset at a previous moment of relevant transaction, does not exist, by definition, in general, such a fair value. An example of an exception from this finding there are fungible financial instruments, negotiated on an organized and liquid market. For such instruments, the price quoted at one time is the amount for which these instruments can be exchanged between the parties informed and in agreement. This is because, historically, the concept of fair value was first imposed for certain financial instruments. Furthermore, usefulness of applying the fair value of financial instruments held at the end of negotiation, will facilitate consensus, because the value of these assets for enterprise would be well represented by a potential sale price, materialize at any moment. Fair value would be justified by a trade deal imminent. As regards tangible and intangible assets an enterprise has to choose between two accounting methods: the cost and the revaluation model. The logic of the used model for the revaluation of tangible and intangible assets is quite different from that which relates to financial assets. In fact, the first ones are intended to be permanently assigned to normal activity to the enterprise. Thus, they are the subjects of amortization which is defined by IFRS as the systematic allocation of the depreciable amount (cost of the asset or any other amount that replaces the cost minus residual value) of an asset on a utility duration. Superposing thus amortization technique and revaluation model, IFRS referential recognizes clearly that net accounting value of an immobilization in the sense of model of the cost (acquisition cost less amortization accumulated) is not, in many cases, a relevant information identical as real value of this asset.

Fair value measurement of assets and liabilities allows rapid transmission of information required by investors and shareholders. For example, Pascale Revault [7] quotes Jacques Richard (Professor to the University Paris Dauphine) illustrates very

significant the concept of fair value through the following example: A company that holds securities A, quoted at Stock Exchange, which recorded a decrease of 100 u.m. and B securities, which have increased by 150 u.m. can reflect this situation as follows: according to principle of prudence - a loss of 100 um (potential capital gains are not recorded); according to principle of fair value - a profit of 50 um (market value is thus immediately reflected by enterprise accounting).

National accounting rules states: fair value of assets is determined, in general, according to market dates, through an assessment, usually by qualified professionals in the assessment. In case there is no data on the market on fair value because of the specialized nature of assets because of the specialized nature of assets and of reduced frequency of transactions, the fair value can be determined by other methods typically used by professionals in the assessment.

Currently, the fair value measurement is favored by international accounting regulations, which seeks to award the fair value of the item assessed by reference to its market value - *mark to market*. "*Markets, in the measure of their existence and extent of their effectiveness, provides in every moment fair value. In the case of an inactive market in which they do not exist or are ineffective the fair values must be calculated, usually by derivation from a model forecast that calls for: the definition of a horizon, estimating cash flows for an asset, in according with this horizon, by recourse to hypothesis more or less explicit, with predilection on their likelihood of developing and adopting a discount rate*" [8].

Proposed methods by the IFRS to perform models to establish fair value, shows the difficulties of evaluation rule *mark to model*. In terms of theory, the fair value of an asset is given by the present value of various cash flows expected from him in future. Given the difficulties that may arise, these methods suggest that fair value generalization as criteria (model) to evaluation of all assets and liabilities (the full fair value) seems to be a utopian project, because the practical use of a model can be associated with more risks that can generate losses. For example, under IFRS, estimation of net cash flow to received or to paid for the sale of an asset at the end of

its useful life should be the amount that an entity expects to obtain from disposal of the asset within a transaction in objective conditions, between the parties concerned and knowledgeable of the facts, after estimated cost associated to asset giving up were deducted. Also, if there is not a market price for the item which is subject to fair value, must find a substitute for market value. Between market value and its substitute there is a difference because the market value information is an observed information by the company management and which is achieved independently by its value judgments, but the element that substitutes market value is a value determined by management, that is estimated function of own professional judgments. This information is achieved independently by its value judgments, but the element that substitutes the market value is a value determined by management, that is estimated function of own professional judgments.

In the same time, the fair value use as base of evaluation in accounting is a permanent adjustment of acquisition costs of assets with market value which is a reevaluation of financial situation of enterprise. "Recourse to evaluation to fair value requires including in the enterprise result of operational result obtained from effective transactions, but also of virtual elements, arising from market developments, which are only potential gains or losses. This virtual result obtained from adjustments of enterprise assets and liabilities value, function of market value, represents only a latent enrichment or pauperization of shareholders is volatile and usually is caused by reasons that can not be controlled by the decisions of managers undertaking being induced by the development of market parameters such as interest rate, exchange rate, exchange rates, housing market prices, etc." [9]

In order to estimate the fair value of assets and liabilities can use a hierarchy with three levels: level 1: Review existing prices in active markets, Level 2: analysis of observable market data, Level 3: unobservable market inputs. The fair value at level 3 is the most difficult to estimate, requiring the employment of independent evaluators to remove suspicions of fraud risk. This is because the use of fair value changes result in a manageable components (net

profit) in an uncontrollable component (net asset value). Appears thus the difficulty of explaining to the shareholders on the change in value of assets using fair value.

3. The accounting information provided based on fair value accounting

Concept of fair value attracted the interest of both that of accountants and accounting professionals. Have been brought both criticism and praises to this notion so controversial.

I. Jianu summarizes the advantages of the fair value as presented below [1]:

- *The prediction*: the fair value is the best basis for forecasting future financial flows;

- *Comparability*: fair value reflects the present value of all the tools, regardless of their nature;

- *Coherence*: The fair value is adapted to active administration of financial risks;

- *Reduced complexity*: a unique pricing model is simpler than a model that enables application of different methods of cost and value;

- *Neutrality*: fair value is independent of the intent and the quality of the parties, the date of origin of operations, the nature of the instruments.

Criticism of accounting information based on a fair value accounting are studied on three axes:

1. *The fair value is not reliable and has elements that lead to erroneous interpretations.* Only the values generated by an active market can be reliable and neutral. The most majority of financial instruments issued, negotiated especially used by credit institutions, are not quoted and they have not an organized market (in this sense, one can analyze the hierarchy of FAS 157 *Fair Value Measurement* and FAS board position). Consequently, their evaluation is based on internal models, recognized by banks, because involve estimated parameters, but with degrees of uncertainty, so that they incorporate variables to model risk adjustment, liquidity risk, volatility, etc. It may be said, therefore, that the fair value evaluation includes in its content, methodologies and models that secure a random character. Even if the expert is

honest accounting in determining fair value, such value in preserving a degree of reliability. In other words, fair value is neither reliable nor devoid of elements that lead to erroneous interpretations (or neutral).

2. *The fair value is not always customary methods for determining them.* Since there is not a market price for the whole financial instruments held by companies and groups, the fair value method is based on the current value or other valuation methods, based on conditions that dominate the market, when drawing up such balance-sheet. The values thus calculated are strongly influenced by secondary hypotheses, relative to level and cash flows order and discount rates applied. In conclusion, using the same fair value, financial institutions, raise issues of comparability, the default of financial analysis.

The lack of comparability and neutrality in presenting the fair values call into question the usefulness of information to investors who see themselves thus deprived of the main characteristic of information, namely its relevance. The cost of determining the fair value is not insignificant in size. In the absence of external quotes for most financial instruments used, the fair values must be calculated inside the enterprises, appealing to models those conception, achievement and control are costly and possibly prohibitive for some businesses and institutions, at least in relation to the benefits conferred on those values.

3. *Fair value is extremely volatile in nature* which it manifests, especially in case of credit institutions. The question that may arise is: fair value is a cause or an effect of volatility? Logical answer is that in the financial crisis decreases the amount of bank guarantees, so the debt rate will be higher for companies indebted. Once the debt increases, therefore increases the risk of leveraged company and the asset value will be lower because the same flux generated is now a greater risk.

In present circulate perception of a tight connection between financial crisis and some types of financial instruments in case of accounting standards relating to these instruments. Thus accounting standards being charged mainly because of rules related to fair value rules.

In this sense can also occur other critics regarding fair value:

Fair value has a "pro-cyclical nature" and maintained a downward spiral of the stock market. A such opinion has emerged at the European meeting of accounting professionals in December 2008 (Paris). At this meeting Christian Noyer (governor to the Bank of France) said: the biggest sensibility of balance sheets at market fluctuations is induced by a fair value accounting and is not clearly irrelevant to financial stability.

Fair value has a pro-cyclical character as a result of the fact that the valuation of certain assets, especially financial, is made based on market value: when market value increases, assets value increases and vice versa. Jacques Mistral (director of economic studies of the Institut Français des Relations Internationales, the abstract debate of 11 December 2008: *Fair value - the role of new accounting rules in financial crisis.*) estimated that the new accounting rules were fed during the growing period gains a sense of sustainability.

The fair value cannot always rely on markets in the case when are ineffective. Normal conditions of competition specified in the definition of fair value are not always respected. Sometimes we cannot determine the fair value because markets are affected (a situation that began in the second half of 2008). The theory of the efficient markets which justify the use of fair value as an evaluation criterion is invalidated by the reality of the current economic crisis [10]. In this case it's necessary to resort to mathematical models, based on an assessment of future cash flows, introducing some subjectivity in the choice of modeling parameters to fair value.

Financial reports related to financial instruments, fair value and risks are lack of transparency and comparability. The main criticism was the argument that financial reports ought to provide a clearer and more appropriate to the risks involved in using sophisticated financial instruments, which to allow investors and other stakeholders in correct evaluation of assets, liabilities and equity of companies. Noteworthy is the fact that since 2007 (first year of application of IFRS 7 "Financial Instruments: Disclosures" and SFAS 157 "Fair Value") appeared the first information on financial crisis of

mortgage loans. Even if the information provided by the above standards are also comprised positive aspects of the methods of evaluation, more transparent description of the credit or liquidity risk, etc., Information about financial instruments, fair value and financial risks information was impressive volume. This prevented the increase comparability and transparency expected to be provided by new rules. The same was reported in 2008, the second year of application. The financial reports were characterized by an increased volume of supplied information in the detrimental of comparability and transparency.

4. Conclusions

Opposition historical cost - Fair value is still active between traditional Europe (especially France), which is blamed for his excess of caution that sometimes lead to some inertia and anglo-saxon countries who seeks to obtain any term profitability Short and encourage investors. Opposition historical cost - Fair value is still active between a traditional Europe (especially France), which is blamed for excess of caution that sometimes lead to some inertia and Anglo-Saxon countries that look for before anything to get a short term profitability and to encourage investors.

At first sight, the concept of fair value lets a priori to understand that fair value is a market value that materializes through a commercial transaction, which is independent of the influence of internal factors specific to the company. At the same time, this general definition presents this concept, meaning that market value would be an external reference value, objective and verifiable and does not require subjective evaluation.

From a practical approach in the process of fair value determination, there are two basic situations:

- Existence of an active market and a quoted price;

- Absence of active markets involves the application of valuation techniques. The objective assessment techniques is achieved a realistic estimate of fair value of the asset, which must reasonably reflect how the market is expected to evaluate it.

Considered the best estimation of market value, international accounting normalization instances validated the practice of fair value in a manner that tends to include most extensive balance sheet assets. Thus, any asset shall be treated as a financial asset for which a true and accurate value is given by the present value of expected cash flows to be generated by the asset, taking into account the risks involved. It follows that the fair value is a value oriented towards the future, because it estimates the most correctly cash flows that the firm expects to gain from the sale of its assets.

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Reimbursement Mechanism for the ESF Projects in Romania. Case Study: SOP HRD 2007-2013

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Abstract

The causes of the low absorption rate are deeply connected with the limited capacity of the institutions responsible for the implementation of the structural funds in Romania.

Delays in the payment of refunds have a tremendous impact on the implementation of projects financed from European funds, the applicants and the partner organizations, and thus on the absorption of EU funds in Romania.

This paper was prepared based on information collected through an online poll conducted on www.fonduri-structurale.ro in the period February-April 2011, attended by organizations that are implementing projects funded under the Sectorial Operational Programme Human Resources Development 2007-2013. The pooling of data showed that the average value of remittance of money waiting from MA SOP HRD is around 146 days.

Key words: human resources programme, beneficiaries, project analysis, reimbursement, structural funds absorption

J.E.L. classification: O022

1. A general overview of the SF absorption in Romania

The absorption of the structural and cohesion funds is one of the top priorities of Romania. Nevertheless, with an absorption rate of only 13 % (roughly 70% of the total payments represents pre-financing, the rest can be considered real absorption) (according to official data on 31st of July 2011) the overall situation is particularly alarming,

considering the slow paces of the effective project implementation and of the recovery of expenses from the European Commission.

Structural and cohesion funds are financial instruments for economic and social restructuring in the Community.

The overall Structural and Cohesion Funds allocation for Romania is 19.668 billion Euro of which 12.661 billion Euro represent Structural Funds under the Convergence Objective, 6.552 billion Euro are allocated under the Cohesion Fund and 0.455 billion Euro under the European Territorial Cooperation Objective(National Strategic Reference Framework 2007-2013).

We believe that the role of structural funds is to grant financial assistance where, when, and how it is needed, but in order to benefit from this support, beneficiaries must comply with "rules of the game", meaning to treat seriously all stages of this process, from idea and the draft project until signing the contract financing and to respect all procedures required.

The causes of the low absorption rate are deeply connected with the limited capacity of the institutions responsible for the implementation of the structural funds in Romania.

2. Case study HRD SOP – the reimbursement mechanism

Because “absorption” means the effective spending of funds assigned by the EU, in the following, we intend to make an assessment of how the reimbursement system works; in an attempt to be as specific as we can, we focused on one of the most important OP of Romania, developed under the Convergence objective: Sectorial Operational Programme Human Resources Development (SOP HRD).

Why SOP HRD? For two reasons: first of all, because the human capital lies at the core of the development policy of Romania, considering the fact that there is a strong connection between social and economical development, and SOP HRD joins the main objectives aimed at a sustainable development of the above named capital. To continue with, SOP HRD is the operational programme with the most projects in implementation, more than 2000. The 2007-2013 allocation for SOP HRD is 18% out of the total allocation for convergence objective, SOP HRD being ranked 5th after Transport, Environment and Regional (NSRF 2007-2013).

Year	Submitted	Approved	Signed
2008	2.842	254 (2 have been retreated)	110
2009	5.250	1691	533
2010	8.265	2434	1962
July 2011	10.166	2894	2116

Source: SOP HRD – the evolution of the submitted approved and signed projects until the 31st of July 2011 according to the *Annual Implementation Report 2008 (Raportul anual de implementare 2008)* and official data from ACIS

The total payments for SOP HRD - 3,209,841 lei (as of 31st of July 2011), represents 21,04% absorption rate, of which 15,56% correspond to pre-financing ;

The institutions and organizations that benefit from SOP HRD financing, *i.e.* the organizations that have projects in implementation, are schools, institutions, universities, research centres, the structures of the Education and Research Ministry, the accredited training providers, professional organizations, the Chambers of Commerce and Industry, trade unions and employers, the National Council for Professional Training of Adults, the National Agency for Employment and its local and county structures.

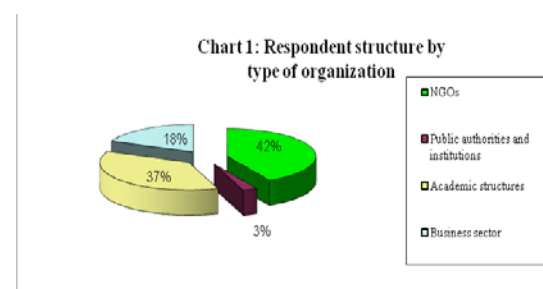
These actors face a real problem: the long period of time they have to wait for the reimbursement of costs.

The reimbursement principle is the most important principle when dealing with structural funds. This implies the fact that the beneficiaries pay the providers of works or services from their own funds and only afterwards, on the basis of the paid invoices and payment orders, they request the reimbursement of expenses. Basically, the beneficiary must submit a reimbursement request together with a technical and financial report (this document mentions the stage reached and the expenditure). The financers (the Managing Authority of SOP HRD, the Intermediate Bodies) evaluate and certify the payment and only subsequently transfer the appropriate amount.

During March-April 2011, through www.fonduri-structurale.ro I began a campaign to assess the repayment mechanism on EU funds for gathering relevant information regarding the time span of the process of reimbursement of expenses, especially on projects funded from the European Social Fund through the Sectoral Operational Programme Human Resources Development 2007-2013.

Under partial information, collected and centralized by the end of April 2011, 38 participants in the survey where representatives of beneficiaries of EU funds through the Sectoral Operational Programme Human Resources Development 2007-2013 (SOP HRD). The structure of the respondents can be found below:

- 16 respondents (42.11%) from the NGO sector;
- 14 respondents (36.84%) from the academic sector (universities, colleges and schools)
- 7 respondents (18.42%) from the business sector (companies) ;
- 1 respondent (2.63%) from public authorities and institutions;



The survey aimed at collecting information on both the process of reimbursement for beneficiaries who filed claims for reimbursement and have not yet been transferred the money and the beneficiaries who filed claims for reimbursement in the last period and they money was paid.

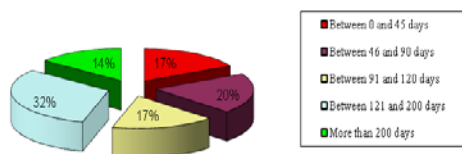
The main issue raised by the survey's participants was the major delay in the payment of refunds by the Managing Authority (MA).

Under the financing agreement (valid until June 2010) [Article 9, section B "MA SOP HRD obligations", paragraph (5)] MA SOP HRD will make the reimbursement no later than 45 (forty five) calendar days from the submission date of the application for refund, accompanied by all documents requested. Since July 2010 the deadline stated in the contract was reduced to 30 days.

In the case of the reimbursement requests filed and still pending until completion of the survey, the duration of the refund process has reached in some instances up to 325 days. The pooling of data showed that the average remittance of money is in the range of 120 days.

30 of the 38 beneficiary-respondents had 35 requests for reimbursement submitted and still unresolved. In other words, some beneficiaries had more than one request for reimbursement pending until the date they participated in the survey. In 32% (11) of cases, the period of time between the request for reimbursement and the participation in the survey was between 121 and 200 days, and in 14% (5) of the cases, the beneficiaries had been waiting for more than 200 days.

Chart 2: Waiting time since the submission of the reimbursement claim

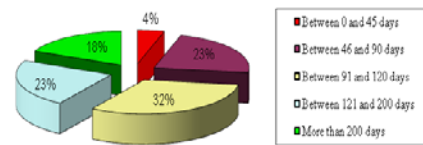


In the case of the reimbursement claims submitted and settled by the date of completion of the questionnaire, the process of reimbursement had lasted, in some instances, up to 436 days. The pooling of data showed that the average value of

remittance of money waiting from MA SOP HRD is around 146 days.

In 23% (5) of the cases, the waiting period from the date of application for reimbursement to the actual transfer of the money ranged between 121 and 200 days and in 18% (4) of the cases, it exceeded 200 days.

Chart 3: Waiting time from the submission of the reimbursement claim until the money was transferred to the beneficiary



The number of organizations affected by these delays exceeds 38 respondents, given that such projects are typically conducted in partnership. More specifically, according to information collected during the campaign, 103 national and trans-national organizations were affected, of which 30% are NGOs, 30% public authorities and institutions, 26% universities and 14% are organizations from the business sector.

Chart 4: Number of affected organizations (beneficiaries and partners)

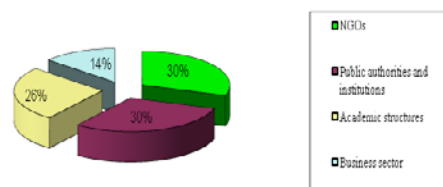
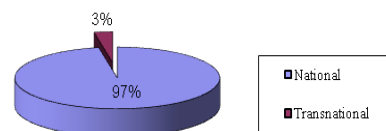


Chart 5: Number of affected organizations (beneficiaries and partners)



The total amount of repayments expected by the survey respondents was 13.459.285,96 lei (about 3,28 million euro).

The main complaints of the funds beneficiaries, in addition to systematic delays in settling claims for reimbursements submitted, refer to:

- Poor communication with the Managing Authority and Intermediate Bodies;
- Lack of transparency of the Managing Authority and Intermediate Bodies in relation to beneficiaries;
- Imposing unfair contractual clauses;
- Failure by the Managing Authority and Intermediate Bodies in honouring the contractual clauses.

This information leads to the conclusion that on the circuit of the reimbursement request there are too lengthy checks, a large number of clarifications in the relation with the beneficiaries, unclear approaches and overlapping verifications that require a thorough analysis in view of the checking procedures, attributions that must be carried out by every actor involved (IB, MA, CPA).

Along with the speeding up of the SOP HRD implementation, there comes the major risk that, as the number of reimbursement requests from the beneficiaries rises, the system will become "suffocated" and, consequently, we shall witness an increase in the verification and payment period. Therefore, measures to simplify the checking process become mandatory, along with the substantial increase of the verification capacity (including the help of specialised technical assistance).

Romania is still in an infant state, accommodating the system. Until now, in this matter, the specialists can bring a series of reproaches; Romania must learn the lessons from the older member states or from those that joined the EU in 2004, so that the 2007-2013 period would not be entirely compromised. Looking into perspective, for 2014-2020, a reformed and invigorated system is compulsory and the setting appears to be favourable due to experience, lessons learned, but also, we hope, due to a more prosperous economic space.

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The Lattice of Filters of a Pseudo BL-Algebra

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Abstract

In this paper we begin the investigation of filters and congruences. We define the filters of a pseudo BL-algebra A and we denote by $F(A)$ ($F_n(A)$) lattice of all filters (normal filters) of A ; we put in evidence some results about these lattices. By using the two distance functions we define two binary relations $\equiv_{L(F)}$ and $\equiv_{R(F)}$, related to a filter F of A ; these two relations are equivalence relations, but they are not congruences. They quotient set $A/L(F)$ and

$A/R(F)$ are bounded distributive lattices. We give characterizations for the maximal and prime elements on $F(A)$ ($F_n(A)$) and we prove the prime filter theorem. We characterize the pseudo BL-algebras for which the lattice of filters (normal filters) is a Boolean lattice and the archimedean and hyperarchimedean pseudo BL-algebras.

Key words: filters, pseudo BL-algebra, normal filters, maximal elements

J.E.L. classification: C02

Definition A non empty subset $F \subseteq A$ is called a filter of A , if the following conditions are satisfied:

(F_1) If $x, y \in F$, then $x \otimes y \in F$;

(F_2) If $x \in F, y \in A, x \leq y$, then $y \in F$

Clearly $\{1\}$ and A are filters; a filter F of A is called proper if $F \neq A$.

Remark Any filter of the pseudo BL-algebra A is a filter of the lattice $L(A)$.

Remark For a nonempty subset F of A the following are equivalent:

- (1) F is a filter;
- (2) $1 \in F$ and if $x, x \rightarrow y \in F$, then $y \in F$;
- (2') $1 \in F$ and if $x, x \Rightarrow y$, then $y \in F$.

We denote by $\mathbb{F}(A)$ the set of all filters of A . For a nonempty subset $X \subseteq A$, the smallest filter of A which contains X , i.e. $\cap \{F \in \mathbb{F}(A) : X \subseteq F\}$, is said to be the filter of A generated by X and will denoted by $[X]$.

If $X = \{a\}$, with $a \in A$, we denote by $[a]$ the filter generated by $\{a\}$ ($[a]$ is called principal).

For $F \in \mathbb{F}(A)$ and $a \in A/F$, we denote by $F(a) = [F \cup \{a\}]$.

Proposition The lattice $(\mathbb{F}(A), \vee, \wedge)$ is a complete Brouwerian algebraic lattice, the compact elements being exactly the principal filters of A .

For $F_1, F_2 \in \mathbb{F}(A)$ we put $F_1 \rightarrow F_2 = \{a \in A : F_1 \cap [a] \subseteq F_2\}$

Lemma If $F_1, F_2 \in \mathbb{F}(A)$ then

- (i) $F_1 \rightarrow F_2 \in \mathbb{F}(A)$;
- (ii) If $F \in \mathbb{F}(A)$, then $F_1 \cap F \subseteq F_2$ iff $F \subseteq F_1 \rightarrow F_2$, that is, $F_1 \rightarrow F_2 = \sup \{F \in \mathbb{F}(A) : F_1 \cap F \subseteq F_2\}$

For $F_1, F_2 \in \mathbb{F}(A)$, the relative pseudocomplement of F_1 with respect to F_2 is defined by $F_1 * F_2 = \{x \in A : x \vee y \in F_2, \text{ for all } y \in F_1\}$.

Proposition For all $F_1, F_2 \in \mathbb{F}(A)$, $F_1 * F_2 = F_1 \rightarrow F_2$.

Corollary $(\mathbb{F}(A), \wedge, \vee, \rightarrow, \{1\})$ is a Heyting algebra, where for $F \in \mathbb{F}(A)$,

$$F^* = F \rightarrow 0$$

$F \rightarrow \{1\} = \{x \in A : [x] \cap F = \{1\}\}$, hence for every $x \in F$ and $y \in F^*$, $x \vee y = 1$. In particular, for every $a \in A$, $[a]^* = \{x \in A : x \vee a = 1\}$.

We define two distance function on pseudo BL-algebra A by:

$$d_1(x, y) = (x \rightarrow y) \otimes (y \rightarrow x) \text{ and}$$

$$d_2(x, y) = (x \Rightarrow y) \otimes (y \Rightarrow x)$$

Proposition Let us consider a filter F of A. Define two binary relations $\equiv_{L(F)}$ and $\equiv_{R(F)}$ on A by:

$x \equiv_{L(F)} y$ iff $d_1(x, y) = (x \rightarrow y) \otimes (y \rightarrow x) \in F$ and

$x \equiv_{R(F)} y$ iff $d_2(x, y) = (x \Rightarrow y) \otimes (y \Rightarrow x) \in F$.

For a given filter F, the relations $\equiv_{L(F)}$ and $\equiv_{R(F)}$ are equivalence relations on A;

moreover we have $F = \{x \in A : x \equiv_{L(F)} 1\} = \{x \in A : x \equiv_{R(F)} 1\}$.

We shall denote by $A/L(F)$ ($A/R(F)$, respectively) the quotient set associated with $\equiv_{L(F)}$ ($\equiv_{R(F)}$ respectively);

$x/L(F)$ ($x/R(F)$, respectively) will denote the equivalence class of $x \in A$

with respect to $\equiv_{L(F)}$ ($\equiv_{R(F)}$, respectively).

Let us define the binary relation $\leq_{L(F)}$ on $A/L(F)$ by:

$$x/L(F) \leq_{L(F)} y/L(F) \Leftrightarrow x \rightarrow y \in F.$$

It is straightforward to prove that $\leq_{L(F)}$ is an order on $A/L(F)$.

Similarly, we define an order $\leq_{R(F)}$ on $A/R(F)$ by:

$$x/R(F) \leq_{R(F)} y/R(F) \Leftrightarrow x \Rightarrow y \in F.$$

Proposition $(A/L(F), \wedge, \vee, 0/L(F), 1/L(F))$ ($(A/R(F), \wedge, \vee, 0/R(F), 1/R(F))$ respectively) is a bounded distributive lattice, such that $\leq_{L(F)}$ ($\leq_{R(F)}$, respectively) is the induced order relation.

Definition A filter H of A will be called a normal filter iff (N) for every $x, y \in A$, $x \rightarrow y \in H$ iff $x \Rightarrow y \in H$.

Remark Clearly, $\{1\}$ and A are normal filters. If $f : A \rightarrow B$ is a morphism of pseudo BL-algebras, then that $f^{-1}(1_B)$ is a normal filter of A.

We denote by $F_n(A)$ the set of all normal filters of A.

Proposition If $a \in G(A)$, then $[a] = \{x \in A : a \leq x\} \in F_n(A)$.

Remark Let $H \in F_n(A)$. Then

(i) $x^- \in H$ iff $x^\sim \in H$

(ii) $x \in H$ implies $x^=, x^\sim \in H$.

For a filter H of A and $x \in A$ denote $x \otimes H = \{x \otimes h : h \in H\}$ and $H \otimes x = \{h \otimes x : h \in H\}$.

Proposition For a filter H of A the following are equivalent:

(i) $H \in F_n(A)$

(ii) $x \otimes H = H \otimes x$, for all $x \in A$

Proposition Let \equiv be a congruence on A and let $H = \{x \in A : x \equiv 1\}$. Then

(i) H is a normal filter of A;

(ii) $x \equiv y$ iff $d_1(x, y) \equiv 1$ or, equivalently, iff $d_2(x, y) \equiv 1$.

Proposition The congruence relations \equiv_H of A and normal filters H are in one-to-one correspondence.

Starting from a normal filter H, the quotient algebra A/H becomes a pseudo-BL algebra with the natural operations induced from those of A.

Then the function $p_H : A \rightarrow A/H$ defined by $p_H(x) = x/H$, for all $x \in A$ is a homomorphism from the pseudo BL-algebra A , onto the pseudo BL-algebra A/H .

For $x, y \in A, x/H \leq y/H$ iff $x \rightarrow y \in H$ iff $x \Rightarrow y \in H$ and $x/H = 1/H$ iff $x \in H$. If $x \in B(A)$, then $x/H \in B(A/H)$.

Proposition Let H be a normal filter of A and $a \in A/H$. Then

$[H \cup \{a\}] = \{x \in A : h \otimes a^n \leq x, \text{ for some } n \geq 0 \text{ and } h \in H\} = \{x \in A : a^n \otimes h \leq x, \text{ for some } n \geq 0 \text{ and } h \in H\} = \{x \in A : a^n \rightarrow x \in H, \text{ for some } n \geq 1\} = \{x \in A : a^n \Rightarrow x \in H, \text{ for some } n \geq 1\}$.

Proposition If $F_1, F_2 \in \mathbb{F}_n(A)$, then

- (i) $F_1 \wedge F_2 \in \mathbb{F}_n(A)$
- (ii) $F_1 \vee F_2 \in \mathbb{F}_n(A)$.

Proposition If $(F_i)_{i \in I}$ is a family of normal filters of A , then

- (i) $\bigwedge_{i \in I} F_i \in \mathbb{F}_n(A)$
- (ii) $\bigvee_{i \in I} F_i \in \mathbb{F}_n(A)$

Corollary $\mathbb{F}_n(A)$ is a complete sublattice of $(\mathbb{F}(A), \wedge, \vee)$

Definition For a nonempty subset $X \subseteq A$, the smallest normal filter of A which contains X , i.e. $\bigcap \{F \in \mathbb{F}_n(A) : X \subseteq F\}$, is said to be the normal filter of A generated by X and will be denoted by $\langle X \rangle$. Obviously $[X] \subseteq \langle X \rangle$, so, if F is a filter, then $F \subseteq \langle F \rangle$.

Proposition If $H \in \mathbb{F}_n(A)$ and $a \in G(A)$, then $H(a) \in \mathbb{F}_n(A)$.

Proposition For $a \in A$ and $n \geq 1$, the following assertions are equivalent:

- (i) $a^n \in B(A)$;
- (ii) $a \vee (a^n)^- = 1$;
- (iii) $a \vee (a^n)^{\approx} = 1$;

Proof (i) \Rightarrow (ii) Since $a^n \in B(A)$ we deduce that $a^n \vee (a^n)^- = 1$. But $a^n \leq a$, so $1 = a^n \vee (a^n)^- \leq a \vee (a^n)^-$. We obtain that $a \vee (a^n)^- = 1$.

(ii) \Rightarrow (i)

Since $a \vee (a^n)^- = 1 \Rightarrow a^n \vee [(a^n)^-]^n = 1$

Since $[(a^n)^-]^n \leq (a^n)^-$, we obtain $1 = a^n \vee [(a^n)^-]^n \leq a^n \vee (a^n)^-$, so

$a^n \vee (a^n)^- = 1 \Rightarrow a^n \in B(A)$.

(i) \Leftrightarrow (iii) analogously

Theorem The following assertions are equivalent:

- (i) $(\mathbb{F}(A), \wedge, \vee, *, \{1\}, A)$ is a Boolean algebra;
- (ii) Every filter of A is principal and for every $a \in A$ there exists $n \geq 1$ such that $a^n \in B(A)$.

Theorem The following assertions are equivalent:

- (i) $(\mathbb{F}(A), \wedge, \vee, *, \{1\}, A)$ is a Boolean algebra;
- (ii) Every normal filter of A is principal and for every $a \in A$ there is $n \geq 1$ such that $a^n \in B(A)$.

Proof (i) \Rightarrow (ii). Let $F \in \mathbb{F}_n(A)$; since $\mathbb{F}(A)$ is Boolean algebra, then $F \vee F^* = A$. So, for $0 \in A$, there exist $a \in F, b \in F^*$ such that $a \otimes b = 0$.

Since $b \in F^*$, it follow that $a \vee b = 1$.

We deduce that $a \wedge b = a \otimes b = 0$, that is, b is the complement of a in $L(A)$.

If $x \in F$, since $b \in F^*$ we have $b \vee x = 1$. Since $a = a \wedge (b \vee x) = (a \wedge b) \vee (a \wedge x) = 0 \vee (a \wedge x) = a \wedge x$,

We deduce that $a \leq x$, that is $F = [a]$. Hence every normal filter of A is principal.

(ii) \Rightarrow (i) The proof results from the previous Theorem

Conclusion

This paper is very interesting and it represents the base for the study of some open problems: characterize the normal filter generated by a non-empty set.

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Performance Indicators in the Customer Relationship

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Abstract

In the early years of direct marketing, much of the growth in revenue took place through the acquisition of new customers. Today, however, markets are more saturated. New customers are gained mainly at the expense of competitors. This makes it more difficult and expensive to acquire new customers. To compensate, many companies are relying on their current customer base to generate the bulk of their profits. They are staying competitive by placing more emphasis on developing new products and services to offer to their existing customers. This not only affects the value of existing customers, but it changes the value of a potential customer or prospect. As a result, companies are willing to spend more to attract new customers by focusing on long range or lifetime value (CLV).

Key words: CLV, cost, profit

J.E.L. clasification: C63

1. Indicators

From the multitude of examples of indicators analyzing the customers portfolio, we suggest a group of five indicators which reflect from a financial perspective how our customers appear and how important they are for the company activity. They project an analysis both at the individual level (each customer) and at the aggregate level (the whole customers portfolio).

1.1. The Expansion of the Customer Account

It measures the degree at which the business relationship with the existing customers may increase, more exactly, the percentage with which the business figure realized in comparison with these ones may

increase. Concretly, the business figure realized with the existing customers in the current period is percentage reported to the business figure realized with the existing customers in the previous period of time

1.2. The Business Figure Generated by the First Three Customers

It measures the percentage of the business figure totalized by the first three customers (from the point of view of the purchase value made by the customers). It is important to monitorize as it desirable each customer to purchase more, if the business depends to a large extent on some important customers, the risks are bigger. A value of 30-40% can be beneficial and comfortable for the company from the point of view of risks

1.3. The Profit per Customer

It measures the medium value of the profit realized at the level of customer. Thus, it implies to measure the profit realized by each customer and to calculate the average of these values. At a practical level, this indicator has the limit of being calculated difficult, as the difference between the revenues and the costs associated to each customer.

1.4. Profitable Customers

Starting from the analysis of the profitableness per customer, it can be calculated by reporting the number of profitable customers to the total number of customers, as a percentage. Finally, for a more comprehensive image, and very important too, it might be a fifth performance indicator in relationship with the customers.

2. Customer Lifetime Value – CLV

This indicator reflects an updated estimation of the profits made by the customer in what it is predicted to be his lifetime.

2.1. The CLV Concept

Kotler and Armstrong define a profitable customer as a person, family or company whose revenues exceed in time the company costs by an acceptable sum, consisting in attracting, selling and serving the customer. In some literatures, CLV is also referred to as "the customer's surplus". As a matter of fact, some researches define the CLV as the customer's surplus without the purchase cost.

In the past, the estimation of the efficiency of the customers relationships management was a difficult process to be done; the firms knew that the customers number was increasing or decreasing but only few firms knew a real fluctuation of the customers flow. At present, the advanced technologies of the databases and the investments for programmes destined for diminishing the customers migration rate and increasing the customer's loyalty allow the determination of the customers value throughout the three stages of their lifetime: attracting new customers, making faithful the existing ones and developing the customers relationships.

The CLV concept was adopted by the companies of direct marketing at the end of the second millennium, due to the databases.

The customers lifetime value represents the net value of the profits made by the customers of a firm, due to the transactions flow in the period of time in which they purchase the products and services of a firm.

There are many possibilities of calculating the customers lifetime value. One of the simplest method consists in dividing the annual profit by the customers number in a certain period of time, but this approach does not give any indications about the sums of money spent by each customer. Another technique of determining the customers value consists in dividing the business figure by the customers number in a period of time, but the inconvenience of the first method is not eliminated, although there can be made correlations among the sales on each

category of customers. To determine correctly the customers lifetime value, it must resort to a detailed analysis of the purchase behaviour and the segmentary criteria used.

One of the mistakes made by the organizations consists in concentrating the efforts and resources only on the customers segments with a high profitableness rate, neglecting those segments with a lower profitableness, which can be turned to account for a long term and the former customers who can be attracted by special programmes and can make considerable profits for a long term. However, any firm is confronted with a profitable and unprofitable customers portofolio and it must be made a segmentation of these customers; on an average, the most profitable customers of a company represent only 10%, while 60% there are just on the line of the profitableness threshold and 30% bear losses.

The firms must determine those success-key factors which contribute to making a high profitableness and look for methods to apply them to the other categories of customers. The resources allocated to the unprofitable customers can be diminished only after having tried to change them into profitable customers, using specific marketing actions.

2.2. The formula of CLV

The formula of CLV can mathematically be defined as follows:

$$CLV = \frac{NP_t}{(1+r)^t} \text{ (for a single period)}$$

$$CLV = \sum \frac{NP_t}{(1+r)^t} \text{ (for multiple periods)}$$

The formula states that we divide the total of expected net profit in each period by a discounting factor. The factor can be defined from the company's rate of credit interest. Then the figures from all periods are added, resulting in the customers CLV.

As shown by the formula, CLV depends on three main factors:

1. The rate of interest used
2. The net profit in each period
3. Customer lifetime

2.3. The objectives of calculating CLV

The calculation of CLV can be made in a very simple way, for example based on general assumptions (rules of thumbs) and by using average numbers. Alternatively, the calculation can be made in a very sophisticated way using statistical methods or even software simulation, calculation of individual customer CLV etc.

The best way to decide how to use CLV will depend on what your objective is in calculating CLV. Is it:

- To illustrate for employees, in general terms, that some customers are more profitable than others?
- To demonstrate the expected result of a new campaign?
- To make a business case for a strategic company change?
- To analyse, plan, decide and implement a strategy?
- To evaluate the customer asset of a company?

The best way to calculate CLV in a given situation will also depend upon the knowledge and acceptance of ROI driven customer management and marketing within the company. Further it will depend on the quality of customer data, whether there is an internal customer database or not and how customers are defined.

2.4. Components of Lifetime Value

Lifetime value can be calculated for almost any business. In its simplest form, it has the following base components:

Duration. The expected length of the customer relationship. This value is one of the most critical to the results and difficult to determine. And like many aspects of modeling, there are no hard-and-fast rules for assigning duration. You might think that a long duration would be better for the business, but there are two drawbacks. First, the longer the duration, the lower the accuracy. And second, a long duration delays final validation. See the accompanying sidebar, for a discussion by Shree Pragada on assigning duration.

Time period. The length of the incremental LTV measure. This is generally one year, but it can reflect different renewal periods or product cycles.

Revenue. The income from the sale of a product or service.

Costs. Marketing expense or direct cost of product.

Discount rate. Adjustment to convert future dollars to today's value.

Some additional components, depending on the industry, may include the following:

Renewal rate. The probability of renewal or retention rate.

Referral rate. The incremental revenue generated.

Risk factor. The potential losses related to risk.

2.5. Modeling CLV

The basic formula for calculating CLV for customer i at time t for a finite time horizon (T) (Berger and Nasr 1998) is

$$CLV_{i,t} = \sum_r^T \frac{Profit_{i,t+r}}{(1+d)^r}$$

where d is a pre-determined discount rate. In multi-service industries, $Profit_{i,t}$ can be defined as

$$Profit_{i,t} = \sum_{j=1}^J Serv_{ij,t} * Usage_{ij,t} * Margin_{j,t}$$

Here J is the number of different services sold, $Serv_{ij,t}$ is a dummy indicating whether customer i purchases service j at time t , $Usage_{ij,t}$ is the amount of that service purchased, and $Margin_{j,t}$ is the average profit margin for service j . In line with the business practice of the company in our application, we use margins that are not customer specific. According to the company, obtaining accurate estimates of individual level profit margins is not possible for the insurances they sell as this requires an accurate assessment of the individual-level risks that are insured.

3. Conclusions

The firms must determine those success-key factors which contribute to making a high profitableness and look for methods to apply them to the other categories of

customers. The resources allocated to the unprofitable customers can be diminished only after having tried to change them into profitable customers, using specific marketing actions.

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CRM Information System in the Insurances Field

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Abstract

Insurance companies use a number of tools to make coverage decisions and set premiums. Databases are among the most common tools used by the industry, and insurance company officials use a number of different databases to make these important decisions. Insurance companies need a way to keep track of their current policyholders and the type of coverage they have, and many companies will use a master database to hold that important information.

Key words: CRM, databases, Information System

J.E.L. clasification: C63

1. Components of SI for CRM

In the present SI for CRM have the following components:

- **The automatization of the sells' forces.** These systems contribute to the automatization and optimization of the sells processes to reduce their cycle and to increase the sells' productivity. They allow to the company to follow and to administrate all the relations, contacts and qualified opportunities during the sells cycle, including the client's support. They improve the efficiency of the marketing communications programs to generate quality tops as a bigger accuracy in the sells' pre-view. The Internet may be used by the company to assure an appropriate training of the sells forces. The detailed information about products, the data bases specialized with solutions, the questionnaires conceived to sustain the sells forces and a set of internal information about Internet can improve the productivity of the sells forces.

- **Call Center** Call Center contributes at the operations automatization with entry and exit calls generated between the company

and his clients. These solutions integrate the transformation of the automatic telephonic systems' voices with a host-program of the agent, allowing the automatic directioning of the call to agents, the automatic presentation of the relevant data about client, predictable number forming, Interactive Vocal Answering systems with auto-service, etc. These systems are useful in clients segments with elevated volume as retail. In present, new interaction channels with clients appear as a result of the new technology, as the call centers based on the global telephony and Internet. The banks concentrate themselves to offer solutions that will force the Internet in the creation of wide CRM systems which allow them to approach the relations with the clients in all forms.

- **Data storage** A data warehouse is an implementation of an informational data base used for the data storage which can be divided and have their origin in a data base for registering and in the data sources from the external market. This is in a typical mode a data base on subjects that allows to the users to connect at a large storage of the company of operational data to search and to answer to the business' tendencies and facilitates the pre-view and the planning efforts.

- **Data research and OLAP (On-line Analytic Processing)** The data research involves software specialized instruments that allow to the users to search in a big quantity of data to discover the relations between data content and to build prediction models of the clients behavior. The data research uses statistic techniques and of mechanical learning for the construction of models for the prediction of the client's behavior. OLAP (Online Analytic Processing), also known as multi-dimensional analysis of data, offers advanced capacities of investigation and analyzing of the information from a data warehouse. For some of the CRM initiatives, OLAP plays a

major role in the secondary analysis which has place after the client's segmentation. For example, in CRM, based on the management systems of the companies, OLAP is an excellent instrument for the success or failure analyzing of the promotional companies.

- **Decisions support and Reporting instruments** Web allowed the existence of some reporting instruments and the information executive systems are used to dispose the economical information which has been discovered. This big knowledge level of the client is distributed to the executive factors of decision, as to those from the operational points of contact with the client. The applications prescribed with some of these sophisticated modeling practices, developed in the data research step are applied to the individual contacts in real time.

- **The points of electronic sell (EPOS)** The main benefit of EPOS and of the retail scanner systems is the quantity of the exact information and at time which they provide. The technological progresses contributed significantly to the enlargement of the data analysis. Beside the data connected initially to scanner concerning the sells rate, price and margin, the banks detain now information concerning the demographic, socio-economical aspects and the characteristics of the clients' life style.

2. Databases for CRM

Insurance companies use a number of tools to make coverage decisions and set premiums. Databases are among the most common tools used by the industry, and insurance company officials use a number of different databases to make these important decisions. Insurance companies also use databases to keep track of their current policyholders and prospect for new business.

2.1. Actuarial Databases

Insurance company decisions are based on a number of factors, but actuarial science plays a big role in the success or failure of insurance underwriting. Insurance companies employ actuaries who examine public records, death information and other statistics to find the right premium level for each person who applies for an insurance policy.

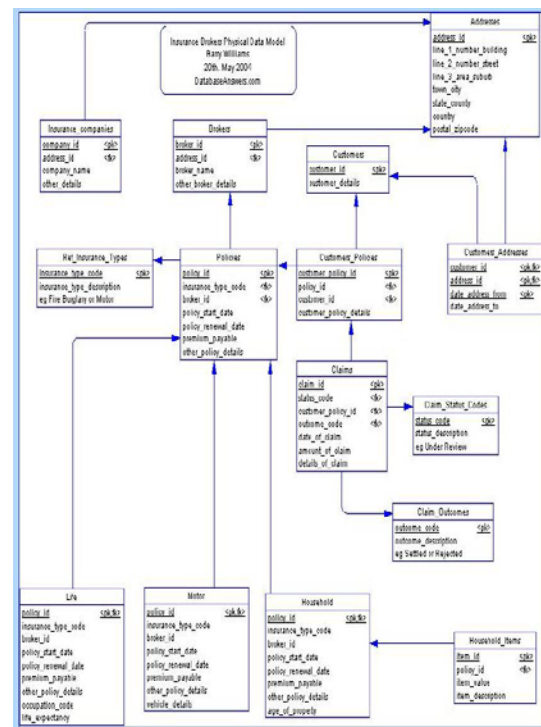
Keeping this vital information in a database is often the best way to ensure the data is there when it is needed.

2.2. Current Policyholders

Insurance companies need a way to keep track of their current policyholders and the type of coverage they have, and many companies will use a master database to hold that important information. It is important for companies to capture as much information as possible when building these databases, including the name and address of each policyholder, as well as the type of coverage each customer has, the coverage limitations, and information on any claims that have been filed. The more information that is included in the database, the more useful it will be.

2.3. Prospective Customers

Insurance companies use databases to keep track of individuals who are prospective customers. This information can be gathered from a variety of sources, but all of the information will be entered into a master database that salespeople can use to prospect for new customers.



Information can be gathered when customers log on to an insurance comparison website and enter their contact information.

Insurance companies can also gather information based on customers who call for additional information. That information can be particularly valuable in terms of sales, since those customers have already expressed interest in the company's products and services.

A general model of the databases for the insurance brokers is given by Barry Williams a consultant of DatabasesAnswers.com.

This structure of the databases is found in the projection of SIMBA software for the insurance officers who manage the processes specific to the brokerage activities in the insurance, on the casual chain in which it is carried on: Documents entrance with special regime (internal transfers, return), filling in the insurance policy, issuing the insurance policy (listing), managing documents annexed to the insurance policy managing the numbers of the deposit sheets, generating the deposit sheets, the situation of the insurance policies/ unregistered instalments, pursuing the due dates, generating deductions and notifications, pursuing the cashing/payments of the insurance premiums, pursuing the cashing/payments of the commissions, the situation of the realizations, previsions, generating specific reporting situations (CSA), communication with the insurance company (email, fax), communication with the customers (sms, email ,fax, letter). Thus it is structured on the following modules:

- Insure natural and legal persons-with the option of the registering the contact relatives or persons, with the options of registering the information necessary for the payments notices
- Insurance companies
- Insurance products, as they are defined by the insurance companies, with the implementation of the insurance classes according to the law
- Brokerage personnel, structured on four access levels: administration, secretariate, group manager, agent
- Broker commission-including the components level of the insurance products
- Documets with special regime (policies, receipts, green book documents, vihnetters or other types of documets) with the automatization of the operations of transferring from the insurance broker to the personnel and vice versa.
- Policies concluded, including free supplemets or not, with a device for defining the necessary information for the insurance policies which do not take part in the great categories such as: motor vehicles, goods, or civil responsibilities
- Insurance objects: motor cars, goods, railway, aerial and naval means
- Damagers record; late of exchange

3. Conclusions

Insurance company decisions are based on a number of factors, but actuarial science plays a big role in the success or failure of insurance underwriting. Keeping vital information in a database is often the best way to ensure the data is there when it is needed.

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A Synthetic Form of a Public Policy Implementation and the Exogenous Factors that Determine the Performance of a Policy

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Abstract

Once approval has been obtained for all decision makers on the best variant of solving the problem, it should be known to all those involved to stimulate the creation of legitimacy on the outcome.

In some cases, it is necessary at this stage, the decision maker to make the accumulation of new resources (negotiation, realization of partnerships, hiring new staff) and/or modify certain organizational structure - to create new organizations, to modify / enhance the responsibilities old organization.

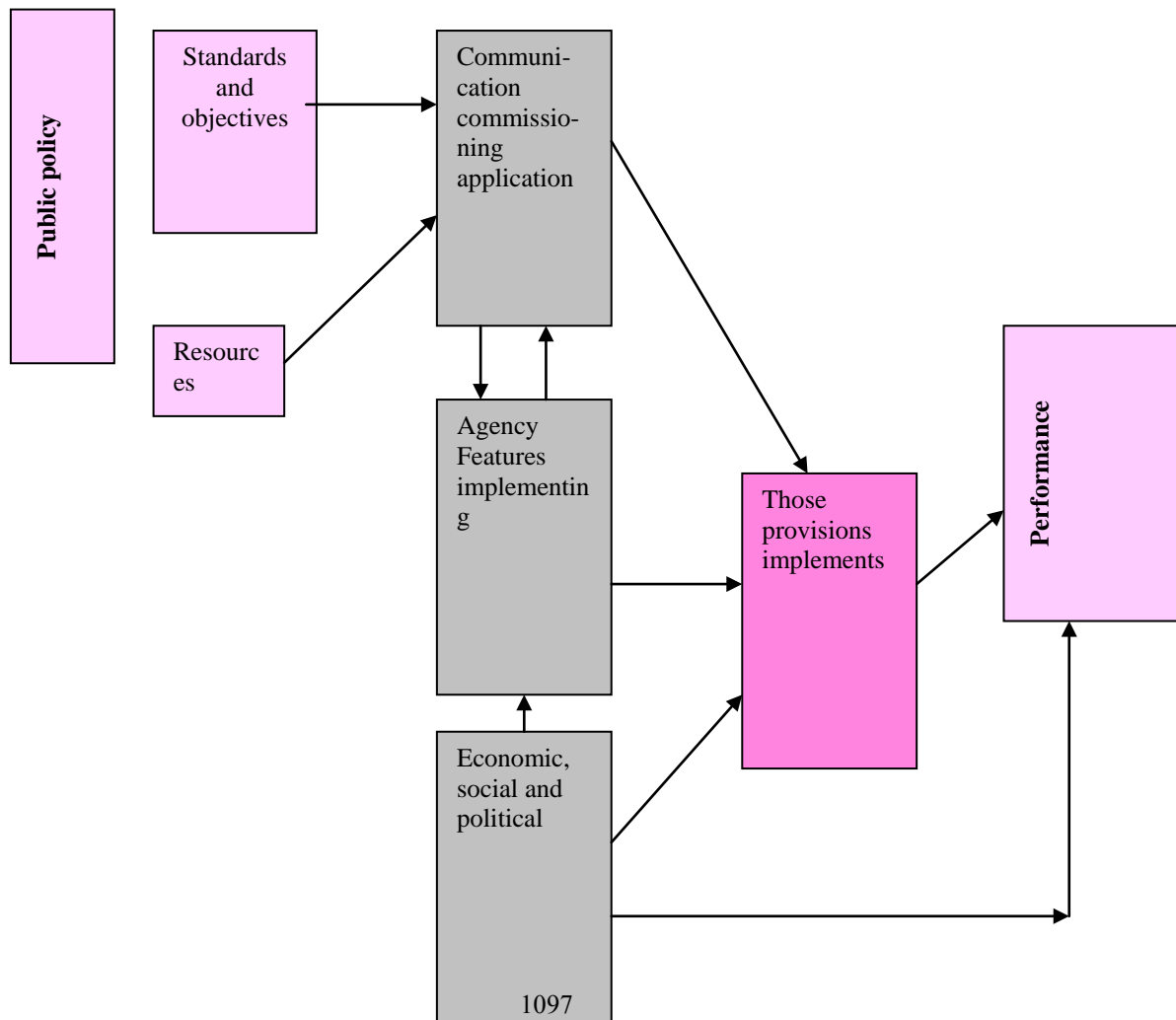
Also in this step, it will choose the tools by which policy is implemented (legislative, institutional, etc.) and the implementing agency (government, other public authorities, private sector organizations, etc.).

Key words: public policy, exogenous factors, performance

J.E.L. classification: H0

The diagram below shows a simplified model of the process of implementing a public policy decision-making circuits in the same time, but also exogenous factors that determine the performance of a policy.

Public policy implementation



Implementation of public policy presupposes, in equal measure, and adopt an action plan which proposed alternative solution to the problem that public policy is practically implemented.

For each of the subsequent activities identified will determine the specific terms of achievement, will specify who is responsible for carrying out such activities, estimates the budget necessary to accomplish the work and shall specify the expected outcomes and indicators proposed for measuring these outcomes.

NGOs can play a fundamental role throughout the process of formulating public policies, methods, techniques and tools used are different depending on the stage at which the organization seeks to intervene.

The process of influencing public decision is typical especially for those organizations that have included in their mission this type of intervention, but it can be met if organizations working directly with beneficiaries (eg social organizations). The most common techniques used in campaigns by persuading a public authority (be it central or local) non-governmental organizations are lobbying and advocacy. The Anglo-Saxon bill, the two terms came into common usage without a corresponding Romanian appropriate. For this reason, they are often encountered difficulties in defining the two terms, especially by comparison.

Advocacy is action to defend / support a principle or a point of view (general or organization) to a legislator or government institutions. Typically, advocacy imply any decision already outlined, to which an organization is positions for or against.

Lobbying involves the promotion of individual interest, group or an organization which at one time may become public interests by influencing public policies of government or legislature.

The main steps of the public policy process in which an NGO can arise are:

- agenda-setting stage (problem definition);
- stage of formulating the variants;
- monitoring and evaluation stages.

Basically, except for implementation that can also be, in turn, partially delegated to a non-governmental organizations (eg within a public policy aimed at reducing pollution by encouraging the use of environmentally

friendly, awareness component may return non-governmental organizations profile), all stages of formulating public policy may be subject to interference from a non-governmental organizations.

Agenda-setting process and the formulation of public interest matters that fall on this agenda is one that involves negotiation between different actors, including NGOs. Thus, using the techniques of advocacy / lobbying, NGOs may, at some point, make institutional agenda an issue that affects a large group of people or by nature, generate significant consequences for society.

Depending on the level / degree of impairment of the problem, are target key decision makers in shaping the agenda are:

At the local level:

- advise local / county;
- mayor;
- chairman of county council;

At central level:

- parliamentarians;
- members of the executive (ministers, secretaries of state).

When the process of consultation / negotiation fails, civil society and other methods used to shape the agenda: media pressure (by sending messages to the media) or direct pressure (public protests, demonstrations, strikes, etc..). Typically, these methods center of gravity moves from the expertise of the organization that initiated the process of influencing the agenda to create a critical mass of pressure on decision makers. Influencing the choice solution to the problem NGOs may also have a major role in choosing a problem-solving on the public agenda.

Moreover, this situation is most commonly seen today in terms of NGO involvement in public policy formulation process.

At this stage, the decision-maker takes the initiative to launch a consultation on alternatives to solve a problem. According to Law no. 52/2003 on decisional transparency in public administration, public authorities have the obligation of transparency which is required to inform public debate and to submit draft legislation, to allow access to administrative decisions and minutes of public meetings. (Article 3, paragraph a).

The same law specifies that the public authority concerned is obliged to decide how to organize a public meeting to discuss the draft bill, if this was requested in writing by a legally constituted association or by another public authority (art. 7). This law is applicable to local decision-making process, namely the ministries. The law does not apply to the legislative process of the Romanian Parliament.

Typically, the consultation process in Romania has a formal character, since the decision-maker (the Authority has jurisdiction to hear the matter) is launching the consultation process only after it has been selected variant of solving the problem, which basically requires the organizations to

position themselves for or against this alternative.

Regardless of which party takes the initiative of launching a consultation process on public policy, it is recommended that NGOs intend to put forward concrete recommendations for the closure of a public policy to do so in a manner articulated and specific instruments uzând such as:

- study (document) public policy;
- public policy analysis

The main differences between the two types of instruments are shown in the table below:

Public Policy Tools

Difference	Type of the instrument	
	Type of instrument Study of Public Policy	Public Policy Analysis
audience	Public policies aimed at other specialists	Involves makers
Accent	Based on the problem: general recommendations and information on public policy issues	Based on the client: the design of specific policies to be implemented on the ground
Methodology	May include extensive primary research	Rarely includes primary research
Ideas / language used	It can be specific discipline / technical	You must be very clear and simple
Extent	Up to 20,000 words	Usually no more than 5,000 words

A synthetic form of a public policy document, this time used by the government (central), is the proposal for public policy.

As regards the specific regulations of the Romanian Government which originated mainly from 1 January 2006, is the obligation to present their proposals in the form of public policy, according to GD no. 775/2005 approving the Regulation on procedures for drafting, monitoring and evaluation of public policies at central level.

This measure was aimed at professionalizing and empowering Romanian decision-making at the executive level, in that it requires virtually all ministries base their proposal sufficient information to reflect: analysis of the facts (problem),

potential alternatives to improve situation, along with estimated costs of each option, the justification for the preferred option, providing for specific actions on the implementation, development tools (indicators) for monitoring/evaluation of the degree to which future public policy will achieve its objectives.

Conclusions

Monitoring and evaluation are two types of actions are carried out simultaneously with the implementation of public policy. Basically, ensure correspondence monitoring targets with proposed actions for implementation, and evaluation quantifies the

results provide the basis for the next cycle of implementation and public policy, an issue on the agenda may be called at any time, in another form, according to public policy development original. Monitoring and evaluation of both the tools for implementation, and results as such. At this stage, we measure both effectiveness (maximizing results - outputs in relation to invested resources - inputs) and effectiveness of public policy (the ratio of objective performance and objective to be achieved).

Monitoring and evaluation have distinct roles in this phase. Monitoring Points:

- institutional changes arising from policy implementation
- situation changes the target groups;
- situation at a time implementation costs;
- timeliness and content of the activities provided in the Action Plan;
- delays / difficulties in implementation activities and their motivation.

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The Evolution of European Union Regional Policy - Social, Political and Economic Arguments

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Abstract

To implement a regional policy in the EU arguments are based on social, political and economic. These arguments can be summarized as follows:

✓ *inefficient spatial distribution of income: there is an inverse connection between growth and inequality in income distribution. However, people can improve income distribution leads to a less efficient allocation of resources affecting the level of welfare. For this reason, the argument of equity in income distribution is more a social than an economic one;*

✓ *adapt more easily to changes in economic structures or major macroeconomic shocks: issues related to EU enlargement Thus, a candidate may face more serious problems after it joins the EU, such as unemployment. As a result, Member States may grant aid to overcome these problems by joining the new state;*

✓ *work factor to optimize the allocation and mitigation of unemployment: in areas where economic activity is underdeveloped, unemployment is high. Regional policy can contribute to economic development and employment reintegration underused factor in terms of ensuring a high mobility of its activation and lower operating costs benefits obtained from this reintegration.*

Key words: regional policy, reform, partnership

J.E.L. classification: R58

Although regional policy is implemented at the EU Member States, the need for a common regional policy arising from:

✓ need for greater resources to implement an effective regional policies, resources have not all EU Member States The financial argument is quite correct. Greece, for example, had to spend in the period '80 - '90, a much larger part of its GDP on non-EU state aid together.

On the other hand, Greece and Ireland spent a much smaller part of their GDP on infrastructure and research and development, compared to other countries;

✓ recital that the regional problems of a state is also good for other member states. This consideration is related to the fact that any EU Member State should enjoy the same benefits related to welfare;

✓ benefits of integration within U.E. requires an equitable distribution, which can be ensured by regional policy;

✓ need to allow compensation for some Member States which have suffered from implementation of other EU policies such as CAP, transport policy and policy research and development. This argument is often linked to the need for regional transfers within the EU, especially the peripheral regions, which have suffered most.

Regional Policy U.E. are implemented on the basis of allocations from the Community budget and only in areas designated in the Member States. This implementation should be monitored at EU level because:

- net donors of funds for regional policy seeking to ensure that these funds will be used to increase the economic potential of less developed regions. This is intended as a temporary support for regions with a lower level of competitiveness;
- regional authorities in many EU Member States may not be safe to apply the most effective measures for

developing regions in their countries. As a result, the European Commission is the body viable solution to this inconvenience;

- as regional policy measures in a Member State have an impact on other Member States, it is necessary to coordinate regional policy at Community level;
- regional policy approach at national level can only lead to the emergence of a race between different locations to obtain as large subsidies.

Initial elements of the common regional policy are related to the European Social Fund - which had the objective, inter alia, increasing the employment factor and occupational employment and geographical mobility within the EU - And by the European Agricultural Guidance and Guarantee Fund. Oil shock in 1973 and the first EU enlargement have led to increased emphasis on Community regional policy. As a result, regulation 724/75 U.E. led to the establishment of the European Regional Development Fund.

The primary objective of this Fund was to support the main mitigating regional imbalances within the EU, mainly due to imbalances of industrial reconversion and industrial decline.

Initially, the resources allocated to the European Regional Development Fund consists of contributions - the default rate - the Member States. Member States U.E. cofinanced projects F.E.D.R. national public funds, in accordance with the principle of additionality.

Almost 85% of regional projects undertaken by the ERDF in the period '70 - '80, aimed at improving infrastructure.

Extensions U.E. the years 1981 and 1986 have led to regional disparities and the need to compensate for some states, like Greece, France and Italy, for losses suffered as a result of enlargement to the south. As a result, programs were developed Mediterranean integration, which proved to be pioneers of reform of European regional policy in the late '80s.

The main stimulus for the development of European regional policy was the formation of the European Single Market. Single Market required the financial assistance of EU member states to help them increase their

economic competitiveness. To this end, the European Commission's powers were increased and fixed the quota system was abandoned for participation in ERDF.

Maastricht Treaty, in Article 2, spoke of the objective economic and social cohesion, which could not be achieved without a proper European regional policy. The Maastricht Treaty led to the modification of regional policy instruments. Were created Fund and European Investment Fund, European Investment Bank related. Cohesion Fund was established under the provisions of Article 161 (2) of the Maastricht Treaty, to ensure funds for the development of infrastructure and environmental projects in Member States whose GDP per capita was less than 90% of EU average European Investment Fund was designed to facilitate the financing of EU projects in peripheral areas, which implied acceptance of a risk of higher than standard bank loans with the European Investment Bank operations.

A new amendment was the establishment of the Committee of Regions (in accordance with Articles 263-265 of the Treaty), which act as a consultant for the European institutions involved in implementing regional policy.

The current European regional policy is based on the following principles:

- concentration;
- programming;
- partnership.

Reform of EU regional policy, which took place in 1988, was based on its focus on those parts of the EU most in need of support for development. As a result, areas which were subject to national support automatically became subject to the allocation of European Structural Funds. EU regional policy objectives have evolved over time. For the period 1994-1999, these objectives were:

1. development and structural change in the less advanced regions in the EU;
2. conversion of regions or areas that were heavily affected by industrial decline;
3. Long-term unemployment and improving the employment of youth;
4. facilitate structural adjustment;
5. a. accelerate structural adjustment in agriculture and fishing cases; b.

Supporting the development and structural adjustment of rural areas;

6. support areas with a very low population density (North).

For the period 2000-2006, EU regional policy objectives were:

1. Combining 1, 5a and 6 of the 1994-1999 period;
2. Combining 2 and 5b of the 1994-1999 period and completed with the specific problems of urban areas, those dependent on the fishing industry and the services sector is subject to reform;
3. supporting the adaptation and modernization of education, training, and policies aimed at labor, and follow up further, as 3 and 4 of the 1994-1999 period.

EU regional policy objectives can be divided into regional goals and objectives themselves horizontal. For the 2000-2006 period, Objective 1 and 2 were considered regional and horizontal Objective 3.

In addition, quantitative criteria have been established to enable European regions tie. For regions covered by Objective 1, was considered a criterion for regional GDP per capita.

As a result, have been categorized those regions whose regional GDP per capita is less than 75% of the average GDP per capita EU in the last three years, before starting the calculation. Furthermore, classical regions, located under Objective 1 are: the French overseas departments, Azores, Madeira, Canary Islands, and sparsely populated regions of northern EU According to the principle of concentration, the regions covered by Objective 1 are NUTS-II type, not smaller.

Designation of regions that are under Objective 2 is slightly more complex. This is because, in 2000-2006, these regions have been limited to 18% of the population, of which 10% covers the industrial and service areas, rural areas 5% 2% 1% urban areas and areas dependent on fishing industry .

To establish those areas, the European Commission uses a set of economic, social and demographic considering proposals under which Member States relating to areas that may be considered under Objective 2.

Lists of Member States proposals are reviewed by the European Commission, after consultation with Member States, finalizing the final list of areas that will be covered by Objective 2.

However, as the limit of European regional policy, was considered since 1988 as Objectives 1 and 2 cover the region in which to live up to 40% of the population Part of the proceeds U.E. regional policy are intended for community initiatives. These initiatives are aimed at helping different types of regions are in decline due to factors such as their location on the outskirts of the EU In 2000-2006, Community Initiatives have been grouped into four broad categories:

- border and interregional cooperation (INTERREG);
- conversion socio-economic urban areas (URBAN)
- rural development (LEADER +);
- transnational cooperation in the fight against discrimination and inequalities in the labor market (EQUAL).

The Community Initiatives, in 2000-2006, representing 5.35% of total Structural Funds, compared with 9% in the period 1994-1999. Regional policy objectives for 2007-2013 are:

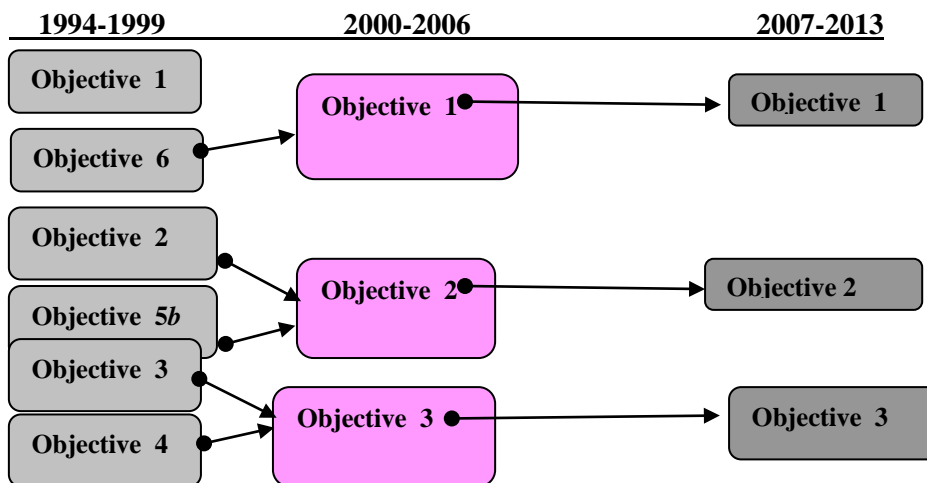
O1 - Promoting convergence and economic development and job creation in the least developed Member States.

O2 - Promoting regional competitiveness and employment by preparing work to attend and meet the labor market changes.

O3 - Promoting regional cooperation at European level.

Programming is that principle that shapes regional policy implementation in a given area must be included in the development plan of that area. The basic idea was to ensure consistency between individual regional policy measures, regional, national and Community level.

Figure 1 Evolution of the main Objective is pursued by the EU regional policy



Source: Personal contribution

In 2007-2013, EU regional policy programming algorithm requires the following steps:

- adoption by the European Commission guidelines outlining common priorities for all three regional policy objectives. These priorities were reflected in all regional development programs aimed, inter alia: increasing competitiveness, increasing in Objective 1 and 2 regions. In addition, there are large regional and national differences between the size of the areas covered by the same objective and between certain Member States the tools they prefer to implement their regional policies.

On the basis of national or regional plans, the European Commission together with national and regional authorities, created the Community Framework for Relief, which provides specific information on regional development plans. In the case of Objective 1, this information is structured into the following categories: supporting productive investment, human capital formation and infrastructure.

Support to productive investments aimed at: industry, services, rural development, fisheries, tourism and agriculture.

Human capital formation covers education, training and research and development, while infrastructure refers to transportation, communications, energy and water, environment and health;

- preparation of detailed operational: it is made only at the national and regional authorities in each Member State. During the

employment of labor, equal opportunities for men and women;

- national regional development plans are translated into effective action plans for other national authorities and / or regional. There are big differences between these two types of plans;

First, these plans may differ in respect of employment implementation of these plans, there are many of these consultations with European authorities.

The current algorithm implementation of European regional policy, presented his three steps leading to an increased role of the European Commission, along with increased decentralization of management of regional development programs.

It refers to the obligation of each member state to support public expense each subject at least the same level as in the previous programming period.

The partnership aims to close cooperation between European, national and sub-national, in order to effectively implement regional policies. This partnership takes three basic forms:

- coordination between the different Structural Funds and other EU financial instruments;
- coordination between EU structural policies and national policies of Member States;
- coordination between the Commission and national authorities of Member States.

Increase budgetary allocations related to European regional policy highlights the importance given to structural actions in the EU

Financial resources have been concentrated in the period 2000-2006 at a rate of almost 70% in regions covered by Objective 1 and those in transition. The remaining third was divided regions were placed in Objectives 2 and 3.

Since 1993, four countries (Ireland, Spain, Portugal and Greece) have benefited from cohesion funds for financing of transport infrastructure and environmental projects. In absolute terms, Spain was the largest recipient of Structural Funds in 2000-2006, followed by Germany, Italy, Greece, Portugal and the UK. Community allocations per capita in the period 2000-2006, ranged from 220 €/ person (in Greece and Portugal), 140 €/ person (in Spain) and 100 €/ person (in Ireland). In the developed countries of the EU, these benefits are only 20 €/ person (in the Netherlands, Belgium and Luxembourg) or 50 € / person (in Italy). European Union began to provide financial support candidate countries in Central and Eastern Europe in 1989, through the PHARE program.

The level of financial assistance U.E. by these countries has significantly increased since 2000, by implementing two new programs, SAPARD and I.S.P.A.

Until 2004, the 12 EU candidate countries received financial assistance of EUR 3 billion. Last 12 states that joined the U.E. in 2004 and 2007 became eligible for financing under the Structural and Cohesion Funds. From 1 May 2004 until late 2006, these countries have received 21.7 billion Euros. Almost two thirds of these funds from the Structural Funds, while the third Cohesion Fund (European Commission, 2003).

Due to the low level of GDP per capita, many regions of the 12 new EU member states fall under Objective 1. The only exceptions are the regions to Prague, Bratislava and Cyprus. Implementation of Structural Funds in these countries is a challenge even for themselves, because it involves highly complex procedures and programs.

However, regional policy is not only practical purpose the elimination of regional asymmetric shocks, but also improve the

competitiveness and long-term growth of the assisted regions. To achieve these objectives, regional policy is necessary to obtain positive effects of supply in these regions.

Conclusions

Research conducted on the dynamics of regional policy instruments enable us to achieve a tie in their traditional instruments and contemporary instruments. The coverage, regional policy instruments, can be viewed from several angles, are differentiated in the following categories:

- microeconomic policy instruments used at regional level in order to influence the allocation of labor and capital factor between different industries and inter-regionally;

- macroeconomic policy instruments used at regional level, whose range of action is focused on revenue and expenditure changes made at the regional level;

- government policy instruments used at regional level to achieve policy coherence between national and regional policy;

- European Union regional policy instruments used to achieve economic and social cohesion (between Member States) and to achieve a socio-economic development level similar to the average level registered in the EU (If the candidate countries for accession).

European regional policy evaluation is done according to specific models:

- HERMIN models: analyzing the effects of policies on both supply and demand at regional level, focusing on developing infrastructure and human capital. If the four member states covered by the Cohesion Fund and East Germany, the forecast shows that annual GDP growth will always be 1-2% higher than in the absence of funds;

- QUEST II model: consider some short-term positive effects of regional policy can be reduced in deteriorating trade balance (between the real exchange rate appreciation), or due to the evolution of private investment (in the case of real interest rate increase). The conclusions reached through the application of this model are similar to those resulting from the application HERMIN models. In addition, QUEST II

model shows that factor in the same direction as the work progresses regional GDP;

– econometric models: they are more pessimistic regarding developments at the regional level. Some models even try to minimize the impact of Structural Funds on Convergence in the EU.

Others, however, conclude that the Structural Funds are extremely imported into the regional income convergence.

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Clusters in Romanian Tourism

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Abstract

Clusters regarded as groups of companies in a certain field of activity, region or area together with the institutions they closely collaborate with aim at stimulating innovative activities, development of experience and knowledge exchange, in order to develop and to contribute to the respective region development.

To the end of clusters development the European Commission allocated 86 billion EUR for their financing during 2007-2013.

As far as Romania is concerned even though the concept of "cluster" is still little known a growth in preoccupations regarding policy regarding this issue is obvious. At least seven studies have been developed until now regarding the fields and areas where clusters might be opportune. First results have emerged in the field of tourism. In November 2010 the "Carpathian Tourism Cluster Romania" was founded in Brasov. Also, there are premises for the founding of such a cluster in the area of Dobruzha in 2011.

Key words: clusters, tourism, development, region, Dobruzha

J.E.L. classification: L 83

1. Introduction

In English, 'cluster' means „bundle, bunch, group". Similarly, in practice, a cluster represents a group of industrial enterprises or organizations, operating in the same field, that establish cooperation relationships, based on which the partner companies improve their performances.

Within a cluster, the group of companies, the economic stakeholders and related institutions must be in proximity to each other, must act in a specific field, with the

aim of stimulating innovative activities, by developing experience and knowledge exchanges and by contributing to the transfer of technology, networking and dissemination of information among partners.

2. Implementation and development concerns regarding clusters at European level

The tendency to regulate and boost such entrepreneurial behavior led to the definition of a set of policies regarding the activity and functioning of clusters. Most of these policies, concerning clusters, have been and are implemented by different programs or governmental initiatives. [1]

In what concerns the programs and cohesion policies of the European Commission regarding the actions of improvement of knowledge, economic growth and innovation, it must be mentioned that the amount of 86 billion Euro has been allocated for the period 2007 – 2013. A large part of this amount is destined for the support of cluster initiatives and infrastructure. At present, it is estimated that there are over 500 clusters in Europe, many of them having been created out of these funds during the last two – three years.

With the purpose of supporting clusters the European commission launched the Seventh Framework Program for Research and Innovation, the Lead Market initiative and a series of programs which are part of the Cohesion Policy.[1]

3. Cluster projects in Romania

Even if the cluster concept is little known by many companies, the increase of concerns regarding the outline of a cluster policy in Romania can be noticed.

Starting from the definition of the cluster as an agglomeration of companies, the Romanian state, besides the unproductive sectoral intervention, has tried to promote company agglomeration by means of public policies. These policies have generated what specialists call "public clusters", which, by law, have the statute of industrial parks, scientific and technological parks. [2] Unlike the latter, something innovative must happen inside a cluster, something which will differentiate the respective region or country and which will ensure its development.

Besides "public clusters", "natural clusters" can also be identified in Romania, meaning an "agglomeration", a partnership between SMEs, multinationals, universities, research institutes, chambers of commerce, municipalities etc, based on collaboration between partners in view of increasing the competitiveness and development of a region.

Studies regarding cluster competitive economic agglomerations have been initiated in Romania since 1998, the first study being probably the one coordinated by the International Centre for Entrepreneurial Studies (CISA) of Bucharest. The research was requested by the Institute for Economic Development of the World Bank and was targeted on the competitiveness of the entrepreneurial sector of Romania. The study identified the existence of three "incipient" forms of clusters in software production, in maritime industry and wood industry. [3]

Another study, published in 1999, was elaborated by Marco Riccardo Ferrari, assistant –researcher at the Department of Economics of the Bocconi University of Milan. This study, which was based on the Italian methodology regarding the identification of industrial districts, identified three "proto-districts" in Romania, in wood industry, textiles and ceramics industry. [4]

A third study followed, elaborated in 1999 by the specialist Valentin Ionescu (ex-Minister of Privatization). Upon valorization of the documentation pertaining to previous studies and their completion with his own research, V.Ionescu stated that there are no functional clusters in Romania, yet admits to the existence of two "proto-clusters" or "emergent clusters" in ceramics and software industry. We must however highlight certain limitations of this study that especially regard

the fact that the research was limited to only two possible clusters: the first in ceramics industry, in Alba county and the second in software production, in Bucharest area. [5]

The fourth study targeting clusters in Romania is represented by the VICLI Project, developed within the European Program INTERREG II C – CADSES – Central European Adriatic Danubian South-Eastern European Space), carried on between 1999 – 2001. The objective of the project was to identify and support cluster development in Romania by a regional know-how exchange.[6]

The final VICLI report for Romania identified four potential clusters in Harghita county (the county being selected as the proper pilot area for implementing the project methodology) in wood processing, pottery, typography, and equipment industry. It was noticed that Harghita is one of the few counties in which the input/ output analysis evidenced important industrial interconnections (between wood processing, cellulose production and typography). [7]

Fifth of all, we must mention the project INCLUDE (Industrial Cluster Development), financed by the INTERREG III B, CADSES, European Initiative for the European Regional Development Fund, for the period 2000 – 2006. This project unfolded between 2003 – 2004 and aimed at achieving an analysis of potential clusters in partner countries from Central and Eastern Europe, and further, to assist these countries in developing such clusters, using the experience and know-how of Italy and Austria.

The research performed within the project identified certain potential clusters in Romania, in the field of textile industry (North –East region of Romania, especially Bacau county and Western region, Timis county); software (Timis, Cluj and Bucharest); wood processing, steel components and metallic products (Central region of the country). Brasov county drew attention on the cluster agglomeration of companies in the field of chemical industry, structural metal products, general use machinery and engines.

We must mention that within INCLUDE project there were selected two clusters for a thorough analysis and in view of offering support, based on the interest of external

partners from EU, mainly: textiles in Bacau county and wood processing in Mures county. For each of these clusters a SWOT analysis was performed. Moreover, the cluster from Mures county was selected as pilot-project for the elaboration of a feasibility study, in view of establishing the opportunity of financing a Cluster Services Center (CSC), as a first step in the institutionalization of clusters in Romania. For now, the set up of the CSC is hindered by the lack of financial resources to remunerate the staff to be employed within the CSC (3-4 persons) and by the absence of a leader – company, capable to rehabilitate the remainder of the companies included in the cluster. Without the CSC, the economic agglomeration in Mures shall not reach the statute of functional cluster.

The sixth study was drafted within the project WEID (West – East Industrial Districts), financed by the European Commission through the Fifth Framework Program (FP5). This project unfolded during 2001 -2004, including partners from 7 countries from Western Europe (Germany, Italy and Great Britain) and four countries from Central and Eastern Europe (Czech Republic, Poland, Slovenia and Romania) and had the objective of investigating, by means of case studies, the relationships between clusters at European level.

Out of 15 case studies, included in the project, two were performed in Romania, researching the existence of potential clusters in two areas: Banat – Crisana and Arad – Timisoara, in sport articles industry and footwear industry.

Especially Timis county drew attention, because of the increased level of Italian investments in the area, a large concentration of Italian SMEs, which almost made possible the de-location process of Italian clusters to Romania. [8] The seventh study on cluster development in Romania was drafted within the CURAS program (Clustering and Upgrading Romanian Automotive Suppliers), which was established with the Cooperation Agreement between the Romania and the Flemish governments. This project was implemented during 2003-2004 by the National Agency for Small and Medium Size Enterprises and Cooperation and by CZK Limburg (ALLANTA) – the Flemish promoter that manages the Center for

Management and Support for Automotive Components Sector, from Genk, Belgium.

The objective of the project was to improve the quality level and efficient use of SMEs' resources in the field of automotive components, and the result of the project resides in achieving clusters of suppliers in this field of activity, and in implementing a Center for the chain of suppliers, as a private NGO, as a first step towards the institutionalization of a functional cluster in the automotive sector, located in Pitesti – Arges area, near Dacia –Renault factory. It must be mentioned that the CURAS program represents the only initiative in what natural cluster development is concerned, supported by the government.[9]

4. Clusters in Romanian Tourism

On the 1st of November 2010 the "Carpathian Tourism Cluster Romania" was established, at the initiative of the Association for Tourism Promotion and Development of Brasov county (APDT Brasov), along with Monteoru Renaissance – the Association for Regional and Sustainable Development in Tourism. The Carpathian Tourism Cluster Romania is a non-governmental, non- profit organization, established as an association, according to Romanian law, headquartered in Brasov. It is the first interregional tourism cluster of national interest in Romania. The cluster comprises tourism and regional development associations, NGOs, local and national authorities, tour – operators, tourism agencies, tourist guides, event agencies, accommodation providers and other providers of tourism industry. "Carpathian Tourism Cluster" is based on the national cluster strategy of Romania, a strategy supported by the European Commission.

The objectives of the cluster are: innovation and diversification through development of tourist offer and of modern and innovative services, to maintain and attract new tourists in the areas of interest of the Carpathian Mountains; increased competitiveness through the optimization of the value chain in local tourism industry; improvement of the quality of tourism services at the level of European standards; development of the exchange of common ideas and projects between tourist regions of

the Carpathian Mountains; sustainable development of the region; promotion of Carpathian Mountains of Romania as "destination of excellence" within the national strategy of tourism promotion. Romania – Explore the Carpathian Garden".

The tourism cluster targets Carpathian and sub-Carpathian tourist regions in Brasov, Buzau, Prahova, Sibiu, Covasna and Arges counties.

The members of the cluster can benefit from multiple advantages such as: exclusive access to information, services and contact data of the Carpathian Tourism Cluster; strategic cooperation opportunities with other tourism companies and service providers along the entire tourism value chain, new ideas and knowledge for diversifying and improving the quality of services; access to European structural funds; special offers/preferential tariffs for seminars and trainings; joint activities of buying/purchasing and of promotion; joint marketing at local, regional, national and international level and selling activities for the Carpathian tourist region.

The Carpathian Tourism Cluster Romania, the first interregional tourism cluster of national interest in Romania aims to fulfill a consultative role as well, for the public authorities (especially for the Ministry of Regional Development and Tourism, regional administrations, etc). [10]

5. The Premises for a Tourism Cluster in Dobrudzha Area

Considering the well known tourism potential of Dobrudzha and Constanta county, it may be stated that there exist the following premises for the development of a tourism cluster :

- The Romanian Riviera represents over 40% of the accommodation capacity at national level, which means a high concentration of competitive enterprises (hotels, restaurant, leisure, cultural, sport, spare time service providers);
- The high rate of small and medium size enterprises, but also the rather small number of large tourist operator –enterprises which significantly contribute to the

development of the sector and to trend setting;

- The tradition of associating into professional and employers' organizations;
- The favorable geographic location, between the Danube and the Black Sea, endowed with an outstanding natural potential: natural reservations, caves, beaches all over the seaside, various cultural and cooking traditions, resulting from the diversity of the ethnic community;
- The presence of important stakeholders in the area: medium and higher education institutions specialized in tourism, entities for seaside and Danube Delta tourism promotion , business support organizations;
- The presence of the horizontal value chain: suppliers of passenger transport services, tourism agencies and tour – operators, providers of tourism training services for human resources ;
- The existence of formal and informal relationships between the partners of the potential cluster, mainly horizontal, between tourism agencies and operators and providers of tourism services.

Currently, a public- private partnership exists and functions–Romanian Riviera – Danube Delta Tourism Promotion and Development Board, including members such as local authorities, companies representing private initiatives and NGOs: ANAT, Constanta County Council, Tulcea County Council, Constanta Municipality, Constanta Chamber of Commerce, Mangalia Municipality, Navodari Municipality, Eforie Municipality, National Company " Maritime Ports Administration" SA Constanta, the International Airport M. Kogalniceanu Constanta, Mamaia Employer's Association, "Ion Movila" Tourism Employer's Association – Eforie Nord and Danubius TUI Romania.

It is obvious that the local authorities of Constanta are involved and consider the development of local tourism as being a priority, collaborate based on common interest with the authorities of the region and

consider extending the collaboration in the field of tourism, at cross-border level.

6. Conclusion

The interest for clusters development in Romania is obvious. The seven studies developed until now (most of them developed within the framework of European financed projects) show that the most suitable fields of activity for clusters are the textile industry, footwear industry, ceramics, wood, chemical and software, while the most attractive counties are Brasov, Harghita, Bacau, Cluj, Arad, Timis and Bucharest.

The most recent cluster in Romania is in the field of tourism, "Carpathian Tourism Cluster" which is based on a national strategy, supported by the European Commission. In the same context, efforts are made to found a tourism cluster in the area of Dobrudzha.

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Clusters and Regional Development Strategies

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Abstract

The intensification of concerns on cluster development can be noticed at European level, accepted as formulas which reunite enterprises, universities, research centers, local authorities, etc, within certain structured partnerships.

Given the importance of clusters for the regional and European economic development, one may notice the increased concerns of the European Commission and of the member states regarding the development of different programs which may contribute to the promotion of trans-national cooperation between European clusters, to the elaboration of proper cohesion policies, to the granting of necessary support, including alternatives for financing of innovative clusters.

Key words: cluster, strategy, development, region

J.E.L. classification: L 83

1. Introduction

It is becoming more and more obvious that clusters are more often than ever a topic for debate/ discussion, at different levels and in various contexts.

Michael Porter defines clusters as "...geographic concentration of interconnected businesses and institutions, in a particular field". Clusters include a group of related industries and other important entities, in what concerns competitiveness. These include, for example, suppliers of specialized input, such as components, machineries and services, or suppliers of specialized infrastructure. Many times clusters extend themselves downstream,

towards various distribution channels and clients, and sideways, towards producers of subsidiary products and towards related industries, by means of qualification, technologies or common inputs. Last but not least, some clusters include governmental and other type of institutions – such as universities, agencies, think tanks, providers of professional training and employers' organizations –which ensure specialized training, education, information, research and technical support [1].

Clusters can also be defined as a group of companies, economic stakeholders and related institutions, placed in proximity to each other, which have reached the satisfactory level so as to develop competences, services, suppliers and specialized skills. [2]

There are, however, specialists who talk about both the classic model of the cluster (the triple helix): state, industry and research, as well as about the "Four Clover" model: research – education, public authorities, consultancy companies and chambers of commerce, employers' associations, civil society, etc.

2. What is specific for clusters?

Based on the above given definitions, we may highlight certain elements which are specific to clusters:

- Grouping based on geographic criteria of some stakeholders, pertaining to a certain field;
- Development of interrelations between the stakeholders, with the objective of achieving special results and increased performance. Because of this, the cluster is perceived as a pole of competitiveness, a technologic pole, a pole of excellence in which

stakeholders act and collaborate under a common collaboration strategy and remain in the competition;

- A major importance is given to issues concerning teaching/ education, information, research and technical support;
- The better use of the resources pertaining to the regions where companies (especially SMEs), universities, research centers, local authorities etc, carry out their activities, within structured partnerships.

3. What are the advantages of clusters?

Within the context of an increased global competition between the markets, the chances for economic success of a country or region result from offer specialization and increase of developmental concerns towards key-areas, where competitive advantages, resources and competencies may be gained. Based on this approach we can estimate that a successful solution is represented by innovative clusters, because these have the capacity to achieve a combination of different stakeholders (companies, education – research units, civil society, etc), in order to develop strong cooperation and collaboration connections, transfer of knowledge, reflected by pro-active synergies between the main stakeholders in innovation.

Also, given the same context of increased globalization tendencies and enhanced competitiveness on national, European and international markets, being part of a cluster represents a real advantage for small and medium size enterprises, consisting of: easy and fast access to scientific results, in view of applying them to production and creating innovative products; use of high performance technologies; implementation of common development strategies, starting from cooperation strategies for production and purchase of technologies and high performance equipment, destined for common use and ending with marketing strategies.

Clusters function as a large consortium of companies which have important chances of accessing EU fund and of ensuring financing.

Innovative clusters contribute to the increased attractiveness of an area, support the development and trade of innovative products and services (especially those concerning design, marketing, transport and logistics).

At European Union level, innovative clusters are perceived as the 'engine' of economic development and innovation, being able, at the same time, to set up the corresponding frame for business development, for collaboration between companies, universities, research institutes, suppliers, clients and competitors pertaining to the same geographic area (local, regional, national and trans-national).

4. Innovative Clusters

The approach of the "Community Framework on State Aid, Research, Development and Innovation" considers clusters as the binning of independent enterprises (start-ups, small, medium and large enterprises as well as research units) which operate in a specific field and area, with the purpose of stimulating innovative activities, by promoting intensive interactions, sharing facilities, experience and knowledge exchanges, and by means of contributing to the transfer of technology, networking and dissemination of information among member companies of the cluster. [2]

Certain aspects regarding the regulation and boosting of such entrepreneurial behavior have determined the set up of a set of policies concerning the activity and functioning of the cluster, resulting from the research, innovation, industrial policies and SME's policies. The current European experience proves that the majority of policies regarding innovative clusters have been or are implemented by means of different governmental programs or initiatives.

The European Cluster Observatory, established in 2006 by the European Commission, has as main objective to inform the interested policy-makers about European clusters and on the policies in this field. Also, it provides quantitative and qualitative statistic data as well as comparative analyses on cluster situation in Europe. The researches and studies elaborated by the European Cluster Observatory in more than 30

European states, have identified more than 130 national measures of cluster support, measures which could be classified as policies concerning clusters. Within this context, it can be stated that in almost all EU member states, measures and programs on cluster promotion and development are being implemented, and thus it can be estimated that that these may constitute an important element of the national strategies on the support of innovation.

Cluster related policies may be classified in groups, depending on the objectives and motivations underlying their adoption:

1. *Facilitation policies* –aim towards the creation of a favorable microeconomic environment for development and innovation, which contributes indirectly to cluster emergence and dynamics;
2. *Traditional framework-policies* – refer to policies concerning SMEs and industry, research and innovation policies, regional policies on clusters, as instruments of improving cluster efficiency;
3. *Development policies* –are directed towards research and mobilization of specific cluster categories, with the purpose of developing a specific economic sector. It can be observed that this group of policies is the only one that directly targets clusters issue.

It is becoming more and more obvious that at European Commission level, the concerns regarding cluster support, the improvement of Europe's knowledge bases, and the optimization of European research and innovation exploitation potential are intensified.

The recent economic crises warned about the need for a powerful, competitive and innovative industry in Europe, which should be based and should encourage innovative clusters/ poles of competitiveness and cluster networks. [2]

5. Clusters – an alternative for the development strategies of the enterprises pertaining to a certain region

If, in theory, cluster means in English „bundle, bunch, group”, in practice a cluster means a group of companies which operate in the same field, and which agree to come together, to adopt the same strategy, however remaining direct competitors. Cooperation and collaboration relations are established between the companies joint in a cluster and because of these relations they improve their performance.

The managers of the companies which are reunited in a cluster must see this undertaking as a survival strategy. However, intelligence, trust and the establishment of clear rules of action are necessary to set up a cluster. The initiative must start from the bottom: the economic unit and the business environment. The state cannot force anybody to associate, but it can, by means of certain measures, support clusters development.

At European level, clusters fall under two categories:

- a) One category refers to the poles of competitiveness, which comply to the state policy, as happens in France, where over 70 organizations are estimated to exist. Even if the mechanism is considered somehow bureaucratic, it is estimated that through the formation of clusters the tendencies towards monopoly, abuse of dominant position will be eliminated.
- b) Another cluster category (existent in the majority of European states, the most significant instances being Germany and Sweden) is based on massive collaborations initiated by the business environment (bottom-up principle).

If, in what Romania is concerned, the cluster concept is relatively new, at European or international level one can talk about, at this point, about the development of powerful clusters at regional level and, recently, about the development of top level international clusters.

In Romania, the cluster issue is of interest to the companies, but a significant level of development has not yet been reached. It is estimated that clusters can be set up in different industry branches (textiles, leather goods, footwear, wood processing, chemical industry, vehicle building), in agriculture, tourism, transport.

EU requested that Romania drafts a cluster map to be added to the one of the Community. To this purpose, several data centering actions have been undertaken, as well as the drafting of a special guide for those willing to create a pole of competitiveness. [2]

According to a press release issued by the Ministry of Economy, Commerce and Business Environment (MECMA), in 2010, 22 clusters from Romania were identified and included in a specialized catalogue „Romanian Clusters Mapping” and the Guide for the implementation of the innovative cluster concept in Romania was elaborated. These actions have been carried out within the project Inov-Cluster – Development of the technological pole concept at regional level and of the cluster in regional networks, support for increasing the competitiveness of economic agents in processing industry”, a project coordinated in the period 2008 – 2010 by the General Directorate Industrial policy and Competitiveness of MECMA, within the Sectoral Plan in the field of Research – Development in Industry. Upon unfolding of this project, the following proposals have been made: elaboration of an integrate cluster funding system, creation of web platform to animate clusters in Romania, the creation of a national network of innovative clusters and their inclusion in trans-national networks [3].

In what concerns the financial instruments which may be used to set up a cluster, the companies have at their disposal, on the one hand, the EU program which supports the industrial policy and which provides funding of up to 200.000 euro/project, the non refundable financial allocations being available also within the Sectoral Plan for Research, and, on the other hand, the funding may also come from the members of the group (such as the cluster established by Renault).

As a strategic approach, we must mention that, in what clusters are concerned, an appropriate management, a marketing policy,

an action plan, a budget and competent administrators are required. Upon its establishment, the cluster must produce something innovative, that will distinguish/differentiate the respective region/country from what is considered to be series production.

6. Conclusions

The European policy for innovative clusters represents, for a country such as Romania, a new approach, oriented towards partnerships between industry and research at regional level, by stimulating the exchange of good practices and cooperation between clusters, with the aim to conquer new markets.

Innovative clusters may accelerate development, trading and dissemination of top technologies in all European industrial sectors and services.

The challenges which European industry must face are related to market fragmentation, the weak link between industry and research, but also the modest collaboration between European clusters.

An important element of innovative cluster strategy is represented by the development of trans-national cooperation between European clusters.

The High Level European Group on cluster policy – ECPG, provided a written report to the European Commission in December 2010, including recommendations on the role of clusters within the context of the European Innovation Plan. Within this context, innovative clusters are considered part of the new economic environment, and the cluster programs are part of the new industrial policy. Innovative clusters constitute a natural platform for public-private partnerships. Implementation of certain recommendations present in the documents of the ECPG group involves a period of a couple of years and will depend on both the efforts of the European Commission and of the member states (Ministry of Economy, Commerce and Business Environment, General Directorate of Industrial Policies and Business Environment).

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Methodology of Economic Assessment of Corporate Finance Management Effectiveness

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Abstract

"The methodology of economic assessment of corporate finance management effectiveness" deals with the analysis of the basic issues of economic aspects of corporate finance management effectiveness; the paper presents the essential issues of the existing methods for establishing the economic effectiveness of corporate finance management and control; it also proposes the improvement of the approach regarding the assessment of finance management effectiveness of a company.

Key words: finance management, corporate finance management, corporate finance control.

J.E.L. classification: G15

1. Introduction

The practice in Romania and the international one show that the first to be interested in assessing the effectiveness are contracting companies and finance managers who promote anti-crisis management. This is due to the fact that across the world nowadays the cases of bankruptcy, scandals related to it as well as the consequent losses have reached an unprecedented level. Thus, the study carried out by World Bank specialists indicated that annually an average of 1% of the total companies of developed countries reached bankruptcy during the last decade.

The necessity for an appropriate assessment of company finance management effectiveness is also felt in the Romanian system because the actual financial status of Romanian companies is still under the influence of the economic crisis. According

to official statistics, more than 56% of the autochthonous companies tend towards insolvency.

2. Analysis of data

The complex analysis of the basic aspects of assessment of corporate finance management economic effectiveness should comprise two directions. The first direction is the analysis of the approaches that will lead to understanding the essence of one of the highly assessed characteristics of corporate finance management – its effectiveness. The second direction is the analysis of effectiveness assessment as a specific type of activity, following the quantitative assessment of this characteristic.

In many cases, the integral coefficient is proposed as a main indicator in assessing the economic effectiveness of corporate organizations, and it comprises individual components of the indicator system chosen. However, it is our belief that this fact does not exclude the main difference of the narrow interpretations regarding effectiveness.

The process of assessing the economic effectiveness of corporate finance management as a specific activity implies both technical difficulties and other basic issues. As for the basic issues, which give rise to the development of the approaches regarding the assessment of this characteristic of financial activities, they are the following:

- 1) principled measurability of the effectiveness
- 2) the degradation of performance indicators;
- 3) demonstration of extrapolation.

The issue of principled measurability or nonmeasurability of such characteristics as effectiveness is closely related to the possibilities of human thought, the capacity to

formalize and measure different categories. The category apparatus allows the constitution of structures, included in the management effectiveness of the company, such as the social and psychologic costs, as well as making the comparison and choosing while lacking some definite criteria. However, the assessment of effectiveness in such a broad interpretation, as well as the attempts to formalize the human thinking process is extremely difficult.

Any indicator for effectiveness assessment is appropriate to be put into practice only if it allows the comparison of two objects from the point of view of their effectiveness. The examination of any effectiveness indicator is realized by establishing its capacity to distinguish between the levels of effectiveness (high level, low level). In order to do so it is necessary to determine a certain variation of this indicator, previously set for a certain group of the analysed objects. If the value of the selected indicator does not vary sufficiently from an object within the group of another object, then that indicator is not useful to make an assessment.

Nevertheless, we do not find that an adequate assessment of the economic effectiveness of corporate finance management is impossible to achieve as a principle. It can be obtained with relative precision. Having to consider that the negative influence of the fundamental factors, which influence the assessment of effectiveness, cannot be eliminated, it has to be reduced to the minimum by developing some specific methods for the assessment of the corporate finance management effectiveness.

The interpretation given here, referring to considering corporate finance management effectiveness as the company's capacity to reach and maintain a certain financial level by using the available resources in a certain period of time, allows to assimilate the methods for effectiveness assessment to the methods for assessing the financial status of the company. Moreover, various categories of methods, formally defined as „methods for the forecast of company bankruptcy”, should also be analyzed, because in our opinion, these methods can also be included to the category of methods for the assessment of the financial status of the company.

As objects to be analysed we choose both methods which are largely known as well as new studies proposed by specialists for the assessment of the financial status of the company. A condition of constituting the methods for the assessment of economic effectiveness of corporate finance management is their complexity. Therefore, the group of analysed methods may be reduced to the complex methods for the assessment of the financial status of the company, namely those methods which characterize at least two of the four basic aspects of the financial status of the company (profit, turnover, liquidity, stability). The majority of methods within the complex analysis for the assessment of the financial status are some formal methods, which are based on certain numeric algorithms. Moreover all the formal methods for the assessment of corporate finance management are formed according to one of the two aspects. According to the first aspect, there is constituted an integral coefficient out of the elements of the indicators system forming the base of assessment methods, then the values of this coefficient are used to make the necessary assessment. Such methods (defined as integral methods) are the most popular in practice.

It is our belief that in order to obtain an optimum variant for the comparative analysis of the data provided by these methods the calculations should be made on the basis of the data regarding a group of companies, which should include both companies about to fall for bankruptcy and companies that operate normally. Thus, if we consider bankruptcy as a situation of maximum ineffectiveness of corporate finance management, then these calculations may indicate the applicability of these methods for the assessment of corporate finance management effectiveness. However, the lack of statistic data regarding the companies in Romania that have already gone bankrupt, does not allow us to use this method in Romanian practice.

The methods based mainly on rating assessment can be considered satisfactory, while statistic, expert and cluster methods have dissatisfactory results in assessing corporate finance management.

3. Conclusions

Many experts emphasize the duality of the sources of corporate finance management effectiveness. Theoretical reflections regarding management effectiveness have demonstrated that the specificity of a company's management consists of the fact that the management objective is achieved both within the management system (the management subject) and within the managed object. This complexity of objectives interaction within the management-production system involves the examination of the results of the two subsystems – the leading and the subordinate ones. Each of these subsystems has its own resources whose proper use should be taken into account.

The assessment of the effectiveness of corporate finance management system proposed in formula (1.) and the effectiveness of financial management (2.), have a common position regarding the assessment of corporate finance management effectiveness.

$$I^{(\phi)} = \mu_F + \mu_{FM} - u(\mu_F, \mu_{FM})$$

(1.) Own Source

$$\mu_{FM} = \begin{cases} +\infty, & \text{pentru } Q \text{ complex} \\ \left[\sqrt[3]{\frac{\sqrt{|\mu_F|}}{2} + Q} + \sqrt[3]{\frac{\sqrt{|\mu_F|}}{2} - Q} \right]^2 \end{cases}$$

(2.) Own Source

where

$$Q = \sqrt{\frac{(\mu_F - I^{(\phi)})^3}{27} + \frac{|\mu_F|}{4}}$$

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The Opportunity of Joint Venture Strategies in the Present Economic Context

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Abstract

Even if most successful joint ventures are created when economy is in glorious times, the reality of the last years has shown true possibilities of obtaining advantages by considering joint venture strategies during economic crisis. Some Romanian companies, as presented in the paper, have noticed that could transform the crisis into an opportunity, by offering foreign investors the perfect place to implement a joint venture strategy.

Consequently, under the name of a joint venture agreement, companies can develop their businesses on local and international markets, benefiting from better qualified work force, new technologies, larger resources and experience.

Key words: joint venture, strategy, strategic advantages, economic crisis

J.E.L. classification: L24

1. Introduction

The most debated topic in the past years is the global economic crisis, felt to a certain extent all over the world. The main focus is on the effects of the crisis, as well as on the numerous strategic approaches to combat or ameliorate them. The recession of the global economy affected the quality of social-economic life. Companies are among the most affected entities, struggling to survive a turbulent environment in which former strategies do not succeed anymore.

In Romania, companies are facing the burden of loans, as well as the difficulties in paying suppliers and employees. The banking system is defining a new financing system, not at all in advantage for companies having already difficulties. However, the companies struggling to cope with unfavorable

economic conditions are looking for new ways to attract foreign capital in the form of international economic associations or European structural funds. Companies considering the option of international associations take into consideration the opportunities and benefits joint venture strategies can offer.

2. General approach of Joint Venture strategies

The concept of *joint venture (JV)* first appeared in the Anglo-Saxon area, defining a joint cooperation of physical of legal origin between two or more partners aiming to obtain profit. In time, the concept was spread to wider areas, with different names, although the most common is that of *joint venture*.

At international level, the meaning of the term is related to the legal nature of the agreement between the parties. Some experts have defined the term as a method of reducing risks, in which two companies combine their forces to jointly produce and promote a product. Others complete the above explanation, stating that the JV is a method of penetrating foreign markets, as long as a foreign company is working with a local company as a partnership.

Nowadays, we talk about joint venture strategies, joint venture agreements and joint venture companies. JV companies appeared as a consequence of the business internationalization and their spread is largely related to the need of strengthening the competitive capacity by exploiting geographical areas with rich and cheap resources. [4] In this respect, Romania has aroused the interest of foreign investors in time.

Since Romania has had a market economy, with a set of permissive regulations, the number of JV has significantly increased: from 5,499 JV companies at the end of 1991, to 38,900 JV companies in 1994 (under the first wave of foreign investments), at present the number of JV companies exceeding 165,000.

The attractiveness for implementing JV strategies can be found in the mutual benefits for the partners. The option for such a strategy may have beneficial effects on both short and long term. In a first phase, the role of a joint venture partnership is to revitalize activities facing difficulties. In this respect, the foreign partner can provide consulting services, can contribute with capital and introduce advanced technologies, developing strategies and recovery policies, all in the context of the local experience. But, the real value of JV strategic alliances is given by the lasting impact on strengthening the company's position in the business. The success of a JV strategy is measured in terms of quality, management development, and change of staff attitude, higher productivity of employees and technical capital, high quality products/services, major social and environmental changes.

The foreign partner's interest for a JV strategy starts from an economic-based motivation, establishing the goals to be reached. Amid the economic downturn spread throughout the world, the investor seeks to maximize profits in order to sustain its economic activity for a long period. While population's incomes decrease continuously and demand also decreases, entrepreneurs are forced to focus on costs in particular, to reduce them as far as to obtain a profit margin able to ensure their continuity. This is the reason behind the penetration into new, affordable markets, with cheap material resources, skilled labor force and low labor costs. Meanwhile, the foreign partner can strengthen its business reputation by expanding the offer towards new markets, in terms of high quality products and services.

The local partner chooses a JV strategy based on economic reasons related to the impossibility or difficulty to enter foreign markets with local products, due to the lack of organizational capacity, legal or cultural barriers. From the perspective of the local partner, the foreign partner's capital satisfies the local need for monetary resources and

advanced technology and creates the premises of conquering new markets, by adapting to the qualitative requirements of foreign markets. At the same time, the local company, through his foreign partner, can reach a worldwide prestige.

On the other hand, we should not undermine the social importance of JV companies, as in difficult times a great interest must in maintaining as many jobs as possible. It should also be noted the advantages of technologies and performant systems, as a measure to protect the environment.

Encouraged by the chaotic economic situation, unpredictable on long-term, entrepreneurs seek to define strategic partnerships more and more visibly, being animated by the famous motto of Henderson&Harrison Company: "Two heads are better than one." Recent studies show that as long as the capacity to involve into transactions continues to strengthen, for 2011 is forecast an improvement in the activity of mergers, acquisitions and joint ventures.

In 2010, the demand on this market was stimulated by the constant accumulation of capital in big companies and the need to access new markets and technologies. Romania has also recorded promising tendencies. The recovery of the local market in the JV sector is demonstrated by the increase in the value of transactions, but we should mention that the companies aiming to attract investors should avoid the extreme approach of reducing costs on short term and to develop instead a long time strategy to earn a market share. Reducing investments in technology, marketing, R&D and human resources may often be seen as easy measures when costs reduction is a priority. But the experience demonstrates that companies which maintained investment in IT, innovation, a brand and elite human resources find themselves in a better competitive position to enjoy the positive effects when economy recovers.

In order to demonstrate that economic reality confirms what we pledged for above, we will present as follows a couple of JV companies appeared on the Romanian market.

3. Case study regarding JV companies on the Romanian market

A convincing example regarding the benefits of such a strategy is offered by the JV between Macromex, a Romanian company specialized in importing and distributing food products and La Lorraine, a Belgian company, leader in producing and distributing fresh and frozen bakery products, one of the most important European companies on the bakery market.

The joint venture between Macromex and La Lorraine established in 2010 resulted in a new bakery factory in Câmpia Turzii, a common investment of 8 million euros equally shared, which created at least 100 jobs, both at management and operational level.[5] Although Macromex has a good image on the local market, the JV allows it to enter the European market, as it is favored by La Lorraine's prestige in high quality products and interest in satisfying customer's needs.

The food market seems to be a very interesting one, as we have another example of JV between Caroli Foods Group – Campofrio Food Group.[8] Caroli Foods Group is one of the leaders between the meat producing companies in Romania, managing after 16 years to achieve the second place as market share. Campofrio Food Group is Europe's leading company on the meat market and one of the five largest meat processors in the world with a turnover of around 2.1 billion euros, directing its efforts to expand business and production throughout the European area. It now covers eight countries considered part of the central market of interest and employs about 11,000 people.

The JV agreement joins the two companies under the name of Caroli Foods Group (51% of Caroli Foods and 49% of Campofrio Food), helping Caroli to achieve its goals: to overcome the local leader by a larger market share and to promote products in the emerging regions of the South East Europe.

The association with Campofrio brings for Caroli valuable know-how in processing meat at the highest standards, as well as an increase in the value of social responsibility that Campofrio Group has already assumed by taking social and environmental actions.

Another aspect that Caroli considered when signing the joint venture was the advantage of power in negotiations with retail chains. Although some views appreciate this JV atypical for the local market, dominated by small family businesses, the new company may determine the strengthening of a field affected by current economic conditions and the transition to a new image for the local food sector.

Specialists have predicted that one of the most attractive sectors for JV is the energetic one. To prove that, we have the example of a new company, Wind Energy Service East Europe (WESEE), resulted from the JV of Electrogrup, Montage and Windenergy Service.

Electrogrup is one of the major national companies active in energy infrastructure construction, telecommunications and civil service, while Windenergy and Montage are German companies active in the energy construction sector. The three companies aim to participate in the aeolian project at Fântânele, run by CEZ, a utility group from Czech Republic. For the three companies, the project represents a great challenge and an opportunity in negotiating works to do. The JV company, having as main activity installation and maintenance services of wind turbines, is considering a program of advanced professional training for the staff in Romania through accreditation, training and testing according to German standards, increasing performance in work quality, without consuming important financial resources, which can be diverted to other investment sectors.

This JV creates a good opportunity to highlight Electrogrup's competitive force in other European regions, diversifying its portfolio of competences and experience.

Another example arising from the energetic sector is that of the JV between Termoelectrica, a national company producing electric and thermo energy, E.ON Kraftwerke, the largest private-owned company in energy distribution sector and Enel, the most important energetic company in Italy. [6]

In 2008, the three companies signed an agreement committing to participate in building a coal power stations, with an estimated investment value of about 1 billion euros. The advantage of the partnership with

the German-Italian consortium is of financial nature and a great opportunity for a sector with potential, but which needs constant upgrades and adjustments to existing rules of international environmental protection. Therefore, the construction of the new power plant will have an immediate effect on environment quality, achieved by reducing emissions. The project ensures the success of such an objective through the implementation of Clean Coal Technology, the best available technology for coal power plants.

A project of this magnitude also brings social benefits, as electricity consumers will have lower tariffs and, obviously, there will be additional jobs and most employees will be trained and specialized in new technologies.

Summarizing the benefits of the partnership, it can be concluded that although Termoelectrica's remuneration for investing in the joint venture's capital will be well below the financial benefits of the two foreign partners, according to the proportion of initial contribution, the local social and environmental benefits are more important.

Last, but not least, we can talk about AgroAdvice, a JV between Agricover Group, a leader in Romania on the market of technological packages and integrated services for agriculture and Danish Agricultural Advisory Service, one of the most important European companies in agro food consultancy.

The joint venture was supported by their common objective to have a larger market share in agriculture consultancy and has as mission to assist Romanian farmers in optimizing processes and improving financial performance in agriculture, with effect on increasing their competitiveness on the European market.

The option of the Danish company for Romania is explained by the agricultural potential. The JV strategy specifies the development of know-how transfer for improving quality in consultancy for revigorating the agricultural sector.

4. Conclusions

The examples mentioned above and the advantages of implementing JV strategies, demonstrated, as demonstrated by the economic reality, highlight that, regardless of the economic conjuncture, Romania may still be a desired destination in the international business environment, due to a wide range of investment opportunities in different sectors.

Romania opportunity to enter the market of more developed countries, in a time when all countries are trying to promote a protectionist policy, can be exploited by formulating attractive and profitable joint venture strategies.

Although the success of joint venture strategies is easily noticeable in times of growth, when the future of businesses can be viewed as sure and optimistic, the innovative spirit of entrepreneurs is challenged to find optimal solutions even in crisis conditions.

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Human Resource Planning

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Abstract

The objective of human resource planning is to adapt the human capital needed to develop the enterprises' activities and to accomplish their priority objectives on the medium and/or short term. Human resource planning is a dynamic activity, time being an essential variable, both in what regards the quantitative side (adapting the number of jobs according to the organisation's evolution in time) and the qualitative side (harmonising the jobs' complexity with technological changes). The quantitative side is indissolubly connected to the relative inertia of human resources while the qualitative one is characterised by human adaptability. The article presents a research regarding the way human resource planning is carried out in Romanian private railway firms.

Key words: human resource planning, staff headcount, competences.

J.E.L. classification: M12

1. Introduction

Human resource planning consists in projecting the necessary number of employees needed in an enterprise for a medium or long amount of time, in an adequate structural organisation, ensuring the competences needed, such as: qualifications, know-how, the motivations needed to perform in the variety of jobs and positions, assuming the responsibilities needed to ensure the firm's smooth operation and progress. Firms that neglect these activities may be confronted with a serious lack of competences needed for the activities developed or with an excess of employees overcome by the evolution of the firm's environment.

2. Theoretic considerations

The objective of human resource planning is to adapt the human capital needed to develop the enterprises' activities and to accomplish their priority objectives on the medium and/or short term.

Human resource planning consists in projecting the necessary number of employees needed in an enterprise for a medium or long amount of time, in an adequate structural organisation, ensuring the competences needed, such as: qualifications, know-how, experience and aptitudes, the motivations needed to perform in the variety of jobs and positions, assuming the responsibilities needed to ensure the firm's smooth operation and progress.

Human resource planning is a dynamic activity, time being an essential variable, both in what regards the quantitative side (adapting the number of jobs according to the organisation's evolution in time) and the qualitative side (harmonising the jobs' complexity with technological changes). The quantitative side is indissolubly connected to the relative inertia of human resources while the qualitative one is characterised by human adaptability.

The process of human resource planning may be summarised as follows [14]:

- assessment of the human resources available at a given moment by comparing the men / jobs situation and formulating a diagnosis;
- analysis of the company's objectives, strategic development axes and establishing the objectives related to professions and headcount;
- personalised regularisations, both quantitative and qualitative, formally included into the action plans that regard the following activities: recruiting, forming and developing competent people, enterprise reorganising, staff mobility, ensuring some activities by contracts for services;

- regular control.

Headcount and competence planning is part of human resource planning and consists in creating, implementing and controlling the policies and practices that aim to reduce, in an anticipative manner, the gap between an enterprise's needs and its resources, both at the quantitative level (headcount) and the qualitative level (competences). This projection is part of the firm's strategy [8]. Headcount and competence planning have two dimensions: collective and individual. At the collective level, it aims to integrate human resources into the firm's strategy by monitoring the employee's medium and long-term evolution, both qualitatively and quantitatively. At the individual level, it aims to offer to each employee the chance of being an active participant in the labour market by elaborating a career evolution project based

on the competence and the individual evolution potential of each employee. Human resource planning uses a wide array of anticipative methods and reunites a heterogeneous collection that differs from an enterprise to the next.

This activity was given numerous pages in specialised literature which describes a sequence of the evolution of the objectives, activities, the methodology used and the means of implementation, approaching concepts and definitions that settle the strategic nature of the human resource function. [2,4,6 8,10,12].

The crucial issues that may trigger human resource planning procedures are summarised in table 1.

Table 1. Crucial issues that may trigger human resource planning procedures

A	Managing social relations and complying with legal provisions	A1	Ensuring the project's cohesion and an adequate social climate
		A2	Limiting layoffs to a maximum
B	Communicating to and involving the employees	B1	Mobilising the staff in order to achieve the enterprise's strategic objectives
		B2	Making the employees adhere to the firm's values, promoted through management
		B3	Improvement management quality
C	Developing competences	C1	Preparing the staff for their future jobs
		C2	Adapting jobs to the current needs of the enterprise
		C3	Developing competences
D	Developing mobility	D1	Favouring mobility
		D2	Preserving basic competence by keeping the best specialists
E	Adjusting headcounts Improving productivity	E1	Rationalising the management of payrolls
		E2	Developing employee flexibility: short term employment, mandating competences, collaboration contracts, consultancy, contracts for services
		E3	Reducing headcounts
		E4	Recruiting collaborators

Carrying out headcount and competence planning activities is a difficult endeavour, which integrates a various number of concepts, that is:

A. Strategic integration

Headcount and competence planning is a strategic enterprise component. Through this action human resource management is anticipatively connected with the other

functions of the firm (financial, technological, commercial, etc.) and integrated into the general strategy. The decision to approve the human resource plan belongs to the general management of the firm, the human resource department being the executants.

B. Anticipation

The central element to the headcount and competence planning approach is the anticipation of the enterprise's major evolutions and of their consequences in terms of professional competences and of the job and headcount situation. By identifying, with the help of strategic analysis, the impact of changes on human resources and their competences, preventive measures can be taken to counteract economic, financial and social risks.

C. Quantitative analysis of human resources

The quantitative analysis of human resources should be undertaken for every job and function, as specified in the occupation list. The fact that there is a likely deficit might be covered by re-qualifications, multi-qualification, professional reconversion. The analysis of the human resources available at a given moment represents the starting point of anticipative projections.

D. Continuous professional training and guidance

By anticipating the enterprise's needs through the headcount and competence planning process, by analysing the employees' individual potential, individual professional progress plans can be made. Thus the continuous professional guidance of the employees may be carried out within the firm or outside it, avoiding social convulsions or the deterioration of organisation climate.

E. Competences

When creating an anticipative model, by headcount or competence planning, a double

connection is established between the enterprise's needs (necessary competences) and its resources, and this adaptation practically represents the balancing of the qualitative aspects of human resource management. In what regards the second connection, competence is its key element, which allows the passage from the management of the employee body, as a whole, to individual management.

Competence-based human resource management assumes, by the policies it promotes, the following roles: competence acquisition (recruitment), competence development (professional training and improvement), competence disposal (layoffs), competence recognition (wages, social benefits, personalised bonuses).

Specialised literature presents a wide array of definitions on competence. The concept of competence refers to the collection of knowledge, savoir-faire, savoir-etre, technical abilities, experiences and behaviours that are manifested in a job (profession), in well-established situations of action development.

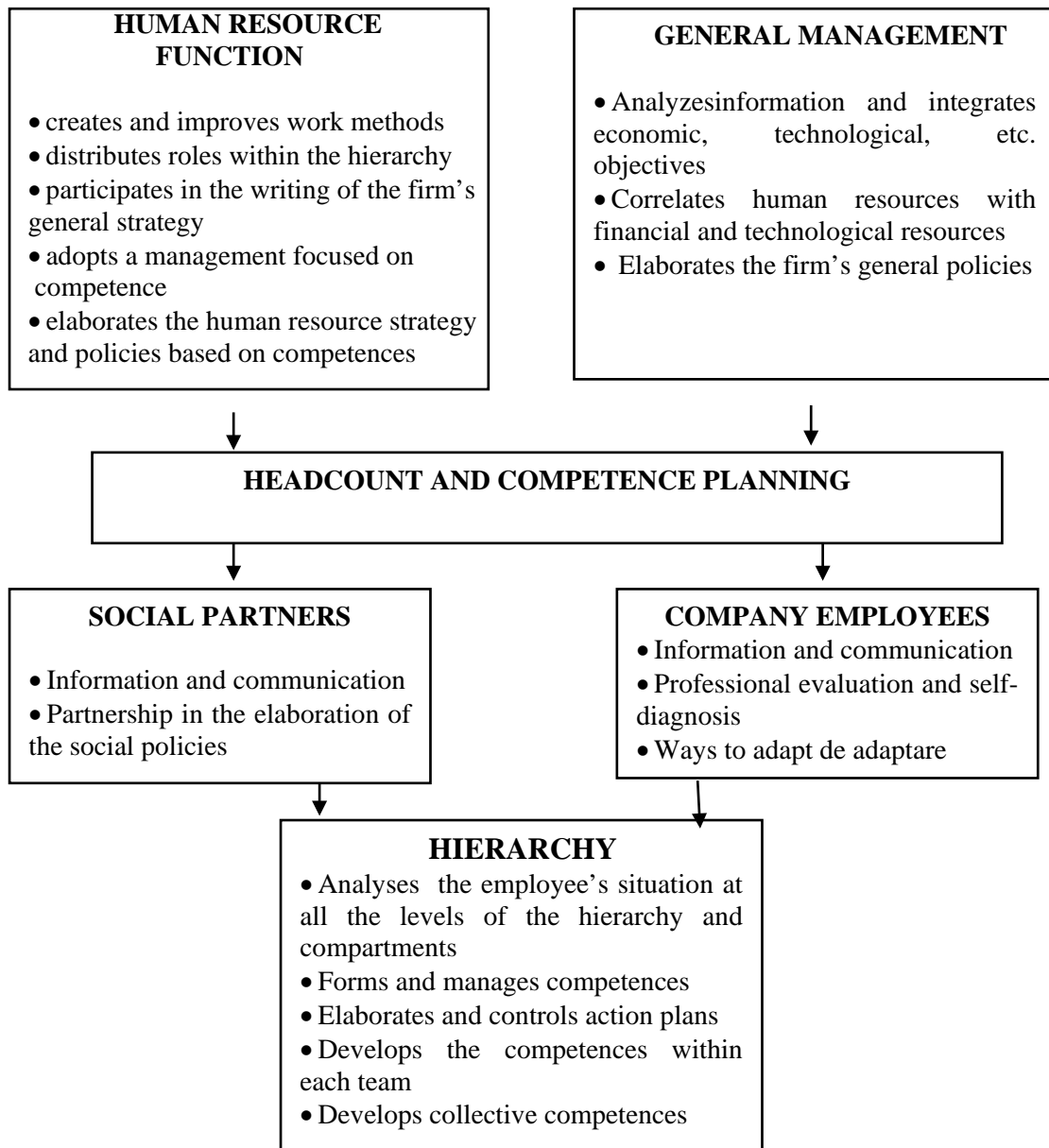
The competence a person makes proof of in solving professional problems correlates the multitude of knowledge and experiences of which they dispose with the resources available in an organisation.

F. The main players involved in headcount and competence planning

An important tactical and strategic component of human resource management is represented by the forecast of an organisation's headcount needs. The forecasting determination of human resource needs must take into account a multitude of elements related to the competitive environment, the market evolution, technological changes, the cycles of economic activities, etc.

The main players involved in the headcount and competence planning process, along with their roles, are presented in figure2.

Figure 2. The main players involved in the headcount and competence planning process [2]



3. Study regarding human resource planning in firms from the N-E Region of Romania

The study was conducted from January 2010 to March 2010 in five privately-owned railway firms from Romania, using a closed-question questionnaire. The question variables have been assessed with various Likert scales. According to this evaluation grid, the privately-owned railway firms analysed are very well positioned, having obtained the VERY GOOD score – within

the answers given to the questionnaire, 14 out of 16 possible situations coincided with the ideal, as follows:

Strategic and operational planning:

$$Score = \frac{14}{16} \cdot 100 = 87,50\% = \text{VERY GOOD}$$

Table 2. Questionnaire on human resource planning

HUMAN RESOURCE PLANNING	
1. Existence of strategic human resource planning (non-existent/ incipient/ medium/ full)	A B C D
2. Concern with strategic human resource planning (none/ very small/ medium/ major)	A B C D
3. Importance granted to strategic human resource planning by the firm's management system (none/ very small/ medium/ major)	A B C D
4. Existence of rational principles of human resource planning (non-existent/ more in theory/ available effectively)	A B C
5. Ensuring, in time, the continuous human resource adaptation to the functions and the jobs generated by the enterprise's activity (none/ to a small extent/ occasionally/ in general/ to a great extent)	A B C D E
6. Existence of adequate means for human resource planning (non-existent/ simple/ averagely complex / very complex)	A B C D
7. Computerisation degree of provisional human resources (very low / low/ average/ high / very high)	A B C D E
8. Cooperation between the human resource compartment and the other compartments within the firm (very low /low / average / high / very high)	A B C D E
9. Provision of the conditions needed for good human resource planning (information, equipment, qualified staff, financial resources) (low / average/ high)	A B C
10. Extent to which the qualitative aspects of human resource management are taken into consideration (the study of policies and strategies, provisional headcount diagrams, adaptation men/jobs, competence analysis, work conditions, social climate, information and social communication) (small and occasional/ small but continuous/ average / great)	A B C D
11. Managers are concerned and take measures to influence the human resource plan (less and occasionally/ less but continuously/ averagely/ greatly)	A B C D
12. Human resource planning is analytical (qualifications, age, sex) (generally / averagely / in detail)	A B C
13. Existence of human resource policies (none/ very general/ for the most important parts / for all the parts and analytically)	A B C D
14. There is an analytical management of needed competences (general and specific knowledge, practical experience, personal aptitudes) (there is none/ in principle/ incipient/ average, non-analytical/ total)	A B C D E
15. Staff mobility planning (layoffs, job changing, leaves, discharge, etc.) (in very general lines/ regarding main jobs/ total and analytical)	A B C
16. Level of operational human resource planning (short term) (unavailable/ empirical/ average/ analytical and total)	A B C D

4. Conclusions

The activity of human resource planning, of adjusting the headcount quantitatively and from the viewpoint of socio-professional structures, has a crucial role in the development of enterprise activities. For this activity to be efficient, the following individualised exigencies should be added to it:

- the management of the employees' competences by providing the much needed chances to get professionally updated, to get informed and to participate in debates and communications, in the elaboration of the propositions regarding the company strategy and work-related legislation, including in training courses paid by the firm; this way of managing individual competences is compulsory in order to ensure the employees' adaptability to the evolutions of the current technological, economic, social, legal and informational environment;

- the development of initiative and autonomy, offering the chance to think anticipatively to the employees with a superior level of professional training and to the managers at all the levels of the hierarchy;

- providing the chance to go beyond mass and "common" training, included in an internship program, through systematic theoretical and practical training in the field where the worker is actually employed and works, getting a varied professional experience, broadening his horizon and stimulating, at the same time, motivation and responsibility.

The human resource management from Romanian railway firms is strongly affected from when it comes to adjusting their headcount to the actual conditions of the global economic and financial crisis, which has also struck Romania. The research conducted in privately-owned Romanian railway companies revealed major problems that should be solved by the companies' management with the human resource department:

- adjusting the headcount in accordance with the real needs that it can sustain financially;

- ensuring compensations for employees who leave on layoffs;

- solving the problems related to the provision of decent revenues such as they were negotiated through collective work contracts;

- correlating wages with the increase in productivity;

- correlating the evolution of human resources, by structures and functions, with technological developments, the introduction of information and communication technologies in all company structures and the dilution of the bureaucratic phenomenon.

- granting due importance to each component (sub-function) of human resource planning, by preparing the shaping of changes and the adaptation of the system to the peculiarities of an ever changing environment.

In the field of headcount planning it is necessary to establish strategies and create plans and programs rigorously grounded taking into account the economic and social exigencies of the current period of economic and financial crisis and those forecasted in the future taking into account the new aspects generated by the evolution of the basic management theories, principles and the practical management experience of European Union states.

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Digital Economy Impact on Society

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Abstract

With this study we're trying to bolster up the idea that digitization of information combined with the Internet is a form of general purpose technology, which rose a wide range of new possible combinations that could be provided by the digital economy. The impact of the digital economy over societies can be seen and recognized even if only part of it is measurable. The effects of digitalization the economy are seen more in the new activities and products than the productivity.

Key words: Technology of Information and Communications, New Economy, Informational Society, Society of Knowledge, Economic Development, Economic Growth, Development of Localities, Economic Indicators,

J.E.L. classification: L10; O3; O4

Digital economy was born as a result of the ongoing transformation of economic activities as a result of using digital technologies that provide access, processing and storing information in a cheaper and easier way.

New digital technologies allow access storage and transmission of information increasingly easier and more accessible. Featuring digital information, this can be transformed into new economic and social values, creating huge opportunities for developing new products and services. Information is key resource for digital economy.

Enormous amount of information is changing the markets functioning, making possible the restructuring of enterprises and creating new opportunities for creating value through exploitation of available information.

The Internet has the most important role in the development of digital economy. Digital transactions allow new opportunities and business environments; new laws that weren't possible before. In classical economy the physical factors such as labor, nature and capital had an important role, in the digital economy, the innovation, technology and intangible assets have an essential role.

Daniela Archibugi and Bengt Ake Lundvall consider that the new economy is dominated by global influences and speed of communications and information. They believe that its basic features are globalization and digitization characterized by offering intangibility to the international transactions, both commercial and direct investment. They don't make the difference between the information and knowledge, without which the "new economy" could not exist.

Manuel Castells motivated that in the last 20 years of the 20th century a new type of economy arise in the world. He characterized it as a new brand of capitalism, with three fundamental characteristics. „The production and competition are strong functions of knowledge creation and processing, firms and territories are organized in networks of production, management and distribution; fundamental economic activities are global, meaning that they have the ability to work as a unit in real or induced time, globally”- Castells, Manuel - the Rise of the Networked Society, Blackwell, Oxford, 1996, p. 52.

Digital economy is causing social economic progress by developing and enhancing trade between the countries of the world. Any country, as a result of the changes taking place in the world labor division, of expanding economic trade between the states has to give and to receive something in the circulation of material values created in the world.

The main vector of the new economy is the globalization of capitalist economy on a planetary scale supported by the explosion of new technologies that took benefit from the information revolution and promoted by the ultra liberalist ideology of the global free market and multiculturalism.

Assimilation of scientific achievements has resulted through the possibility of passing to work organization on modules. This generated novel forms of behaviour: "industrialization" of the intelligence set up a new type of worker, "the knowledge proletarian", called by Peter Drucker.

In sequel we will discuss the restructuring of some industries in the digital economy.

- The banking system evolution consists in increasing of web providers based on self-service technology. This changes the interaction between banks and their customers; banks staff are facing the automated channels based on the Internet
- Internet and new technologies penetration in the banking system led to savings in costs and increased efficiency on the one hand and the best customer service on the other hand.
- Increased use of Internet in the air industry has allowed the customers to shop and buy tickets which led to structural changes in the industry.
- The automotive industry is another example of a beneficiary of digitization. Major automotive manufacturers are seeking the business-to-business exchanges in the system of production and supply. It also appeals to business-to-consumer in orders and purchase systems; otherwise traditional, such systems have the potential

to improve efficiency in the industry. The

Internet orders from customers are greatly diminishing the role of conventional dealers (Kwoka, 2001).

- Equipment industry provides another example of restructuring of the economic activity as a result of collaboration via the Internet. A new generation of collaboration based on web- technologies makes it easier for companies to work hand in hand with partners to bring new products on the market much faster and cheaper than before.

As it can be seen in the examples above, the digital economy, an economy of speed, the companies continually seek continuously new business to stand the increased competitive pressures generated by markets globalization.

Frequent and profound changes in technology impose firms to innovate continuously and to adapt their own business models. Introducing information technologies and telecommunication in the economic life on an increasingly larger scale led to the emergence of new business models of companies.

Category	Weight
Connectivity and technology infrastructure	20%
Business environment	15%
Social and cultural environment	15%
Legal environment	10%
Government policy and vision	15%
Consumer and business adoption	25%

The most digitalized economies	Scoring criteria and weights
Denmark	8.87
Sweden	8.67
USA	8.6
Finland	8.30
Netherlands	8,64
Norway	8,62
Honk Kong	8,33
Singapore	8,35
Australia	8,21

Source: Economist Intelligence Unit, 2010

First position, Sweden, is found on the 5th place in the country top, with the highest penetration degree of Internet. In ranking the top there are also found: Iceland, Netherlands, New Zealand, and Norway.

Denmark is the owner of first place in the ranking, Sweden, the second, the difference being very narrow shows a high degree of connectivity and good scoring better on all fronts, from quality to business until a public policy of sound on ITC and levels where consumers and companies can actually use digital services.

It is worth mentioning that these countries can be found on the top and with the highest GDP/capita.

Digital economy's impact on society can take the following forms:

1. society as a whole must become informatics and telecommunications users as a result of quasi generalized computerization of the social space;
2. economic basis of the entire production will be the production of specialized knowledge;
3. politics will keep its vocation and powers they have in conceiving and designing economic and social action, but will focus, particularly, the research strategy and human capital formation;
4. exponential increase of social space diversification of brought to the fore the issue of social cohesion of the global social space.

Conclusion

Digital economy era imposed to the companies continually innovation and adaptation to new market models. The Internet continues to have an increasingly important role, showing its mark on the entire economic, social and cultural life and leading the modern world.

The social phenomenon entirely due to digitization cannot be compared with anything in the past and represents a reality that defies all social and mental paradigms known to date.

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International Regulation of the Right to Life

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Abstract

The right to life represents the most important component of the value system that constitutes the subject of the international regulations on the legal protection of the human rights. This is the “first of the human rights” and it represents an assumption for the existence of the other rights; exercising the other rights would be senseless unless a protection of the human rights exists. The entire system of civil rights is actually subordinated to this right since these rights accompany the individual from the moment of his birth or some of them even from the moment of his conception until the moment of his death, some of them having legal effects after his death as well. Under these circumstances, the necessity for a regulation and an efficient protection of the right to life appear as an imperative for the international concerns in the field of human rights.

Key words: right to life, fundamental human rights, international protection of human rights

J.E.L. classification: K

“What is the right to life? First of all, it is a great uncertainty” [1].

The right to life [2] is the most important component of the totality of values that are the target of international concerns in relation to the legal protection of human rights.

The right to life is considered “the first of human rights” [3] and is a prerequisite for the existence of other human rights; without the existence and protection of the right to life, the exercise of other rights would be meaningless. The whole sphere of civil rights is practically subordinated to this right, as they accompany the individual from birth - or some of them, even from the conception moment - until death, some of them having legal effect even after death (such as the

inheritance will, when inheritance rights are opened from the moment of death, emerging from the deceased’s will) [4].

The right to life is enjoying a great popularity in the field of international treaties and conventions on human rights; its protection is enshrined in the most important contemporary international documents.

Even since the eighteenth century, the Virginia Bill of Rights (The Virginia Declaration of Rights - June 12, 1776) listed among the inherent human rights, also “the right to enjoy life” [5], and the U.S. Declaration of Independence (July 4, 1776) considered that “all humans are endowed by their Creator with certain unalienable Rights”, among them also the right to life [6].

Under article 3 of the Universal Declaration of Human Rights [7], “everyone has the right to life, freedom and self security” [8]. Article 6 of the International Covenant on Civil and Political Rights [9] states: “The right to life is inherent in the human person. This right shall be protected by law. No one shall be arbitrarily deprived of life” [10]; even the International Covenant on Economic, Social and Cultural Rights, adopted by the UN General Assembly on December 16, 1966, protects life: art. 10, section 2 states the need for special protection in the pre- and post- natal period, and art. 12, section 2 requires States to ensure the reduction of mortality and infant mortality [11].

The African Charter on Human and Peoples’ Rights [12] (adopted in Nairobi, Kenya, on June 27, 1981 and entered into force on October 21, 1986) states in Part I, Chapter I, Article 4: “Human beings are inviolable. Every human being has the right to respect for his integrity and his person. No one shall be arbitrarily deprived of this right”.

The Universal Declaration of Human Rights in Islam, from Cairo (September 19, 1981) also proclaims in article 2, the right to

life, with some peculiarities: "a) Life is a gift from God and the right to life is guaranteed for everyone. It is up to individuals, societies and states to protect this right from any violation, and is forbidden to take someone's life unless there is a reason provided by the Sharia. c) The protection of human life throughout the time willed by God is a duty prescribed by the Sharia." Under art. 3, in the case of using the force or of an armed conflict, the killing of non-belligerents (elderly, women and children) is prohibited; the mutilation of corpses is also prohibited". Article 4 stipulates the person's inviolability and her sacred character, which lasts during life, but also after death; the state must protect the relics and tombs [13].

The new Arab Charter on Human Rights, adopted in Tunis in May, 2004 provides in art. 5 that the right to life is inherent in any human person, and art. 9 of the same document forbids the submission to medical or scientific experiments and the use of organs without the person's free consent and full knowledge of their consequences; also, medical procedures such as to guarantee personal security must be strictly observed, and the trade with human organs is prohibited [14].

The Human Rights Committee described the right to life as "the supreme human right" [15], and the European Court of Human Rights ruled that the right to life "is an inalienable attribute of the human person and represents the supreme value on the international scale of human rights" [16] and is "one of the fundamental values of democratic societies which form the Council of Europe" (*Case McCann v. United Kingdom* - 1995), enshrining the pre-eminence of the right to life within provisions of the Convention, which it considers "primary" (*Case Pretty v. United Kingdom* - 2002) and emphasizing "the principle of the sanctity of life protected by the Convention" [17].

The right to life is the first substantive right regulated by the European Convention on Human Rights (art. 2); its location in the structure of Title I - Rights and freedoms – is not at all coincidental [18], in front of the importance that this right has within the ensemble of rights and fundamental human freedoms. In this sense, one speaks of "rendering sacred the right to life" [19].

Next to the prohibition of torture and inhuman or degrading treatments (article 3), to the prohibition of slavery and forced labour (article 4), and the non-retroactivity of criminal law (art. 7), the right to life is included, by the specialized literature, in the category of so called intangible rights, protected by the European Convention [20].

The European Union Charter from December 7, 2000 on fundamental rights recognizes the right to life and in medicine and biology are provided: the prohibition of eugenic practices, the prohibition of transforming the human body and its parts into a source of profit and the prohibition of reproductive cloning of human beings [21].

The doctrine points also means of protecting the right to life *lato sensu*, among which the African Charter on the Rights and Welfare of the Child of 1990, under which the crimes committed by children will not be punished with death, the Inter-American Convention on forced disappearance of persons of 1991 or the International Convention on the protection of all persons from forced disappearance, adopted by the UN General Assembly on December 20, 2006.

In a comment on the right to life, the Human Rights Committee [22] states that it is the supreme right from which no derogation is permitted even in cases of exceptional public danger threatening the existence of the nation, and believes that States have the supreme duty to prevent wars, acts of genocide and other acts of collective violence causing arbitrary loss of human life, stressing the connection between the provisions on the death penalty and the prohibition of propaganda for war and incitement to violence. The Committee shows that states parties should take measures not only to prevent and punish criminal acts that involve the loss of life, but also to prevent their security forces to kill people in an arbitrary manner, to strictly regulate and limit the cases in which they may deprive a person of life; at the same time, states must take measures to prevent the disappearance of persons and conduct extensive surveys on missing persons in circumstances which may involve a violation of the right to life [23].

In another comment of the same body, it is shown that even the design, testing,

manufacture, possession and installation of nuclear weapons is one of the most serious threats against the right to life, aggravated by the risk of using them not only during war, but also as a result of a human error or weakness or of a mechanical failure. In this respect, it is stated that the manufacture, testing, possession, installation and use of nuclear weapons should be prohibited and prosecuted as crimes against humanity.

The Committee decides on the matter of protecting children, for states to take all measures in order to reduce child mortality, malnutrition and to eliminate violence and cruel and inhuman treatments towards them [24].

Despite this growing recognition of its primacy, the right to life continues to remain uncertain, particularly because international regulations state, treat and protect the right to life, but fail to define the concept of "life" [25], and thus the notion of "right to life". This nature of uncertainty of the right to life concerns particularly the beginning of life and hence the timing of emergence of the right to life (at birth or conception), the actual content of the right to life, the relationship between the individual and his will, on the one hand and his right to life, on the other hand (euthanasia, suicide, etc.), or the conflict between the potential right to life of the unborn child and the possibility of an abortion unmotivated by a therapeutic purpose.

Even the doctrine is reluctant in defining the right to life; it was said that the right to life protected the human value, represented the foundation of all other fundamental rights and freedoms and concerned the prerogative belonging to all human beings to exist as such, once they appear in the world [26]. It was stated that the status of the right to life is marked by three characteristics: it is the first human right, presents an uncertain character (in particular due to the fact that although international texts state the right to life, they do not define "life") and it is a necessary condition to exercise all other rights [27]. We believe that the third feature derives from the first, so we can talk about two main features of the right to life: its uncertain nature and its primordial nature (hoping that this character will fade as soon as possible, by law-making techniques - explicit in international texts - as

well as by the jurisprudence of international laws on human rights).

The American Convention on Human Rights of 1969 is the only senior international text that explicitly protects the unborn child and settles that the right to life must be protected "in general, from conception" (art. 4, para. 3); also implicitly, art. 6, para. 5, the final part of the International Covenant on Civil and Political Rights does the same, by prohibiting the execution of a death sentence on a pregnant woman, hence the right to life itself of the child that the woman convicted will give birth to, is protected. Recommendation nr. 874 of October 4, 1979 of the Parliamentary Assembly of the Council of Europe on a European Charter on the Rights of the Child, under which the right to life of every child should be recognized from conception [28] is also added to this international text. An implicit protection confers to the unborn child also Recommendation nr. 1064/1986 of the Parliamentary Assembly of the Council of Europe, on the use of the embryo and human fetus for diagnostic, therapeutic, scientific, industrial and commercial purposes, under which surgery on the human fetus is not legitimate unless it seeks to protect the existence of "the child to be born" [29].

The other international texts speak of a right which protects the living being, not the being to be born; the Universal Declaration focuses on the spiritual element in order to define the human being, with prevalence on the spiritual life criterion rather than on the criterion of biological life (art. 1: "*All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood*") [30].

Even the Oviedo Convention on Human Rights and Biomedicine [31] (adopted in the Council of Europe on April 4, 1997 and entered into force on December 1st, 1999) is not very explicit, since it does not define the concept of "person" (its legal definition would have been an important step in giving a more detailed characterization of the concept of "life"), by referring to the national legislation of member states.

As in the case of other human rights, the interest protected by regulating the right to life has a double component: a private

interest, of the individual directly involved and a public interest, of the entire society; it is worth noting that both the private interest and the public interest are at the top of the hierarchy of human rights, whereas the most important value for an individual is his life and for the society, the most significant value that needs protection is the life of the individuals who compose it.

As said in French doctrine, the right to life should, however, be viewed as a "moderated principle", even if we deal, apparently, with a paradox: moderating is involved when inviolable rights are debated. However, the paradox is only apparent, as "the absolutism of the hard core of human rights does not preclude a certain realism which, without accepting genuine exceptions to the principle, still allows for some flexibility and thus moderations" [32].

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The high contracting parties shall secure to everyone within their jurisdiction, the rights and freedoms defined in Section I of this Convention.
Art. 2 The right to life
1. The right to life of every person shall be protected by law. No one shall be deprived of his life intentionally, only in the case of the execution of a death sentence ruled by a court if the offence is punishable by law with this punishment.
2. Death is not regarded as inflicted in contravention of this article where it results from an absolutely necessary resort to force:
a) to safeguard any person from lawful violence;
b) to effect a lawful arrest or to prevent the escape of a person lawfully detained;
c) to punish by law, riots or insurrection.”
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Logistics Platforms – Optimization Factor of Transportation and Distribution Processes

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Abstract

The logistics company is challenging and at the same time is a necessity to introduce it in the management activity, which in our opinion means more than just the supply of means of transportation with goods since the company's manager of logistics problems should know very well which are the existing internal and external infrastructures and organized in logistical platform that will be introduced in the company's strategy to save resources and surface sizing storage.

The purpose of this paper is to show that creating an efficient logistics system by a company leads to the reduction of the negative effects of freight transport, but also creates conditions for a sustainable development. It is designed to allow the use of an information system that will enable the implementation of effective programs for optimal routing of transportation means in order to achieve the objectives, meaning the transportation of goods to the customer at deadlines and respecting quality conditions.

Key words: logistics platform, logistics system, transportation, logistics manager, efficiency.

J.E.L. classification: L91, M16, P47

Developing a well thought logistics infrastructure can bring profit both for local companies who will benefit from cost savings by outsourcing the logistics activity and also for companies developing logistics parks that can be storage sites ((with the associated logistics services available) for international deliveries transiting Romania .

The goal of designing and using logistics platforms consists in the optimization and the efficiency of the processes of distribution of

goods and also the reduction of costs. The concept of logistics platform is a relatively new that seeks to reduce the costs of transportation of goods through the promotion and use of efficient logistics systems for companies.

As for the logistics platforms, they meet a series of activities that could be divided into two broad categories:

Basic activities: providing complete services to customers, purchase, transportation, inventory control, processing orders.

Support activities: storage, handling, packaging, logistics information flows related activities

The 20th century witnessed a series of global structural changes that had a significant impact on the logistics industry.

Globally, the development of multimodal infrastructures was a key factor in business integration, supporting complex processes of exchange on an unprecedented scale.

Following the enormous changes in the global economy, in general, and in production and distribution systems, particularly, the concept of logistics has been modified and is now a key factor for the industrial and commercial competitiveness.

In the current global economy, affected by the financial crisis extended to all sectors of the economy, the access to credits is more difficult and with a higher cost, companies have become more cautious, and as a measure to adapt to market reality, most customers with needs of expansion or relocation increasingly prefer the option of renting spaces than that of acquisition and own development.

It is required to build a national strategy to ensure the necessary infrastructure for interconnecting logistics centers, both on land and at sea checkpoints - land - rail. Thus the efficiency of the investments in logistics

will increase, generating profits for developers of logistics space, by attracting not only local customers but also international.

The logistics platform is regarded as a synchronization of several companies involved in the supply chain and transportation and will give rise to complex logistics systems based on synchronization process and feedback, information leading to methods and multi-modal transportation modes. It is defined according to the characteristics of transportation, distance, time, geographical position, in order to benefit the competitiveness of transportation. In this sense, logistics platforms are of utmost importance, not only do they contribute to solving the problems of congestion, but also to the establishment of some strategies aimed at minimizing total logistics costs and address growing consumer market volatility.

In simple terms, a logistics platform can be defined as a specialist area with the necessary infrastructure and necessary services for transportation and value-added services, in the case in which different agents coordinate their activities to benefit from the competitiveness of the products by using this infrastructure.

Based on the above definition, it is important to distinguish between different types of logistics platforms, depending on their operational complexity and operational integration:

a) unimodal distribution centers aim to manage products and stocks flows and can be used by one or several companies, and do not require the involvement of joint operations. This type of infrastructure is usually unimodal and aims primarily road transportation.

b) logistics areas;

c) multimodal platforms.

The projects of logistics platforms tend to realize connections through the "door to door" system by water and railways as main means of transportation which can compete with the road transportation system.

A prime cost component in this system is intra regional transportation. Most congestion is to the "door to door" and here the predictability time for connecting with the end user will be strongly enhanced. The development of concrete and sustainable

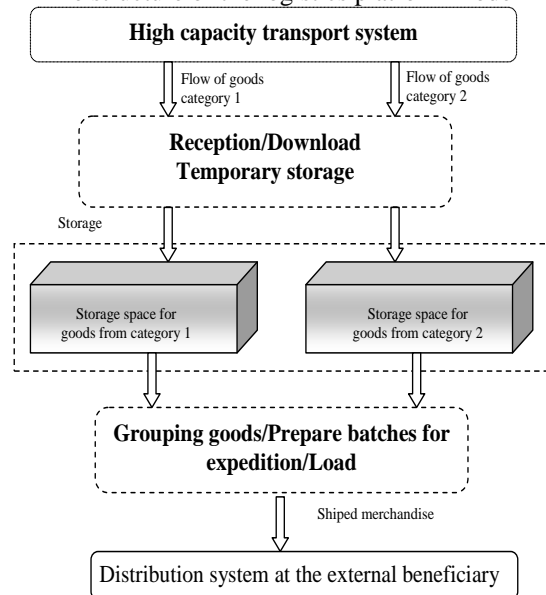
logistics platforms projects should be focused on:

- a better use of transportation capacities, of the existing transportation infrastructure,
- the use of best practices of logistics solutions;
- the creation and usage of international logistics corridors;
- the development of "door to door" systems logistics in the main logistics corridors of the participants in business life;
- participants and implementation of innovative logistics solutions;
- development and implementation of logistic support tools;
- establishing viable commercial organizations in order to find effective logistics solutions.

Because of the particularity of the processes taking place in logistics platforms - meaning goods arrive in batches of a certain size, and the shipment is made in smaller batches, consisting of several categories of goods -the sizing problem can not be solved with analytical models. Solving this problem can be achieved by using simulation models. In scheme no. 1 is presented a simulation model for evaluating the transit capacity of a logistics platform.

Scheme no. 1

The structure of the logistics platform model



Source: Costescu D., Roşca M.A., Platforma logistică – soluții eficiente pentru economisirea de resurse, Buletinul AGIR, no.1/2007, January-March.

The model made for simulating the transition process of merchandise from the two categories has been structured in three modules: „Data entry”, „Simulation” and „Processing/displaying results”.

The module "Data Entry" includes the procedures to read the data entry and their processing, for each category of goods are introduced the following information: the average intensity of inflows λ_1 respectively λ_2 , the size of a batch of incoming goods q_1 respectively q_2 and the maximum permitted quantity which can be stored per unit area. To characterize the flow output is required the following data: the average time between two shipments, the empirical distribution of times between two successive shipments, the size of a batch shipped q_e and the types of groups of goods from categories 1 and 2. Also, in the module "Data Entry" there will be established the admitted probabilities of denial for the batches received of each category and the number of simulations performed. Based on the entry data set introduced are established the initial numbers of buckets allocated for storage of goods in both categories.

The module "Simulation" is the basic module which performs the shaping of the transit activity from the warehouse through simulation. The simulation is performed for the parameters imposed, on a period of six months. It starts from the initial number of compartments set to be for each category of goods, for which is simulated the storage and shipping activity. After each period of simulation is calculated the probability of refusal and is done an analysis of changes in inventories. If the probability of rejection is greater than that established in the module "Entry data", it is added the number of compartments and the simulation is resumed. For each batch arrived is checked if the departments are filled. If there is one free slot, it is fully occupied. After filling the compartment we check the existence of shipping applications not sent because of stock outstanding. If there is no free slot, the consignment arrived is recorded in the range of expectation.

The module "Processing / displaying results" shows information on the situation of the of the state variables characteristic to the warehouse during the simulation and displays

the final report of the simulation. This module includes procedures that count:

- incoming flows lots: lot number, the moment of arrival;
- the situation of filling the compartments: each compartment status (free, busy); if is busy, lot number, the moment of storage and existent quantity;
- batch flow shipped: consignment number, quantity of goods in each category, dispatch moment;
- the list of the batches awaiting storage: lot number, time of arrival;
- the list of batches that were not sent to external customers due to lack of stock, the quantity of goods in each category, the moment scheduled for delivery time.

The logistics platform concept tries to reduce the freight costs by promoting efficient logistics systems for both for companies and the society. Being a relatively new concept, there are not enough studies and models to solve problems that arise when designing a logistics platform: location, sizing, technology, administration. Solving the problem of sizing can be done using simulation models, whereas analytical models are not appropriate in this case. A first difficulty that arises in making a simulation model is the large amount of resources needed to perform a complex structure, to conduct a detailed simulation of the processes within a logistics platform. Secondly, it represents a problem the lack of specific databases on the distribution of goods (cargo quantity, frequency, customers), that allows to calibrate the model.

3. Conclusions

According to the findings of a survey [11] reference for professionals, leaders in the production domain and that aim to achieve excellence in logistics apply a series of basic strategies that are successful. Among these successful strategies we have the following [11]:

- a) the design and implementation of global logistics networks, fast and reliable, for production and distribution;
- b) assuring some processes of production and conducting a customer oriented order

made by the supply- delivery chain management ;

c) purchasing globally to reduce the dresser and a fast pace of innovation;

d) establishing value added partnerships with suppliers, and service providers;

e) performing a high speed logistics, through information and communication systems;

f) applying of strategies to protect its leadership position.

On the basis of the statements it can be said that the logistics platforms allow:

- the realibility of the supply and distribution processes;
- the continuous improvement of the stock levels: accelerating flows (cross-docking), continuous analysis, mass customization through kitting or the assembly (post-manufacturing) , active and passive security ;
- facilitating the operations of handling and capturing space in own units;
- improving the quality of services provided by the distribution networks.

In conclusion, we consider that using logistics platforms can get a number of advantages:

- in upstream, they provide advanced inventory management, quality control, mass customization of semi-finished products, synchronous delivery at the production line, secure logistics processes and operations of assembly, coordination and continuous optimization of the flows.
- downstream, they can be designed particularly for the distribution of finished products: managing distribution platforms, preparing the orders of the handling unit per piece , co-packing, quality control, customized packaging, managing presentation and promotional kits etc.

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Early Warning System – a Strategic Instrument for Turbulent Times

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Abstract

This paper aims to identify the elements that an early warning system should include in order to facilitate the strategic planning of an organization during turbulent times. In order to achieve this goal a content analysis has been used on 27 articles which have been published during 1996 – 2011 in the databases from SAGE Publications, Emerald Group Publishing and Science Direct. We had been selected only the articles that included in title, abstract or keywords one of the next phrases: “uncertainty”, “turbulence” or “early warning system”. Most of the selected papers belong to journals from the area of general management and knowledge management which shows a reduced interest for this instrument in the strategic management field.

In this article we have been showed that the early warning system is mainly oriented towards outside the organization and includes demographic, economic, legislative, financial, market and product range indicators.

Key words: turbulence, early warning system, strategy, artificial neural network.

J.E.L. classification: L10.

1. Introduction

The current economic environment is usually described as being uncertain [22] and based on knowledge [8], [20], [29]. In other words, researches reflect the importance of knowledge as a production factor and the impact that creation, dissemination and the use of knowledge has it on the business environment.

In this context, strategic planning which may be described as “the process of determining what a business should become and how it should achieve its goals whilst

capitalizing on its opportunities and addressing its challenges” [3] have become an extremely difficult duty. Because of the unpredictable changes that appear in the technological environment and on the market [15], the level of confidence in the forecasts made for a three, five or ten years period has considerable decreased together with “the average period for which firms are able to sustain competitive advantage” [30]. Not only has the lifetime of a competitive advantage changed but also the source of it. Thus, knowledge became an essential competitive resource based on its capacity to provide value to organizations [13], [21].

So, in such a turbulent time when changes appear inside and outside company’s boundaries, any manager must anticipate what is going to happen on the market and must develop a proper strategy. In order to do this efficiently, an instrument for analyzing and evaluating the transformations that appear on the market have been created. This is usually called “early warning system” because it offers an image of how the factors that influence the organization’s performance evolve and, in the same time, reflects some potential vulnerabilities or opportunities that may affect the company’s evolution.

But what are the components of an early warning system and how does this system really looks like?

2. Methodology

This paper aims to analyze the articles published from 1996 until 2011 in order to identify the main elements that should be included in an early warning system which is developed for facilitating the strategic planning of an organization during uncertain times.

Lying in the area of strategic management, this research explores a number of issues like: what are the steps that need to be taken for developing an early warning system and

which are the elements that this one should take into account?

In order to obtain an answer to these questions we used the Sage Publication, Emerald Group Publishing and Science Direct Databases and search for articles, regardless of time period, in which "uncertainty", "turbulence" or "early warning system" were present in title, abstract or keywords. The most relevant works were found in *Journal of Management*, *American Journal of Economics and Business Administration*, *Management Decision*, *Journal of Leadership and Organizational Studies*, *Organization Studies*, *Administration & Society*, *Security Dialogue*, *Foresight*, *Industrial Management & Data Systems*, *Journal of Small Business and Enterprise Development*, *Business Information Review*, *Journal of Knowledge Management*, *The Journal of Knowledge Engineering and Electronic Journal of Knowledge Management*. Based on the reference section of some of these papers we identified relevant articles in *Academy of Management Journal*, *Harvard Business Review*, *Strategic Management Journal*, *International Journal of Neural Systems*, *Scandinavian Actuarial Journal*, *Journal of Quality in Maintenance Engineering* and *Chinese Management Studies*.

27 articles were selected and most of them were found in two journals – *Journal of Knowledge Management* (4 articles – 14,81%) and *Electronic Journal of Knowledge Management* (3 articles – 11,11%). All the others contributed with an article each. One interpretation of this distribution reflects the fact that the problem of adapting to an uncertain and turbulent environment through an early warning system have been of much interest to general management and knowledge management as compared to the field of strategic management.

To all these articles a content analysis has been applied in order to determine the methodology used and the contribution made to the development of the research area. Thus, in a first stage, we remarked the fact that most of the analyzed papers used case study as a research method. Regarding the contribution made to the development of the research area, this will be presented in the third part of this paper. This will highlight

the sources of turbulence and will present the structure of an early warning system – a strategic instrument for managing a company through uncertain times.

3. Building strategies in turbulent times

In the current economic environment the law of action and reaction is more visible than ever. Each company reacts to the actions of its competitors by mobilizing its capabilities in order to obtain a competitive advantage. This reactive chain facilitates the appearance of turbulences every time "the intended and unintended consequences of individual actions intersect, build up and trigger unpredictable changes in the field" [27]. But the continuous competition between the economical agents is considered a common situation and not a source of turbulence.

Usually, when it comes to turbulence, the attention is focused on the technological progress [11], the rules that are governing the competition in an industry, the emergent public policy issues, and social problems [27] and on the legislative changes [2]. In other words, turbulence is generated by what is happening outside the company and not inside its boundaries. This is not really true if we take into account that internal and external environment of an organization are interconnected and they tend to influence one another. A company's behavior on the market is determined by its goals and capabilities. Based on these, a strategy is developed. Its purpose is to offer an action plan that will allow to efficiently using the company resources in order to achieve the specific goals. The way in which an organization will act on the market will not only influences the behavior of its competitors, clients, collaborators and providers but also the actions of the other economic agents from different fields of activity.

So, in the economic environment, turbulences appear as a result of the way companies understand, interpret and react to the internal and external environment [1].

In this context marked by a highly level of complexity, uncertainty and risk, building a convenient strategy became a difficult duty. Every manager must know very well the

environment in which the company operates in order to anticipate the special situations that may arise (risks / opportunities) and to control the effects that these situations may have on the organization's performances. For this purpose, a new instrument has been introduced at the organizational level: an early warning system.

From a financial perspective, the purpose of an early warning system is to anticipate economical crises and to measure the bankruptcy risk of companies. It includes mainly financial indicators which are processed using advanced neural networks [14] or statistics methods like Kolmogorov – Smirnov test, Mann – Whitney – Wilcoxon test and logit regression model [17].

In order to predict the bankruptcy risk of companies, Laitinen and Chong (1999) used the Argenti's A Model for developing a questionnaire capable of reflecting the elements that determine the bankruptcy of the small and medium enterprises from Finland and United Kingdom. The elements that had been taken into account were: incompetence of the management, the owner's role in the business, deficiencies in accounting systems, deficiencies in operations, attitude towards customers, industrial factors and general economic and political factors. With the help of this instrument, the two authors remarked the fact that the management's incompetence, deficiencies in accounting systems and the attitude towards customers have the biggest incidence on bankruptcy.

From the strategic management perspective, the purpose of an early warning system is to assist the organization in "detecting weak signals which can be perceived as important discontinuities in an organizational environment" [26]. So, it allows the company "to identify and track the changes that are occurring daily and determine what should be done in order to capitalize on these shifting patterns" [28]. In other words, an early warning system aims to facilitate timely adaptation to the market requirements and capitalization of the challenges posed by the turbulences from the environment in which the company operates.

The structure of an early warning system used for anticipating economic phenomena is the same as the one that concentrates on the natural disasters and it consists of three phases: "forecasting, warning and reaction"

[9]. At the organizational level, these phases are transposed in collecting information (identifying the weak signals), diagnosis (in-depth analysis and determining the trend evolution of the identified signals) and strategy formulation.

In order to identify the weak signals an environmental scanning is needed [26]. This means that the environment in which the company operates is systematically analyzed for identifying relevant information that could influence its performance. The analysis must be made from an inside and outside perspective.

An outside approach favors scanning activity with a 360° focus and provides a complete picture of the environmental factors' evolution. Although it's a remarkable attempt of avoiding blind spots, it leads to information overload which affects the efficiency of the whole process. On the other hand, the inside approach reduces the volume of information that must be processed but, in the same time, offers a limited perspective to what is really happening in the environment.

So, choosing between an inside or outside approach is not efficiently as long as they are complementary. Beside that, a state of equilibrium between these two approaches may be achieved by collecting information that covers the external environment (it is highly recommended to take into account demographical data – the size and the growth rate of the population by age, sex and ethnic origin –, economic statistics – inflation, interest rates and employment –, and information regarding legislative and regulatory environment), internal environment (reports on sales and profitability), competitors (the number and the size of competitors, barriers to entry, exit barriers, diversity of competitors), consumers (market size and share) and products [10]. On the other hand, no matter how correct and complete the collected information is, the early warning system may fail if "the available information is misinterpreted" [4].

To avoid this situation it is necessary that the managers clearly define the company's goals. After that, they may debate in order to find an answer to the next questions "What were in the past our vulnerabilities? What is happening now in these areas? [...] There is no analogy instructive for us in another sector? [...] Which are the important signals

that we ignore without offering a rational argument? [...] In our business sector, who knows better how to identify the weak signals and how to react to these ahead of everyone else? [...] What are the nonconformists and the ones who have a different opinion trying to tell us? [...] What future surprises could really affect us (or help us)? [...] What emerging technologies could change the rules? [...] Are there any unbelievable scenario?" [7].

But an early warning system is not always taking the form of a debate or of a logit regression. It can be "a managerial informational system, a decisional support system, an expert system, a fuzzy or an artificial neural network" [6]. Among these, the most commonly used are the neural networks because they are "able to adapt over time, to incorporate new experiences in a short time and to generate hypotheses" [12].

An early warning system which is designed as an artificial neural network has three fundamental elements: inputs (that are describing the decision aria), hidden layers (that are presenting the indirect consequences of the factors that have been identified in the decision aria; their number reflects the problem's complexity level) and outputs (which presents the possible responses to the described situation). Within these a couple of parameters are incorporated. These include "hidden nodes, the learning ratio, momentum, threshold, number of cases and presentation" [24].

On the other hand, an artificial neural network may be described by the next system of equations:

$$(1) \quad \begin{cases} x(k) = f_{NL}(x(k-1), u(k-1)) \\ y(k) = q_{NL}(x(k), u(k)) \end{cases}$$

where " $x(k)$ – input, $u(k)$ – hidden layer, $y(k)$ – output, f_{NL} and q_{NL} – nonlinear functions" [5].

Taking into account the specific of the current economic environment, we sustain that an early warning system based on an artificial neural network is more appropriate for developing a strategy in turbulent times than the regression models. The last ones can not be applied anymore because of the fact that "most of the contemporary problems are nonlinear" [23].

Thus, it appears that the early warning system is a tool of analysis and evaluation that addresses the need of anticipating the evolution of the influence factors in order to reduce the risks induced by the turbulence from the environment. What the reviewed research skipped is the connection that exists between what is happening inside and outside company's boundaries. Although this relation is mentioned in most of the reviewed papers and "the strategy needs to be aligned with organizational characteristics and the external environment to achieve better outcomes" [19], some fundamental elements from inside the company are not taken into account when the early warning system is created. We are referring to the human capital – the most important resource that an organization has it. Despite the fact that all the other resources are transformed only through the effort (intellectual or physical) of the human capital, information about employees is not included in the structure of the early warning system.

4. Conclusions

First of all, the article has described the importance of an early warning system in the process of developing a strategy in an uncertain time. Because of the fact that in the current environment everything is changing faster (information is traveling from one continent to another in just a couple of seconds, the technological progress has accelerated, consumers are better informed and more insecure, the law of competition have changed and the size of the market became less important than the time in which this is served), developing a strategy in order to assure a successful evolution of the company have become a difficult thing to do.

So, an instrument that could help managers prepare for what is going to happen on he market is needed. An early warning system is just the type of instrument that managers need because it offers a complete image of any phenomena that may affect the performance of the company.

As we showed in this article, the early warning system may be a model regression – although it is not recommended if we take into consideration the fact that the current problems are nonlinear –, a debate between managers – regarding the future of the

company and the steps that need to be taken for achieving the goals – or an artificial neural networks. No matter the chosen form, the early warning system will include the factors that influence company's performance, the possible consequences that the variation of these factors may have and potential responses to the future situation. In other words, an early warning system consists of an analysis of the past, a forecast of the future and an anticipated way of reaction.

In order to create an early warning system, we must define its purpose, to collect information from the environment, to analyze and determine the trend of evolution of the identified factors, to develop potential images of the future and to choose potential strategy / strategies.

Beside all that, we sustain that the analysis should concentrate both on what is happening inside and outside the organization. Information regarding demographical environment, economic environment, competition, customers and market are important but if we don't take into account elements that are reflecting the quality of the human resources (like: the employees' satisfaction, participation to training, motivation, retention, competencies, knowledge), no matter how good the early warning system will predict what is going to happen on the market the strategy developed wouldn't be the best. This will happen because of the fact that an essential resource of the organization has been overlooked. It seems that when the early warning system is created managers tend to forget the fact that the human resource is the only one capable to transform all the other organizational resources and to raise the company's value.

So, human capital must be included in the structure of an early warning system together with all the other elements that are referring to the external environment.

All these elements will be taken into account in a future research paper called "Designing an early warning system for a sustainable knowledge based organization" in which we will try to answer to the next questions: what a sustainable knowledge based organization is, what are the factors that influence its performance and how does an early warning system that is conceived for this kind of organization looks like?

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Supervision of Applicants of the Structural Funds Finance Projects

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Abstract

The paper addresses the issue of control of projects financed through structural funds. We consider such a research as appropriate because accessing structural funds is a topical issue which is referred to within any field in which an investment will be made. In this context, we consider it necessary and useful to know which institutions are involved in achieving the control of the way in which these projects are managed.

Key words: control, design, structural funds, irregularities, fraud.

J.E.L. classification: M42

1. Conceptual delimitations concerning the notion of projects' control

When it comes to control of the projects we can think of control (monitoring) performed by each beneficiary, financial control done by the financial accountant, monitoring conducted by the Management Authority and, not least, control conducted by the Court of Accounts through the Audit Authority.

According to the International Standards of Internal Audit, control is any action taken by management, board or other parties, to improve risk management and increase the likelihood that the goals and objectives are met [1].

The project control conducted by the monitoring team is the last stage of planning and monitoring the implementation cycle of a project, consisting on gathering information on performance, comparing them with the plan, analysis of the causes of these differences and take steps to correct them.

Controlling the project involves to establish ways to track, highlight and correct each project so as to keep everything "on time and on budget." Controlling a project begins with a detailed plan, with good communication and clear administrative procedures. In order to really have enough control means to be able to cope with change, problems and unexpected events.

Regulation (EC) number 438/2001 stipulates in Article 3 the key principles of management and control of the management and paying systems.[3].

- clear definition of functions, a clear division of functions;
- adequate separation of duties (as needed to ensure a sound financial management practice);
- efficient systems to ensure satisfactory performance of functions;
- reporting requirements concerning intermediate bodies to carry out tasks and methods used.

In literature, according to the provisions of European regulations, there is talk about controlling the EU funded projects carried out at the European Commission level and the control exercised by Member States. Manifestations of control over such funds may be [2]:

- Commission Control exercised on its own initiative, according to control plans; this activity is communicated Member States and it allows the participation of agents and officials;
- Member States control on the Commission initiative; in this case the commission officers will participate only if this is requested by the Member State.
- Member States control on their own initiative in accordance with their plans which must be communicated to the European Commission, following the

provisions on coordination of control activities;

- Monitoring conducted by officials of Member States which is based on its mandate according to the protocol signed; in this case the participation of representatives of the Commission is requested by the Member State, if it considers it to be appropriate.

Regarding projects control in Romania's national legislation, the following terms are found:

- *preventive financial control* - the activity that verifies the legality and regularity of transactions by public funds or public property, prior to their approval [6];
- *public internal financial control* - the whole system of internal control of public sector which is composed of public entities control systems, government structures and a central unit responsible for harmonizing and implementing the principles and standards of control and audit [5];
- *internal control* - all forms of control exercised on the public entity, including internal audit, established by management in accordance with its objectives and regulations, to ensure that funds are administered economically, efficiently and effectively; it also includes organizational structures, methods and procedures [7].

Over time, in literature, the terms "control" and "audit" was expanded to include more activities. For example, certain audit or control activities check whether the outputs were produced with an appropriate degree of efficiency and quality and if it provides value in relation to money spent. Other activities examine whether the results and performance recorded are similar to those of other comparable interventions (in this context there is a greater similarity between this version of the audit and evaluation) [4].

2. National Supervision of projects financed from structural funds in EU countries

As regards control over EU funds by each Member State, before presenting the control bodies in Romania, we consider it necessary to

present such bodies in other European Union member states.

In *Spain*, the control bodies of the structural funds are: the General Administration of state intervention (the Administration Intervencion General del Estado (IGAE)), as an internal control body and the Court of Accounts (Tribunal de Cuentas), as an external control body, conducted according to the General Law of subsidies (Ley General de Subventiones). The financial control of EU funds is made by IGAE, which can exert control on its own initiative, at the request of the European Commission or it can participate in joint inspections (rear controls) carried out together with EU representatives included in the annual audit plan.

In *Greece*, the control system is characterized by the creation of a specialized division on community funds within the Ministry of Economy; it has a special way to achieve this type of controls and it is entitled Directorate of Planning, Public Investments and Regional Policy. It is responsible for leadership, coordination and collaboration in carrying out controls on EU funds, achieving an annual plan for the control of the final recipients of funds and veiling that the communitarian regulations in the field are respected.

In *Italy*, the control of EU funds is made by the General Inspection of Finances and the Ministry of Economy and Finance, the peculiarity arises from the fact that the General Inspectorate of Finance is an independent body by the Ministry of Economy and Finance and is responsible for the performance of control carried out in collaboration with European Union representatives, until the Ministry of Economy and Finance makes the control achieved at regional and local level. In Italy, as well as in Romania, the control of these funds is done at two levels; the first level requires a financial control at the final beneficiaries and shall be conducted by inspection bodies at a regional or local level, and the second level involves a supervision of previous inspections, activities conducted by the General Inspection of Finance in cooperation with EU representatives and monitors the compliance with Community regulations, being responsible directly the Commission.

One last example that we will mention is *Portugal*, which is characterized regarding the control of EU funds by the existence of three

levels of control and a plurality of competent organs.

The highest level of control is exercised by the General Inspectorate of Finance which is responsible with the coordination and the functionality of the other two levels. The second level of control mainj objective is to assess the effectiveness of the nearest degree of control, being able to distinguish the following types of control: control of the FEDER funding conducted by the General Inspection of Territorial Administration of the General Directorate of Regional Development, the control on funding from the FSE conducted by the Directorate for European Social Fund, the control of FEADR funding conducted by the General Inspection and the Management Audit of the Ministry of Agriculture and the Institute of Financial Support for Agricultural and Fisheries Development, the control of the Cohesion Fund made by the General Directorate for Regional Development.

The last level of control is exercised on beneficiaries of EU funds through a financial audit conducted externally.

3. National Supervision of projects financed from structural funds

Regarding the situation in Romania concerning the control of the projects financed from structural funds, in all ministries involved in implementing the operational programmes, there have been established internal audit units, independent structures with specific responsibilities in comparison with managing authorities (or intermediate bodies) which are directly subordinated to the heads of the institutions concerned.

The management authorities will work closely with the Authority for Certifying and Paying in order to accomplish the tasks of management and financial control.

Their methodological coordination is ensured by a special unit within the Ministry of Economy and Finances, namely the Central Harmonizing Unit for Public Internal Audit.

The Ministry of Economy and Finances is the institution designated to act as the Authority for Certifying and Paying for all Operational Programs, and responsible for certifying statements of expenditure and payment requests before they are sent to the

Commission, in accordance with Article 61 of Council no. 1083/2006.

The Authority for Certifying and Paying within the Ministry of Economy and Finances is the body responsible for receiving all payments made by the European Commission for all Operational Programmes through the European Regional Development Fund, European Social Fund and Cohesion Fund.

Romania has established an Audit Authority for all Operational Programs established by Law No. 200/2005 concerning the approval of OUG No. 22/2005 to complete the Law No. 94/1992 on the organization and functioning of the Court of Accounts, which will perform the functions set out in Article 62 of Council Regulation 1083/2006, including the preparation of audit strategy and the transmission of annual control reports. In accordance with Community legislation and national standards of internationally accepted audit, the Audit Authority provides system audit and operations audit.

The Audit Authority reports to the European Commission on the use of structural funds and the main findings and recommendations from audits are included in the annual public report of the Court of Accounts.

The Audit Authority shall have unrestricted access to the instruments, documents and information necessary to perform its duties, irrespectively of the legal or natural persons holding them. In order to fulfil its duties, this institution may enter into contracts with specialized companies or experts authorized to conduct business.

Anti-Fraud Department is the body created to protect EU financial interests in Romania. The department has the power to control EU funds, being the national coordinator of the fight against fraud.

This department operates under Law No. 99/2008 for the approval of OUG No. 25/2007 on establishing a set of measures meant to reorganize the Governmental staff. The Governmental Ordinance No.94/2009 was approved in 2009 in order to ensure continuity of the structures within the Government, which provides in Article 7 "The Fight Against Fraud Department – DLAF, hereinafter Department, without legal personality within the Government, and

financed by the General Secretariat of Government, is directly subordinated to the Prime Minister and coordinated by Deputy Prime Minister and is headed by a chief secretary of state, helped by one or more secretaries of state, appointed, irrespectively dismissed by the decision of the Prime Minister, on the Deputy Prime Minister's proposal. "

The powers of the department can be structured in three main categories:

- controls on the spot concerning the projects financed from European funds;
- coordinating all national institutions involved in the fight against fraud;
- cooperation with the European Anti-Fraud Office - OLAF and the corresponding structures of European Union member states.

The department operates controls on the spot after complaints made by the European Anti-Fraud Office, the competent authorities in the management of Community financial assistance or ex officio.

Given the need for a joint effort of all institutions involved in the management of structural funds, the Department has built a national coordinated anti-fraud system aimed at early detection of possible cases of irregularities or fraud, coordination of controls depending on the specific scene and referral to prosecutors in the event of criminal elements.

Fiscal and financial control bodies, as well as police and gendarmerie have an obligation to provide operational support for the exercise control team.

The Department has the duty to report possible fraud affecting EU financial interests, the minutes concluded by the inspection team constituting evidence in criminal trials. In case of detection of irregularities, the Department shall transmit the control document to the authorities with competence in managing EU funds and related co-financing funds, in order to take the necessary measures to remedy deficiencies and, where appropriate, recovery of unduly paid amounts.

Annually, DLAF prepares a report on its activity based on the protection of EU financial interests.

The national controls, which we discussed earlier, must be synchronized with the community controls, and, in this respect,

there are regular meetings and standing collaboration between national and community control bodies; an example, in Romania's case, is the link between the Anti-Fraud Department and the European Anti-Fraud Office.

The European Anti-Fraud Office (OLAF) has the mission of protecting the financial interests of the European Union, to fight against fraud, corruption and any other irregularities, including irregularities in EU institutions. By fulfilling this mission in a responsible, transparent and efficient way in terms of cost, OLAF intends to provide quality services for all European citizens. The European Anti-Fraud Office was created on 1st of June 1999 by the Commission Decision No. 1999/352/EC.

The Office exercises all the powers of the Commission to make administrative inquiries in order to enhance fraud combat, corruption and other illegal activity adversely affecting the Community's financial interests, as well as any act or activity that contravenes the provisions of Community.

As I stated earlier, the European Anti-Fraud Office notifies the anti-fraud departments of the Member States to carry out operative controls on the spot where there is suspicion of embezzlement of EU funds.

The European Court of Accounts^a is another EU institution established by treaty in order to conduct audits of EU funds. As external auditor of the European Union, it contributes to improving EU financial management and acts as the independent guardian of the financial interests of EU citizens. It provides audit services through which it evaluates the collection and use of EU funds. The Court examines whether the financial transactions were properly recorded and disclosed, whether they have been executed in compliance with laws and regulations and if they have been managed according to the principles of economy, efficiency and effectiveness. The Court communicates the results of its audits through clear, relevant and objective reports. The Court also issues opinions on various aspects of financial management.

The Court makes three different types of audit: financial audit, compliance audit and performance audit. They address the following three issues:

- whether the accounts present fairly, in all material respects, the financial position, results and cash flows for the year, in accordance with the applicable financial reporting (financial audit);
- whether the operations comply with all material respects, legal and regulatory frameworks that apply to them (compliance audit);
- whether the financial management is good, in other words if the funds are used to a degree as small as possible (economy), if the results are obtained with the lowest possible level of resources (efficiency) and whether objectives were met.

EU Court of Accounts audit is conducted in accordance with international auditing standards (International Standards on Auditing - ISA), which applies to both public and private sectors. Though, existing International auditing standards do not cover to the same extent the type of compliance audit conducted by the Court. The Court participates actively with the national audit institutions to the development of international standards by standardisation bodies (International Organization of Supreme Audit Institutions - INTOSAI, International Federation of Accountants - IFAC).

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An Empirical Study Regarding the Impact of Foreign Direct Investments over the Gross Domestic Product of Central and Eastern Europe Countries

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Abstract

This paper aims to explain if there is a connection between foreign direct investments (FDI) and gross domestic products (GDP) of Central and Eastern Europe (CEE) countries.

Through a regression model we look for a correlation between these two indicators.

CEE region has always been attracting investors in order to invest here. It has always been a magnet for investors who wanted to expand and to grow their businesses.

Is there a significant relationship between FDI and GDP? What is its impact? Does FDI have a direct impact over GDP in CEE countries?

Key words: foreign direct investment, GDP, regression model, economic growth

J.E.L. classification: F21, E01, C29, O47

1. Introduction

Being seen as one of the most suitable places for making large profits, Central and Eastern Europe (CEE) countries attract each year multinational companies with their solely main objective of developing themselves and increasing their turnovers.

The “process of courtship” [2] is rational and very calculated. There must not be any mistake in choosing where to make the foreign direct investments (FDI). Each decision takes account of some key factors, such as: taxes, interests, labor costs, infrastructure banking and of course competition.

Although for many years, Czech Republic, Hungary, Slovakia and Poland were the most wanted markets for investments, in the last

years countries like Romania, Bulgaria and Croatia made an incredible step in attracting investors.

CEE market justifies its importance in absorbing investments even in the European Attractiveness Survey done in 2009 by Ernst & Young. In this survey, CEE and Western markets are ranked first ahead of China as one of the most attractive foreign investment regions. According to the same survey, 52% of investors are confident that the attractiveness rate of CEE market will increase over the next three years, while only 61% show confidence in the power of this region to overcome this economic crisis [7].

2. Factors that influence FDIs

There is no doubt that the financial decision has the biggest impact when investing or relocating an activity to another region. This procedure is considered the basics of all investments. The transition is towards cheaper areas, with low operating costs and low labor costs. Otherwise, that company that decides to invest will not obtain that main objective that drives every firm – the profit.

When deciding to invest in a country, there are a lot of factors a company take into consideration in order to achieve its goals. Therefore, depending of the type of investment, of the field in which FDIs apply the importance of these factors is quite different.

Generally speaking low labor costs and low taxes are the main factors that tip the balance toward choosing a country against another when using FDIs. Referring offering incentives, the majority of investors believe that it is not a decisive factor for investment.

The first step an investor must do when deciding to make a FDI in a CEE country is to lay down all the factors that somehow can influence the investment and that compare them in order to search for the advantages and disadvantages of each one. Then, the difficult part in the investment process comes. And we refer to the political decisions that accompany the investment. Fortunately, this is not only the case of CEE governments, but of all states. We recommend a quickly decision, otherwise the investor will cross the border and will decide to invest in the neighbor country.

The main factors that attract or reject FDIs in CEE countries are depending of the type of project: the cost of land, real estate taxes, construction costs, the corporate profit tax, value added tax, the personal income tax, the export tax, availability of EU Structural and Cohesion Funds, the minimum monthly wage, the average gross monthly wage, social security costs, the level of employment protection legislation, the unemployment rate, infrastructure and not at least the economic stability factor determined through GDP, inflation rate, interest rates and currency stability [2].

The number and complexity of these factors make difficult a FDI decision in a CEE country. That is why the reports and analysis made by investors with the help of specialists are detailed and well calculated. No information is put aside.

3. And the crisis came...

After five years of FDI growth between 2003 and 2008, the crisis killed the investor's dream of continuing their business at the same high levels. The credit crisis started simultaneously with a decrease of FDI inflows to the CEE area. The most affected sector was the real estate field.

The economic crisis had a decisive impact on job creation. 2008 is the fifth consecutive year in which the employment rate decreased.

The new economic changes made the investors to revise some points from their agendas. A market adaptation is compulsory. Now the investment decisions regard market proximity, infrastructure, labor productivity, taxes, public incentives and quality of life [7]. The focus is on stability and quality.

Some industries restraint their activities (real estate, automotives), others develop (training and education companies, renewable industry).

The battle of still investing in CEE countries or relocating somewhere else is fiercely. In 2009 CEE market was the second most attractive area for FDI projects (39%), after Western Europe (40%) [7].

Looking into the future, investors will continue to use FDIs in developed countries, such as CEE region, because of their desire to expand and grow.

4. Literature review

GDP is one of the most important factors that an investor takes into consideration when deciding to invest in that country.

Researchers focused a lot on explaining the link between the two indicators. Consequently, there are a lot of studies which investigate the role of the factors that influence the level of FDI in emerging economies. Frenkel, Funke and Stadtmann (2004) explain the FDI flows from industrial to emerging economies by using bilateral capital flows [8, p. 282]. Meanwhile, Carstensen and Toubal (2004) show that the key factors that determine the investment in CEE countries are the market potential, the low labor costs, a skilled workforce and the level and method of privatization and the country risk [4, p. 3].

Continuing the idea of interdependence between FDI and GDP, Alfaro, Chanda, Kalemli-Ozcan and Sayek (2010) emphasize the role of FDI in achieving economic growth. The result is outstanding. They admit that FDI has a more powerful impact over economic growth in financially developed economies. [1, p. 242].

But there are researchers that believe that there is no connection between FDIs and economic growth in developing countries. Even so, one thing is sure. The majority believe that there is a heterogeneous relationship between FDIs and economic growth in the CEE countries. Analyzing 28 developing countries, Herzer, Klasen and Nowak-Lehmann (2008) didn't find any influence of FDIs over growth. In other words, they demonstrated that there is no impact of FDIs over the level of incomes and the level of financial market development in

developing countries [9, p. 808].

CEE countries are indeed a magnet for FDI. Looking for big profits and market share, investors decide to invest in CEE market. The intense flow of FDI towards CEE region led to a question. Is this flow a result of FDI's redirection from Southern Europe countries? Buch, Kokta and Piazolo (2003) investigated it by using gravity model equations and concluded that a decrease of FDI flows to Southern Europe and an increase of FDI flows in CEE market is not the effect of a redirection of FDI [3, pp. 94-95].

The last annually indicators show that European transition economies are the lucky winners when attracting FDIs. Speaking about what makes the difference between CEE region and other markets, Demekas, Horváth, Ribakova and Wu (2007) explain that a FDI-friendly policy regarding labor costs, corporate taxes, infrastructure and foreign exchange determine a higher rate of FDI attraction in comparison with the other countries [5, pp. 369, 381].

Based on 11 CEE countries, Eller, Haiss and Steiner (2006) investigate the influence of FDI over economic growth in the financial sector through efficiency channel, concluding that the level and quality of FDI have a crucial impact over economic growth in CEE countries [6, p. 300].

Using the model of Romania between 2000 and 2009, Misztal (2010) shows the strong and significant relation between FDI flows and economic growth. Through an auto regression model, he concludes that FDIs are the main reason for a GDP increase during that period [11, p. 48].

5. Empirical study

Through this paper we try to show if there is a relation between FDIs and GDPs of CEE countries, how strong and how significant this relation is.

In order to do so, we studied these indicators in CEE countries for a period of 34 years, from 1976 to 2009.

We studied the data from the following CEE countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Czechoslovakia (until 1989), Czech Republic (from 1990), Estonia, Germany, Hungary, Latvia, Lithuania, Poland, Romania, Serbia

and Montenegro (until 2007), Serbia (from 2008), Slovakia, Slovenia and TFYR of Macedonia.

Table no. 1. FDI's and GDP's values from CEE countries between 1976 and 2009

Indicators	FDI (millions USD)	GDP (millions USD)
Year		
1976	6.00	135138.03
1977	5.00	156899.01
1978	25.00	177352.11
1979	30.00	182645.25
1980	10.00	187253.06
1981	18.00	198089.21
1982	14.00	219622.05
1983	16.00	225243.39
1984	28.00	203708.19
1985	15.00	209017.99
1986	16.00	229073.60
1987	12.00	236142.59
1988	15.00	247369.09
1989	11.00	254122.56
1990	3773.24	1930658.23
1991	7256.68	2003617.85
1992	1680.25	2343389.66
1993	6152.87	2294365.50
1994	12556.22	2471138.55
1995	27282.58	2922288.00
1996	17992.44	2866165.83
1997	27434.12	2585794.32
1998	44690.74	2645831.60
1999	78369.25	2584123.18
2000	222403.93	2335170.63
2001	48993.61	2368212.40
2002	80397.32	2555993.79
2003	53427.60	3091479.06
2004	31807.79	3526516.28
2005	99953.78	3693919.21
2006	140234.46	3937040.92
2007	229343.47	4613698.27
2008	153191.55	5221424.75
2009*	63184.16	4670136.38

Source: Processed data from <http://unctadstat.unctad.org>

* Estimation made by UNCTAD

The data are processed from the statistics provided by the United Nations Conference on Trade and Development (UNCTAD) and are shown in Table 1 [12].

Foreign Direct Investment (FDI) is the independent variable or predictor. It refers to FDI inflows or capital provided by investors in a reporting economy. We will note this variable with X.

Gross Domestic Product (GDP) is the dependent or resultative variable. We will note this variable with Y.

Both indicators represent the sum of the values of all CEE countries in each year and are measured in US Dollars at current prices and current exchange rates.

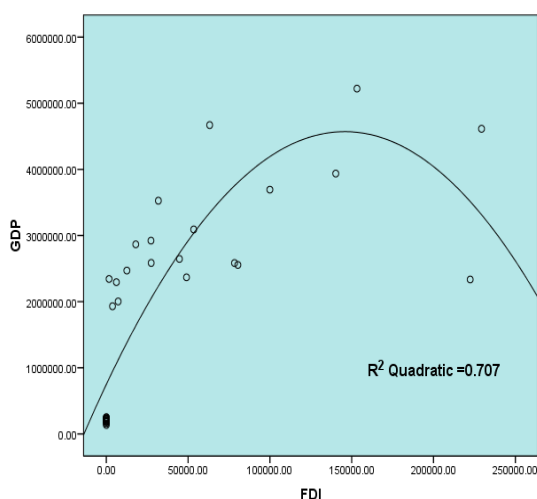
To prove the existence of a connection between these indicators we will build a regression model using SPSS 17.0.

Using regression analysis, we will investigate how the dependent variable can be explained through the independent variable and in the same time we will calculate the regression coefficients.

Regression analysis starts with the estimation of the model and with the model equation.

Using Scatterplot, we show that the correlation between FDI and GDP in CEE countries can be approximated as a quadratic regression model.

Figure no. 1. The correlation between FDI and GDPs in CEE countries



Source: Processed Scatterplot from SPSS

In conclusion, the equation for the quadratic model is:

$$Y = a + b_1X + b_2X^2, \text{ where:}$$

Y = Gross domestic product;
X = Foreign direct investment;
a, b₁, b₂ = regression coefficients.

One very important indicator that reveals the existence of a correlation between the dependent variable and the predictor is the coefficient of correlation or Pearson coefficient, r. In our study, r is 0.841, which shows a direct relationship and a very strong correlation between FDI and GDPs. Correlation is significant at 1% level, which means with less than 1% of mistake that there is a significant correlation between FDI and GDP in CEE countries during 1976 and 2009.

To test the significance of r we must use Student's t Test.

$$t_{\text{calculated}} = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Where:

r = Pearson coefficient;

n - 2 = degrees of freedom; n = number of x and y values.

The value of calculated t is 8.7931. We must compare this value with tabulated t value. Tabulated t value for 32 degrees of freedom and a significance level of 0.01 is 2.750 [13].

So, $t_{\text{calculated}} > t_{\text{tabulated}}$, which means that between FDI and GDP is a significant relationship, so the correlation coefficient is statistically significant.

For model interpretation we use the correlation of determination, R². Its value is presented in Figure no. 2. Model Summary for cubic regression model.

Figure no. 2. Model Summary for cubic regression model

Model Summary^b

Model	r	R ²	Adjusted R ²	Std. Error of the Estimate
1	.841 ^a	.707	.688	8.84724E5

a. Predictors: (Constant), FDI^{sq}, FDI

b. Dependent Variable: GDP

Source: SPSS Output

$R^2 = 0.707$ means that 70.7% of the variation of GDP is explained by the variation of FDI. The other 29.3% is determined by other factors. The high value of R^2 leads to a direct and very close relationship between the 2 variables.

Through *F test* we will test the regression model. A big *F test* value (37.351), plus a Sig. value less than 0.05 (in our case 0.000) means that FDI explains the variation of GDP and vice versa. So, the risk of being wrong saying that between FDI and GDP is a very strong correlation is less than 5%.

In the end of our analysis, we will calculate the regression coefficients and so, we will determine the equation of the quadratic model. The Figure no. 3 shows the regression coefficients.

Figure no. 3. Regression coefficients

Coefficients ^a					
Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	749367.516	200077.33	3.745	.001
	FDI	52.431	7.557	6.938	.000
	FDIsqr	-0.0001798	0.0000368	-4.874	.000

a. Dependent Variable: GDP
Source: Processed SPSS Output

The 3 regression coefficients for our quadratic model are: $a = 749367.516$, $b_1 = 52.431$ and $b_2 = -0.0001798$.

The equation of the model is:

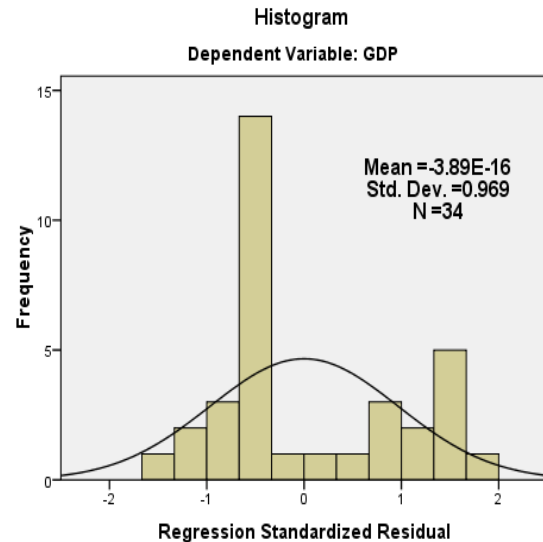
$$Y = 749367.516 + 52.431 * X - 0.0001798 * X^2.$$

In the end, we must test the regression coefficients using *Test t*. For our study, Sig. value = 0.000 is less than 0.05, meaning that between the 2 analyzed variables is a significant relationship. So, the quadratic regression model is valid.

This equation may be used to determine the value of the gross domestic product in CEE countries when knowing the value of foreign direct investments.

By analyzing the residuals, we will test the linearity of the quadratic regression model. The histogram represented in Figure no. 4 shows a relatively normal distribution of the residuals around the mean, confirming the linearity of the quadratic model.

Figure no. 4. Testing the linearity of the quadratic model



Source: Processed Histogram from SPSS

6. Conclusions

CEE countries have always been a magnet for FDI and will remain so even in the next years. The CEE market will continue to grow because of the investors desire to expand their activities there.

This paper explains that between FDI and GDPs of the CEE countries is a direct and very strong correlation.

The impact of FDI over GDP in CEE countries was explained through a regression model that emphasized the significant relationship between the analyzed variables.

The quadratic regression model that we use is validated, so we can use it to determine the value of the gross domestic product in CEE countries once we know the value of the foreign direct investments.

Through this empirical study we have also express our point of view regarding the impact of FDI over economic growth as a reaction at some researchers' opinions.

The research in this field remains open. It would be interesting to investigate in other studies the impact of GDP over the attraction of FDI in order to see if there is the same influence or the same significant relationship.

7. Acknowledgements

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Why Is Human Capital a Driver for Economic Growth?

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Abstract

This paper aims to explain if there is a link between human capital accumulation and/or formation and economic growth.

In a knowledge-based economy, investing in human capital is a representative of a country's economic power. Migration of brains or so called "brain drain" to developed areas is a result of human capital accumulation.

This type of investment means an increase in labor productivity. Basically, with the same effort, individuals will achieve better results because of their superior training. Education is the base of human capital formation and the education level is directly proportional with the income level. Together with technological progress, they lead to economic growth.

Human capital is an important factor that expresses the productivity of an individual and of a society too, thus having a crucial role in a knowledge-based economy.

Key words: human capital, economic growth, labor productivity, education

J.E.L. classification: J24, O47, P46

1. Introduction

Although at first glance it seems to be a difficult concept to explain, a simple yet comprehensive definition considers human capital as a set of abilities, skills, knowledge and competences which people acquire them through education, training and experience. From this point of view, human capital investment involves three parts: the state/the government, private firms and individuals. Why is it investment in human capital important? What benefits this investment brings? Can be human capital considered a driver for economic growth?

Being or not a driver of economic growth one thing is certain. European Council from Lisbon established in 2000 that one of the main objectives of the European Union is to become the most competitive knowledge-based economy in the world, placing in the centre of its strategy the human capital development.

2. Interpretation and measurement of human capital

In order to explain the impact on economic growth we must firstly understand properly the concept. Thus, in the narrow sense, human capital encompasses all the skills that people can rely on the labor market. Structurally, human capital has two components: native capital, acquired at birth, so biological (which includes people's physical skills) and capital accumulated through the existence of the individual, through training in schools and beyond. Human capital can lead to economic growth only if it generates income through work. But the ability to produce an income through work is based on an initial training cost (consumed during the period of schooling), and on a future income. If that cost of training, schooling can be calculated easily, the future value of present earnings to which an individual gives to in order to prepare, to train is much harder to estimate. In other words, educational capital demonstrated by the number of diplomas and certificates can be easily measured individually, through several ways: by measuring the years of schooling, the number of diplomas. Instead, education acquired outside the formal education process leads to an educational capital which is difficult to estimate.

Investing in human capital is effective and therefore we can see it as a gain, only when the future value of present earnings exceeds the income that the individual would get if he

gives up additional training and would start working.

3. Brain drain

Investing in human capital is a representative of a country's economic power. The more people are better educated and continue to prepare in order to develop individually, the more the economy of that country is stronger. The downside is the migration of brains that can lead to a decrease in the power of the country. Migration of brains or “brain drain” as it is known in scientific world is an important issue that arises in many developing countries, and Romania is no exception. The migration of intelligence may therefore not only lead to an increase in the power of a country but to a decrease in the power and the country people migrate from, as it is natural for people to exercise their skills and to migrate to countries where they are better rewarded. The loss in the countries people migrate from is double: on the one hand is lost the intellectual potential of people, on the other hand is lost the investment in their education and training. In this case the investment is unprofitable as long as the money used in human capital formation will not be recovered. Basically, the society will not get that extra value expected from an investment in training the individuals.

When referring to a country's level of development, or of a community's, we must take into consideration the concept of aggregate national human capital. This indicator that represents the sum of individual human capital shows the development of a country and explains its growth. Such an example is the economic boom period that have experienced some Asian countries - South Korea, Taiwan or Hong Kong - in the second half of the twentieth-century. And it was due to large investments in education done by their governments.

We believe that the brain drain is a phenomenon that has a negative impact over the country of origin because it leads to a loss of the production that could be created if people would emigrate. However, the solution should not be blocking the migration, as it has happened in many former communist countries.

We mentioned earlier that people migrate to countries where they are paid better. Migration of human capital leads, paradoxically, to increased competitiveness between individuals, or to increased welfare for all market participants. The concept of welfare is purely subjective, depending on the wishes and preferences of each individual. For some individuals the fact that they can move freely in search of a job is more important than any material wealth. For others, it is more important the environment in which they live, they work, rather than the material differences. Consequently, by increasing competition among individuals, the migration of capital creates incentives in order to improve and achieve economic growth. If it is known that a coach is well paid, then individuals will accumulate human capital to become a coach. But what will happen if the earnings are low or if there are many coaches? There is no doubt that a rational individual will choose another job with higher incomes.

The desire to accumulate new human capital makes the brains to migrate to developed areas. This would not be harmful when it comes to resource-poor areas, with no chance of development. In other words, brain drain may lead to extinction of disadvantaged areas.

Investing in human capital means an increase in labour productivity. Basically, with the same effort, individuals will achieve better results because of their superior training. Future revenues must cover both young professionals and the older generation who supported and financed human capital formation in order to talk about a vector of economic growth. Otherwise, that country will suffer. Specialists searched for various solutions to prevent this phenomenon. Former communist countries limited the right of individuals to travel free over the borders. Today these countries adopt a policy of encouraging the young brains to return home. The measures used – whether it concerns a much better salary, similar to European offers or even incentives for those who return home with the purpose of starting a business – are meant to improve the state management of investment in human capital. In this way, the government can reduce the migration phenomenon by establishing an educational system quality management policy,

especially by allocating a larger budget to this sector.

However, if we only take into consideration the management issue, it is difficult to explain why private firms do not face the same problems as the state does. Private companies offer employees more human capital investment programs. Good examples are the training programs that banks use to achieve excellence in sales and quality. Yet if we look at their gross income, the migration of human capital does not seem to affect these institutions. If brain migration phenomenon can be reversed by certain management techniques, then why does not the state use them to achieve maximum efficiency? In this case, we think the problem is solely the lack of incentives to reward human capital and the lack of property owned. In private firms, the money belongs to shareholders; in public institutions the money belongs to every citizen, therefore there is no question of their property.

4. Correlations between human capital, labor productivity, education and economic growth

The education level has a decisive impact on the income level. We can even speak of a directly proportional relationship between education and income. Thus, as an individual decides to invest more in personal and professional development, he will gain a greater profit in the future than if he had dropped further accumulation of human capital or his personal development would have been stopped at a certain level. We believe that there is a double impact on economic growth: firstly, on the microeconomic level, a decrease of investment in human capital means a waiver of the individual to the chance to be better, more competitive and more successful than others are; secondly, we speak of an impact at the macroeconomic level, where the whole society would be deprived of the existence of grey eminences of which to be proud of. Did the Romanian government consider an increase of the investment in human capital when it decided to include the ninth grade in the secondary school education system, the one that is responsible for achieving a minimum level of knowledge? It seems hard to believe...

However, the state must guarantee a basic level of knowledge, and in time, each individual will have to accumulate other information that will help him become one of the best in society. The investment that each of us make in his personal development is the one that makes the difference between a mediocre and a developed society.

Both physical and human capital are the determinants of economic development. Human, unlike physical capital, leads to economic development in two ways: by the added value it creates in the economy through participation in the production process and also by the growth rate of this added value through the innovative capacity of human capital. We believe that ensuring the health and education of the population can enhance the effects of the two issues mentioned above. Any expenditure in health and education is an investment in human capital that provides accumulation and avoids its depreciation. No need to say that in Romania, both the allocation of GDP spent on education and the health expenses are much lower than in most European countries.

Human capital accumulation and formation are the main pillars of a long term developed economy.

Education is the base of human capital formation. Education expenses are primarily an investment but also a consumption. Generally, when talking about human capital we refer to an investment, where everyone can use anytime and anywhere, without any restriction their native and gained skills. The investment must be continuous, because otherwise individuals would not be able to use the innovations from every field and therefore they would not be able to add value to their work and to the society in which they live. Investing in human capital refers to either the development of capital through training courses either the maintaining of capital at a certain level, which, however, hinders economic growth. We talk about consumption too, because there are a lot of expenses that form the human capital (with health, with education).

A large accumulation of human capital means greater labor productivity, so a higher amount of labor and a consistent remuneration. Moreover, a higher level of education requires greater flexibility in

adapting to specific conditions of the labor market, thus helping to reduce unemployment.

The solution for economic growth should consist of improving the abilities of the less skilled individuals and eliminating the gap between the highest and lowest wages. This means an additional investment in human capital formation as a path of combating poverty. In recent years there has been an increase in jobs with high degree of specialization. Investing in human capital is fundamental to reduce the risk of unemployment. It favors the companies that can achieve a higher return from investing in the education of their employees, becoming more creative in finding solutions to solve the problems encountered.

The existence of a well-educated and healthy human resource in a company leads to a high labor productivity, a better organization of the economic activity, a higher production and also higher incomes. Higher incomes mean new investments in education and health, with which human resources will get healthier and better educated. At microeconomic level, the company is winning; at macroeconomic level, the whole society enjoys human capital's investments.

Those who invest more in their professional training, even specializing in certain areas look for the best paid jobs. In other words, the chances of those who decide to invest in human capital formation and to obtain a future earning are much higher. So, once training decreases the risk of increasing unemployment and poverty.

There is an indissoluble connection between economic development and human capital resources. A rich society is an educated society with healthy citizens. The higher the education level of individuals is, the more their incomes increase. Conversely, individuals with higher incomes are expected to hold several diplomas, demonstrating their practical training. We can discuss the relationship between human capital and incomes at county level. Rich counties attract a more skilled workforce, being the main candidates for reaching the economic growth, while poor districts have some people with low education and skills.

If we refer only to school training, we can admit that governments can essentially

contribute to the formation, development and financing of human capital through public budget. Not the same can be said about training outside the education system, where the private sector has the central role (for instance companies that pay employees' studies).

Investing in human capital is crucial in raising labor productivity. Human capital is an important factor that expresses the productivity of an individual and of a society too, thus having a crucial role in a knowledge-based economy. The employees of a company who have attained a high level of investment in human capital contribute to a raise of labor productivity, as an unlimited source of creativity and competitiveness in the company.

Employees who decide to invest in human capital accumulation perform more than those who invest less in their personal and professional training. Human capital accumulation means developing communication skills, as well as solving problems. Those who are prepared to continuously learn to be better are the best performers followed by the others. Due to continuous investment, they can use new methods, sophisticated and efficient devices that will automatically increase labor productivity, economic growth and development. Why? Because this economic growth achieved is nothing else than the basis for a new investment, a new human capital accumulation, a higher labor productivity, culminating with a new economic growth. Like a snowball, we invest in human capital in order to overcome our limits, to achieve better results, results that will lead to another investment, and thus overcoming another limits, with the sole purpose of growth. The process is continuous and once started it must never end.

The number of years of school can be an instrument for measuring the accumulated stock of human capital. Although many skills are learned through formal education, on-the-job training may help to increase employee's productivity and ultimately a company's economic development. This kind of human capital accumulation is as productive as expensive. Through on-the-job training every employee receives support from a specialist who will help him to develop his abilities and skills. He will first make a short diagnosis in

order to identify the strengths and the points for improvement. With this diagnosis, the specialist will highlight the skills of the employee that make him become the best in his field and will correct those that diminish his success. On-the-job training means creativity stimulation and also raising the bar for other employees of the company, a benchmark for long-term stimulation of competition.

We believe that all employees should enjoy the benefits of specialized training at the workplace and not only those who are best performers or are endowed with certain special skills that make them different from others. The company is interested primarily, in terms of uniformity, to improve all the results and not to increase the best ones. In other words, the company aims to reduce the gap between the highest and lowest results, so that average labor productivity is sufficiently high enough to cause an overall economic growth.

Human capital investment occurs naturally and as an employee's desire to cope with technological progress. What if an IT specialist should install and test a new version of an application in a company without knowing the functions of the program, the updates and the previous versions? Certainly we cannot call him a specialist. It looks that there is interdependence between the rate of technological innovation and the demand for labor that has invested heavily in human capital accumulation and formation. Thus, if this highly skilled workforce adapts quickly to new technologies, then an expansion of revolutionary new techniques will determine a greater demand for individuals that decide to invest in human capital, creating the basis for economic growth.

Technical progress depends on the company's economic decisions, in the same way as human capital accumulation. Entrepreneurs wish to obtain bigger profits and one of the ways to do this is by producing new ideas. Since profit is the ultimate goal achieved by the production of knowledge and innovation, knowledge creation and innovation should be incorporated into a growth process in a way that stimulating economic growth to be in turn driven by economic growth.

The quality of human capital is fundamental for a company's economic growth. Improving the quality of education should be the starting point of all human capital formation policies.

Talking about the quality of human capital, we can say that it differs in time and space according to the place of life, age, sex, religion and people's own values. Certainly graduates want to learn as much as they can, from different fields of interest, but in most cases the quality of information is poor. People with some experience know how to prioritize the activities and to focus on things that are really useful to their work and personal development. Individuals living in urban areas find technical progress easier to understand, are more accustomed to the idea of new, while those in rural areas may face difficulties in these situations.

5. Conclusions

In conclusion, human capital is indeed a driver of economic growth, one of the engines of development both individually and collectively. Human capital's formation and accumulation mainly determine economic growth. Therefore, human capital accumulation rates explain the differences between the income growth rates of individuals from different economies.

Human capital shows the ability of an economy to innovate or to achieve the performances of more developed economies, which, in turn, determine economic growth. A sustained economic growth can be achieved only in those sectors where technical progress and innovation are key words that use technology and/or human capital as an input.

Inside a company there is a very close correlation between investment in human capital and employee's productivity. The investment is beneficial in terms of employee's creativity, who wishes to invest in training and human capital development. These employees are standing examples of creativity, but especially of highest competitive levels. Individuals choose how to allocate time between production and accumulation of skills and abilities, taking into account increases in future productivity and wages as a result of investment in education and training.

Investing in human capital shows a country's economic power. Better educated and trained people are a force in the economy in which they work. The downside is the migration of brain that can lead to a decrease of the power in the country of origin. Brain drain is considered a very important issue that affects both developed and poor countries. However, the main problem of brain drain is not a system of mismanagement of human capital formation, but the lack of incentives to reward it.

Measures to increase the quantity and quality of human capital stock must represent the contents of each economic growth policies package. Human capital is a key factor in increasing firstly the individual and secondly the general productivity, investment in human capital being more important in a knowledge-based today's economy.

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The Role of Local Government in Waste Management

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Abstract

"The earth is polluted - Commoner says - not because the man is a very dirty animal, nor because the species is too large. The blame is on society - how society understands to possess, distribute and use the wealth that human labor extracts from planetary resources (Barry Commoner, The circle which closes (The Nature, Human and Tehnique), Politică Publishing, Bucharest, 1980, p. 261.).

In addition to strategies and various recoveries and transformations, it is absolutely necessary to implement the National Plan of Waste Management and the Guide in order to underpin local and regional implementation plans, which have remained mere pieces of paper".

Key words: environmental protection, sustainable development, waste management.

J.E.L. classification: K 32

1. Introduction

The statutes designed to combat environmental pollution by means of waste and hazardous substances are multiplied within States.

The legal system reacts first by using known techniques and, then, in a progressive manner, by creating new techniques.

The bet with the environment will go ahead and it represents a powerful element that will determine the improvement of the fundamental concepts of environmental protection through prevention, according to the principle *"that it is better to prevent than to repair the environmental damage."*

The application of the principle is inevitable taking into account that the

protection of the environment has become a global objective of international society, which leads to the harmonization of environmental laws and the radicalization of international cooperation in environmental protection.

2. The Matter Seat

In the context of the globalization of environmental protection, the economic factors play an important role in *the fight to safeguard the environment* and the States are taking steps in order to protect the internal environment, but also the regional and the global ones.

States take measures in order to create environmental funds, with the special destination of sectorial and trans-sectorial prevention of natural eco-factors, both partially and in their entirety and interdependence.

The States taking action in order to protect the environment must take into account the costs and efforts that will affect their own economy. Certainly, the long-term investments made in order to eliminate pollution costs are profitable because the restoration of damaged natural resources is very expensive. However, the short term costs involved by environmental protection are the ones which are felt and not the long-term savings.

Whether the cost of the measures taken in order to protect the environment will be borne by manufacturers or by service providers or whether these measures directly rest with public authorities, the economy will always be the one that will withstand the short-term consequences and the additional costs will reflect upon export prices.

The States which protect their own environment may be penalized in international competition because of the

distortions created in its disadvantage. These distortions are particularly felt in the interstate systems based on the freedom of trade.

Another factor in the internationalization of legislative, administrative and institutional measures is the danger of pollution by hazardous substances and wastes. A step forward on this line is the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, ratified by Romania by Law no. 6 / 1991.

Also, the post-Chernobyl conventions on Nuclear Safety concluded in Vienna in 1986 mark a new era in the protection against nuclear pollution and in the cooperation of States in this area.

According to the law suit, the pursuit of activities within the nuclear field is done only under a permit from the National Commission for Nuclear Activities Control, issued at the demand of the units engaged in nuclear activities, provided that they comply with the rules that consider security facilities, professional staff, population and environment protection.

The introduction within the social and economic circuit is subject to authorization, for the use or consumption by the population of the products that have undergone irradiation, and the medical treatment and diagnostic of radio-nuclides, radiation sources and pharmaceuticals containing radioactive materials. The authorization is issued by the Ministry of Health, at the request of the units, according to Article 14 of Law no. 111/1996.

When locating the units operating nuclear activities, the following elements will be considered: the direct effect of nuclear activities on population and environment, both in normal operation and in case of nuclear accident; the quantities and means of disposal of radioactive waste; the density and average age of the population in the area, and its specific food.

The main measures for effective protection against radiation are: adequate building facilities used by nuclear facilities; safe organization and storage of hazardous waste disposal; radiation and dosimetry monitoring of water and atmosphere in the entire territory, particularly in crowded areas; providing protection against radiation

for all units using in one form or another ionizing radiation.

Another important convention on the prevention of the negative impact of industrial activity on the environment in a transboundary context is the Convention of February 25, 1991 at Espoo, Finland, on Environmental Impact Assessment in a Transboundary Context.

The international environmental law, still evolving, is founded on several traditional principles of international law, according to which it is prohibited to cause damage to other States through waste and hazardous substances.

3. Conclusions

1. Defining in legal regulations concerning waste management of several terms from the Strategy and National Waste Management Plan, such as: storage area, collection points (in rural areas), isolated settlement, transfer stations, composting plants. On approval by H.G. 1470/2004 of the Strategy and National Waste Management Plan in waste management legislation the terms used in implementing the requirements of the European legislation in this field were not defined.

The strategy and the National Waste Management Plan aimed at creating the necessary framework in order to develop and implement an integrated waste management system, economically efficient and environmentally-friendly in the existing legal regulations upon its coming into force.

For example, the legal framework for the implementation of the Directive 99/31/EC was created by GD no. 162/2002 regarding waste disposal, the Order of the Minister of Waters and the Environmental Protection no. 1147/2002 for approving the Technical Norms on waste storage - construction, operation, monitoring and closure of landfills and the Order no. 867/2002 defining the criteria to be met by waste in order to found it on a specific store list and on the national list of wastes accepted in each landfill class. In 2005, the Technical Norm on storage was repealed, being promoted the Order 756 – the technical documents relating to storage, the Order no. 867/2002 was replaced by the Order 95/2005, the GD 162/2002 was repealed by H.G. 349/2005. The new

regulations were ensuring the compliance with the European regulations on waste disposal, in terms of construction operation, monitoring, closure and post-closure follow-up of new deposits, as well as of the existing ones. Some of the terms mentioned (storage area, isolated area) were explained by HG 349/2005.

2. The amendment of Art. 3 of Order no. 95/2005 on the establishment of the acceptance criteria and preliminary procedures for waste storage acceptance and the national list of wastes accepted in each storage class, mentioning the competent authority as an entity that can fulfill this order. In this order, MMGA, ANPM and ARPM are mentioned although waste storage acceptance is complex, being closely related to the economic activities ran in the territory and to the real possibilities of the local landfill. Moreover, the documentation related to the requirements of this order is submitted to local agencies.

3. The differentiated approach to the issue of deposits in rural areas, if there was stored only waste generated in the localities which they serve. The approach will consider both the practical means of closing the landfills in these areas, and the new possibilities for storage (temporary) of the generated waste.

A very important issue related to integrated waste management is the closure of old landfills. These deposits have a significant impact on the environment: polluted groundwater, biogas emissions, odors, degraded lands, uncontrolled waste storage, including hazardous waste, possible harm to the health of the population of surrounding areas. Operators of old waste deposits were not required to provide funds for their closure and post-closure monitoring. Most warehouses are owned by town halls and were not given in concession to certain operators. Taking the responsibility for closing them requires significant funds for: conducting studies and projects, implementation of proper closure, post-closure monitoring, securing the site.

In H.G. 162/2002, closure and post-closure follow-up of deposits were seen together regardless of location, within the urban or rural environment. Thus it is necessary to promote a guide for the closure of non-hazardous waste landfills in order to impose certain requirements on their closure,

according to the results of the environmental assessment.

4. *Developing a waste management strategy on medium and long term, strategy embodied by the Local Waste Management Plan.* Its main purpose is to highlight the waste streams and the treatment options of these wastes.

Local Waste Management Plan is an important instrument contributing to the implementation of waste management policies at national and European level.

Current possibilities for selective collection of recyclable waste, household and equivalent waste disposal possibilities. Also, a cost study was presented at the level of EU Member States, on municipal waste management, which included: the costs of waste collection, including the selective collection and recycling, waste treatment, disposal.

In order to achieve the recycling targets for packaging waste, as well as the targets of Directive 99/31/EC on waste disposal, mechanical-biological treatment capabilities, composting capabilities, transfer stations, selective collection systems for packaging waste will be proposed within this plan.

The costs can not be equated to the Romanian specific conditions, which highlight the high level of the costs for the proposed waste management systems. An important aspect is related to their local/regional location (for example, the location of the capacities of mechanical and biological treatment, the composting capacities near the zonal deposits) and to their number.

5. The projects carried out locally in order to attract funding in household and similar waste management are important.

In conclusion, before carrying out a waste management project, there should be considered:

- for all waste management activities, the public agreement should be obtained, especially for composting stations, mechanical and biological treatment plants, incinerators, landfills.

- public awareness campaigns are useful for all investment projects, regarding:

- the issues related to the achievement of national, regional and local objectives and targets;

- alternatives for achieving the set goals and targets;
- the environmental impact of each alternative, technical, economic aspects, financial implications in terms of the required fees.

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Highlighting the Response of Real Economy to the Changes of Fiscal Policy Variables. The Romanian Case

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Abstract

In this paper fiscal policy is defined through the totality of government decisions in which it builds and shapes the state's fiscal system, in line with the financial - monetary objectives and expectations, drawing on the resources needed to cover public expenditure. Also addressing the tax policy, will take into account the decisions manifested in the socio-economic plan, on the correction and guidance of market mechanism and influence the redistribution of gross domestic product, in a desired direction of the economic behavior of various categories of taxpayers but with certain limits. In this article, for highlight the response of real economy to the changes of fiscal policy variables, is used the classification of tax revenues according to the nature of their distortion, in the 1993-2013 period.

Key words: fiscal policy, sustainability, budget revenues and expenditures

J.E.L. classification: C22, H22, H3

1. Introduction

Starting from the idea that taxation has displayed in time the „operant ability” to influence the economic climate and rebalance growth, we believe that the adjustments made by that it should be comprehensive, immediate and lasting.

The sustainability of fiscal policy depends on measures taken to limit or to stabilize, the public budget deficits, that failure or success rates. Although there is a perception that a relaxed fiscal policy, with large budget deficits, it is necessary for economic growth, the literature shows without doubt that, discretionary fiscal policy volatility and uncertainty increases the

further development of gross domestic product, implicit of development growth.

2. Theoretical background

In this regard, the relevant works of Canto and Webb (1987), Cashin (1995), Dowrick and Nguyen (1989), Easterly and Rebelo (1993), Garrison and Lee (1995), Mendoza, Milesi-Ferretti and Asea (1996), Engen and Skinner (1992), Afonso (2005,2008,2009), for taxes, and Anders, Domenech and Molinas (1996), Barro (1991), Cronovich and Gazelle (1998) which, whether used for highlighting the impact of taxation on economic growth, econometric methods such as regression pooled cross/section/time-series, cross-section regression or comparisons in pairs were obtained as a result, the negative impact of significant revenue tax on the rate of growth and significant negative effect, positive or inconclusive on the impact of public spending.

The ambiguity of effects generated by public expenditure can be explained by the fact that, the regression takes into account the total amount and not their structure. In this connection may be mentioned the work of Barro (1991), Ansari, Singh (1997), Baffes, Shan (1998), which tested the impact of project expenditures for the education budget, giving them significant positive effects, Easterly and Rebelo (1993), which highlighted, analyzing a sample of 119 countries that public health investment does not significantly affect the growth rate of gross domestic product, Baffes and Shah (1998) who obtained negative impact of defense expenditure, inhibiting economic growth.

Most empirical studies on the impact of fiscal policy on economic growth explains the evolution of gross domestic product per capita, or growth rate of gross domestic

product, according to a set of exogenous factors, in a regression, by estimating the coefficients of exogenous variables, identifying direction and intensity of their influence on the growth process. For this reason it will test the impact of taxation on gross domestic product, considering its growth rate, while noting the low rate of growth of income and expenditure compared to growth of gross domestic product in most analyzed years.

3. Method and results

Between discretionary and non-discretionary fiscal policy occur similarities (caused by characteristics of fiscal policy, public policy as a species adjustment), differences (generated by different syntax of each tax policy category discourse constructs its own) and interacting (practical issues arising from the operationalization of fiscal policy). As desirability, non-discretionary fiscal policy should prevail "tax philosophy", in general.

The classification of income and public spending will follow the approach of Barro (1995), subsequently developed by Bleaney (2001) and others. In addition, we apply some changes based on the features of the tax system in Romania, and the interpretation of basing their analysis on statistical data.

This classification allows us to analyze the influence of each category of tax revenue on economic growth models, provide theoretical arguments and explanations for the negative effects of distortionary tax revenue and insignificant effects of income tax and on other revenues non distortionary.

On the other hand, is not ignored the destination of these taxes, so overall, the negative effect induced by the tax savings could be canceled by the positive consequences of their use in the development of productive expenditure.

Unfortunately, although is wanted a breakdown of public expenditure as productive and unproductive expenditure, the available data do not allow such a group, because we have no scientific basis to establish whether a category of expenditure is productive or not.

It is difficult to measure the potential benefits of spending financed from tax revenue, because tax revenues are not

necessarily used for those expenses that would lead to economic growth. To estimate the impact of various types of tax revenues, it may appeal to a methodology based on Kalman filter (*Kalman filter accepts, as a starting point, to formulate a model application form equations of state considered. Resulting recursive algorithm is much faster and less dependent on statistical characteristics of input data, but requires a significantly increased volume calculation*) with time dependent parameters. Such methodology has the advantage of taking into account the uneven impact of the tax levies on real output growth over the period of analysis, namely that, the tax is considered exercising influence through transmission channel with an elastic amplitude business cycle phase with dependent impacts traveled.

Thus, the tax revenues determines certain structural and functional adjustments in relation to their cyclical or counter nature, and, stimulate a supply response given in quantitative terms and in terms of prices charged by producers subsumed response elasticities. This flexibility reflects how the producers estimated the intensity of inhibitory effects of fiscal pressure and/stimulating it.

Comprehensive description of the model is:

$$\begin{aligned} \text{GDP}_t &= \alpha_{1t} \text{Trd}_t + \alpha_{2t} \text{Trfn}_t + \alpha_{3t} \text{Atr}_t + \varepsilon_t \\ \alpha_{1t} &= \beta_1 + \alpha_{1t-1} + \mu_{1t} \\ \alpha_{2t} &= \beta_2 + \alpha_{2t-1} + \mu_{2t} \\ \alpha_{3t} &= \beta_3 + \alpha_{3t-1} + \mu_{3t} \end{aligned} \quad (1)$$

where:

GDP = Real GDP growth;

$\mu_{1t}, \mu_{2t}, \mu_{3t}$ = „white noise”;

Trd = distortionary tax revenues;

Trn = non distortionary tax revenue;

Atr = other tax revenue.

Empirical estimation of this model parameters of this model consists in the following resolution:

Table no. 1. Kalman model results with time-dependent parameters

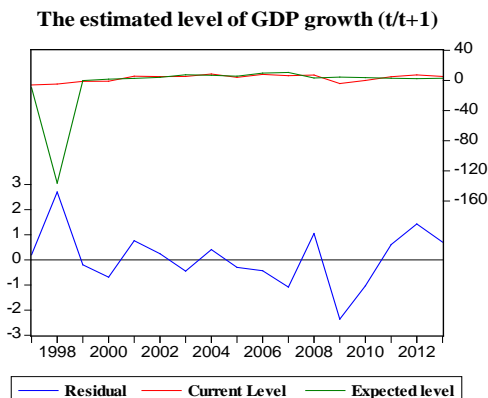
	Coefficient	Eroare standard	z-Statistic	Prob.
β_1	-0.653287	0.286933	-2.276790	0.0228
β_2	1.163577	0.557082	2.088701	0.0367
β_3	1.101764	0.542767	2.029902	0.0424

	Final State	Root MSE	z-Statistic	Prob.
$\hat{\alpha}_1$	-10.76433	0.300239	-35.85247	0.0000
$\hat{\alpha}_2$	14.24783	0.361234	39.44213	0.0000
$\hat{\alpha}_3$	27.73069	0.883646	31.38211	0.0000
$\hat{\mathcal{E}}$	0.000000	3.181624	0.000000	1.0000

Log likelihood	-89.60763	Akaike	8.915012
Parameters	4	Schwarz	9.113969
Diffuse priors	4	Hannan-Quinn	8.958191

Looking at *z-Statistic* levels and *Akaike*, *Schwarz* și *Hannan-Quinn* information criteria, and the main features of the residual series variables, can appreciate the fact that, overall, the model has a satisfactory quality. Also, its predictive quality analysis suggests that the model can generate estimates of real output for the future, made in the current period, with a good degree of accuracy (except 1999, for which the estimated level is significantly lower than the actual observed):

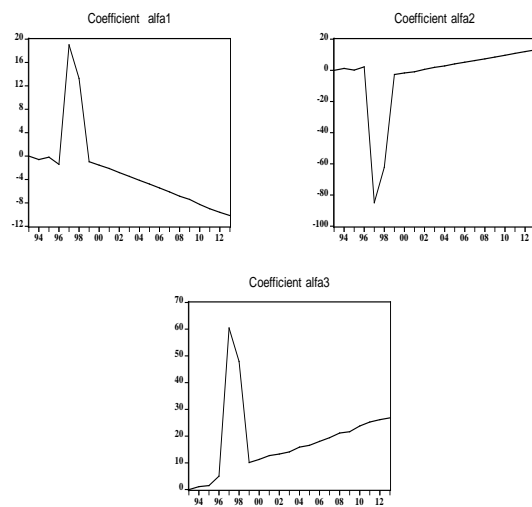
Chart no. 1. Representation of the estimated levels of GDP growth in Romania during 1993-2013 period



Of course, such a result should be considered with caution, both because the list of determinants of economic growth can not be restricted to fiscal policy variables, and due to the inclusion in the database of predicted values of the evolution in terms of real gross domestic product.

It is interesting to note that this model allows the highlighting of changes both in nature and in the magnitude of the impact of these types of tax levies, on real output growth:

Chart no. 2. Evolution of tax revenues parameters



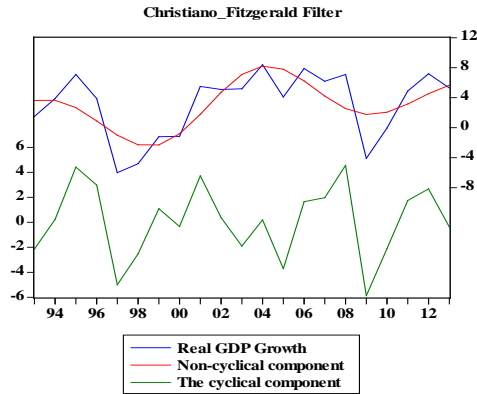
The analysis of recorded parameters α_1 , α_2 , α_3 reveals that, from 1996 to 1998 period is a period of "functional change", in the sense that, the influences sense and level are diverging from the rest of the period analysis. More specifically:

- during this period the fiscal pressure exerted by distortionary tax revenues and gross domestic product growth, evolve in the same sense, because, then, the influence of these levies will be inhibitory against the development of a supply of real assets;
- correspondingly, non-distortionary tax revenues have a contrary trend to real output, and later, their evolution is a stimulant one;
- at the same time, other tax revenues exerts a stimulatory effect overall, but whose amplitude is restricted in a significant manner, starting from 1999.

Overall, this model indicate that there are two stages in the analysis period, the first stages, the years 1993-1998, the real sector

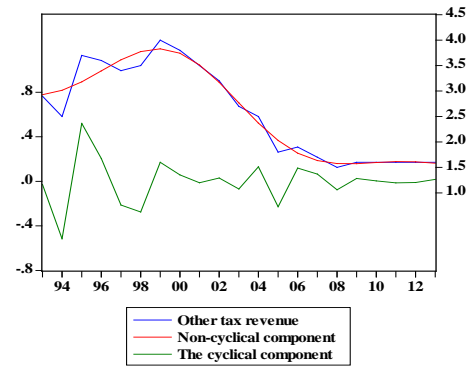
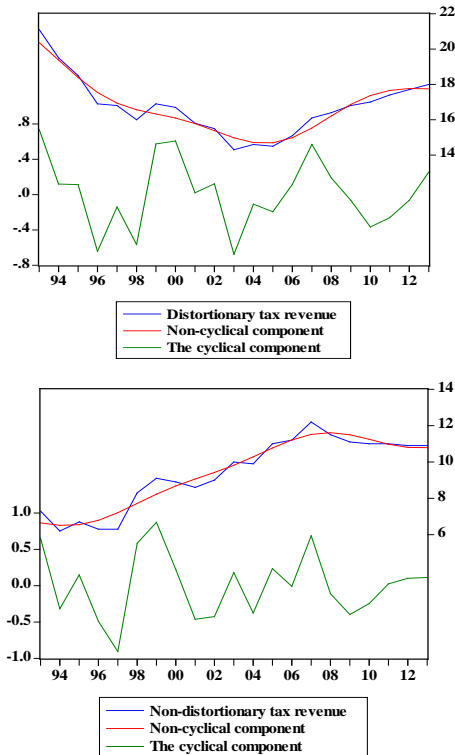
response to tax policy evolution of these variables is "atypical", and a second stage, 1999 -2013, the volume of supply adjustment are adopted in accordance with the conceptual framework for this advanced analysis.

Chart no. 3. The dynamics of real output in Romania between 1993-2013 period



More detailed clarification of these results can be achieved by taking into account, the patent evolution of real output and the tax burden on the three types of components: distortionary tax revenue, non distortionary tax revenues and other income tax:

Chart no. 4. Dynamics of tax revenues in Romania during 1993-2013 period



The application of *Christiano-Fitzgerald asymmetric filter* allows a decomposition of time series on the cyclical and non-cyclical component, thus can be achieved comparing progress made by these components.

It should be noted that the application of this methodology is criticized by the fact that such a filter is used in high frequency data, and not annual values. However, in my opinion, the principles underlying this methodology can be applied to the general statistical characteristics of variables are preserved on different frequencies as "big enough". Therefore, due to the autoregressive nature of the dynamics of the real sector and due to inertia of specific hysteresis effect that characterizes the economy's real sector development can be considered as a possible application of this type of *asymmetric filter*.

4. Conclusions

Comparative analysis of the cyclical components highlights the following:

- for distortionary tax revenues, the cyclical component is designed, in the first period of analysis to overlap compression of gross domestic product, ie, distortionary tax revenues have an adaptive nature, following the evolution of economic climate, then they continue to follow a downward trend, at least until the end of 2008, which explains the negative correlation between them and the dynamics of gross domestic product;
- a contrario, the non-distorsionare tax revenues have a cyclical component with an opposite trend in real output during 1993-1998 period, and the same sense with that in the last period of analysis;

- Similar considerations can be drawn for other tax revenues, in the sense that their dynamics is rising in the first period of analysis, and follows a downward trend in the latter part of the period of analysis.

It can thus be appreciated that, these components of the tax revenues, are adjusted in an active manner to the business cycle phases, but this is only a partial adjustment, the share of components "reactive" in fiscal policy are significant.

With all these evidences, I consider necessary to analyze economic growth theories and empirical studies in an interdisciplinary framework, with the argument that, the complexity of economic growth, can not be captured in a regression equation, is important to identify the most important interdependencies that capture interactions between growth, production factors, demographic characteristics, culture, specific institutions, the degree of income distribution, macroeconomic and political stability, government policies etc.

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The Coordinates of Good Governance between Design, Proportions and Guidelines

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Abstract

The approach of this article is a critical analysis of different theories on how that can be perceived "quality of governance" or "good governance". One such type of analysis derives from the need to formulate quality of public policy that can be achieved, not only through regulatory instruments, but also through other instruments, with a less interventionist character, primarily by identifying the conceptual level the quality of governance.

The starting point of analysis lies in the spotlight that the economy provides a possible behaviors in a context configuration, which abounds with random effects, spontaneous results, unexpected and key trends, consequences, unintended effects.

Legitimacy of analysis the incidence of public decision requires different approaches because it is an endless series of uncertainties, ambiguities, errors, compromises, and enforceability hardship due to the fact that state representation is the subject to a number of factors, including gross domestic product size, the public spending, monetary and demographic factors, social factors and political and social importance of moral values, transparency of decisions, the degree of preference and desirability of effective involvement in the acquisition and exercise of public power, also, etc..

Key words: Good Governance, the measurement process of good governance, components of good governance

J.E.L. classification: C82, E61, H11

1. Introduction

The obsession with governance continues to grow throughout the world, as does the debate about and further elaboration of the

concepts of local, national and even world governance. Governance is mentioned in international forums and accords and cooperation agreements, while almost all of the aid agencies have incorporated it into their main areas of work.

Addressing the concept of good governance, in an exegetical manner, brings forward a multidimensional perspective of public policy, namely the *institutional dimension, normative and content dimension and procedural dimension*.

Therefore the challenge is to achieve an agreement, rather abstract, in the approach to be taken, between reductionism at the level of concepts and factual balance between objectivity and intersubjectivity in approach.

Correlating political institutionalization in the sense of stability, social desirability and their consistency over time with economic and social efficiency governance and cultural contexts in which a given policy community manifests, should impart a greater degree of objectivity in the analysis that we propose, this analysis is based on both *conceptual and political models, selected by type*:

- *institutional model* in which public policies are the result of existing institutional arrangements because public policy is not policy until it is adopted, implemented and enforced by some governmental institutions;
 - *institutional rational choice type*, understood institutions as internal or external constraints (or scenarios) in which, if we add descriptions of actors' preferences, we can obtain descriptions of the results, predictions, etc
 - *constructivist institutionalism*, identify the limits of established institutionalist approaches, (of historic, the rational choice, sociological), seeks to provide ways of understanding the timing of the imbalance of institutional change

(the situation is more difficult to theorize in traditional approaches).

- *procedural model* - public policy process can be seen as a series of political activities that involve identifying problems, determining program formulation, legitimation, implementation and evaluation;

- *model of group*, interaction between groups is the central factor of public policy, because people with common interests come formally or informally together and impose their demands to government;

- *elite model* in which government policy can be seen as a result of preferences and values of governing elite;

- *rational model* brings into focus the fact that governments should select those policies that make society a maximum social benefit, ie, a rational policy is made when the differences between values of those slaughtered are positive and larger than any other alternative policy ;

- *incremental model* by which public policy should be implemented as a continuation of the previous government activities, with only some incremental changes;

- *game theory model* - the study of rational decisions taken in situations where two or more participants have a choice and the outcome depends on the choice made by each participant;

- *model of public choice* - public policies are the result of collective decision-making processes made by individuals, voters, taxpayers, candidates, legislators, bureaucrats, interest groups, political parties, bureaucrats and governments pursuing their own interests and try to maximize their personal benefits in politics as well as in the market;

- *system model* in which public policies are the result of the political system;

Although none of these models has been created specifically for the study of public policy, yet each offers a separate way of understanding it and even suggests some general causes and consequences of public policy without competeve each other, but complementary. Although some policies appear, at first sight, to move towards a single model to be explained, most policies are a combination of rational planning, incrementalism, business interest groups,

preferences of the elite forces of the system, games political options of public policy processes and institutional influences.

In conclusion, the quality of governance must be seen in its scope, because it is not sufficient an approach in close contact only with economic growth and development, but also implies taking into account the significant effects induced on various non-economic phenomena, including subjective happiness, support and confidence of the citizens, the incidence of civil wars, etc.

2. Theoretical background

Unfortunately, in literature, the definition of "good governance", is suffering, or have external wide approach, or approaches focused only on its level of a single descriptor thereof.

Therefore, there is not a unique and comprehensive definition of "good governance", as there is no delineation of its target, would require a universal acceptance. This term is used with great flexibility, which may be an advantage but also a source of difficulty at the operational level.

Broadly speaking, government is both the traditions and institutions by which authority is exercised in a country, including the process by which governments are selected, monitored and replaced, and government capacity to formulate and implement appropriate policies with the respect that citizens and state bears for institutions governing it economic and social interactions among them.

There are currently at least three initiatives to "measure" good governance, respectively sponsored by the World Bank, the United Nations University and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD), and the International Monetary Fund, to which should be added the efforts of individual researchers and universities.

World Bank, in 20 countries in transition, sets the overall quality of governance, in accordance with the following criteria:

- type of political regime;
- process by which authority is exercised in the management of the economic and social resources, with a view to development; and

- capacity of governments to formulate policies and have them effectively implemented.

The International Monetary Fund declared in 1996 that „promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper.”

The United Nations emphasizes reform through human development and political institution reform. According to the UN, good governance has eight characteristics. Good governance is: Consensus Oriented, Participatory, following the Rule of Law, Effective and Efficient, Accountable, Transparent, Responsive, Equitable and Inclusive.

According to the UN High Commissioner for Human Rights, the true test of “good” governance is the degree to which it delivers on the promise of human rights: civil, cultural, economic, political and social rights. The key question is: are the institutions of governance effectively guaranteeing the right to health, adequate housing, sufficient food, quality education, fair justice and personal security.

Knack (2000) and others tend to use good governance in a very narrow sense and limit its meaning to institutions only. The focus on institutions and their prime role in development has been increasingly important in the policy debate since the 1980s. As North (1995) puts it, institutions are the rules of the game, and the incentive structure of society. Institutional quality, fostered by the government, is necessary to provide a suitable environment for growth and development. As Stern et al. (2002) point out, “countries that have combined institutional improvements with market oriented policy reforms and greater engagement with the world economy saw their capita incomes grow in the 1990s at the very rapid pace of 5 percent per year”.

Others authors extend the meaning of governance not only to the rules of the game, but also to the ‘players’ of the game, such as politicians and bureaucrats: Kaufmann, Kraay and Zoido-Lobaton (1999 a,b, 2002). Neumayer (2003b) uses a similar definition of governance that incorporates elements of

human rights, democracy and military expenditures. As for Levy (2002), he separates governance into two distinct components: while the first one relates to institutional governance and is measured by the extent of formal rule-bound governance as well as the credibility of political authority, the second component relates to organizational governance and is measured by the quality of the bureaucracy.

The literature defines “quality of governance” from keymaps highlighted these important economic organizations, which is why, in my opinion, I think it is important to distinguish between “political good governance”, which we are interested in this article, and “corporate good governance”.

Political good governance is the effective, ethical and efficient management of public affairs and resources by democratically elected leaders and their appointees and *corporate good governance* is the effective, ethical and efficient management of an organization’s affairs and resources by persons chosen in accordance with the existing laws/rules. It is applicable to the management of organizations – especially in the non state sectors.

3. Method and results

Although we know that a healthy governance solution, it does not mean that real situations are not perfect in time.

The idea underlying this article is optimistic, because I hope that it can influence the quality of governance by monitoring itself to all the elements that define quality, identify the elements defining the institutional architecture, as essential:

- Degree of Democracy, democracy is seen as three interrelated elements, represented by Institutions and procedures through which citizens can express their preferences about alternative policies and leaders, Institutional constraints regarding the exercise of power by the executive and Ensuring civil liberties of all citizens;
- The Quality of Governance through its six dimensions: Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption;

- The Corruption, by the three indicators to measure it: Corruption Perceptions Index, Bribe Payers Index and Global Corruption Barometer;
- Level of Integrity, by defining elements: Civil Society, Public Information and Media, Elections, Voting and Citizen Participation, Election Integrity, Political Financing, Government Accountability, Administration and Civil Service, Oversight and Regulation, Anti-Corruption and Rule of Law;
- Fiscal Policy items as automatic fiscal stabilizers by Tax Revenues, Public Expenditures, Budget Deficit, Public Debt;
- Political Conditions for Economic Reform, by means of indicators that relate to elections, electoral rules, type of political system, the composition of the opposition parties and coalition government, and the degree of influence of the military system of government;
- Economic freedom as evidenced by the ten components: Business Freedom, Trade Freedom, Fiscal Freedom, Government Spending, Monetary Freedom, Investment Freedom, Financial Freedom, Property Rights, Freedom from Corruption, Labor Freedom.

At the same time, understanding the defining elements of good governance, they must be joined with the subsequent growth processes, and in this regard should be avoided this error handling in a reductionist manner, considering that growth it would be limited to an increase in social output. From this point of view, along with macroeconomic variables commonly used in measuring the results of economic activities, it is necessary to take into account as dependent variables, those variables that can be associated with human development and the long term social balance:

- GDP per capita;
- Growth rate of gross domestic product;
- Human Development Index with the three basic elements: Longevity measured by life expectancy at birth, Environment Education - calculated as a weighted arithmetic mean between the level of adult literacy (with a share of two thirds) and the gross enrollment rate all education levels (third) and Standard

of Living, measured by gross domestic product per capita calculated at purchasing power parity;

- Sustainable Development Index with the three dimensions, dimensions that concern: society, economy, environment - climate change, transport, preservation and management of natural resources, public health, social inclusion, demography and migration, poverty level;
- Income distribution in society.

Improving policy and governance stability, effects targeted by the political system, are not ends in themselves, but means that need to be accompanied by democratization of relations between rulers and the ruled, redefining the role of citizen, absent the actual manifestation of the Romanian political system.

4. Conclusions

From the above discussion it should be clear that good governance is an ideal which is difficult to achieve in its totality, because:

- ↳ good governance is a key factor for development;
- ↳ governance is measurable, and for solving various problems it can be applied to a wide range of different measures;
- ↳ governance agenda is very important in dealing donor – recipient relation;
- ↳ non-governmental actors play a crucial role in maintaining the governance aspects of the plan's development agenda.

Bearing in mind the controversies in the field, with the openings and limits, the good governance, as an element of political system, should be considered in all senses of what is given, as an element of the overall social system, that includes, both political consciousness, in its psychological and ideological form and political relations also, alliances of groups, categories or social classes, or intermediate relationships between institutions and mediating role of political organizations with political ideology of transposition of the social communities in a practical political conquest, consolidation, control, preservation or protection of their political power.

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The Politics of Ethical Consumption

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Abstract

Ethical consumption as a political project is often rejected because it is considered too individualized to achieve a collective consciousness; companies simply take avoiding action; it is immoral for corporations to respond -unless it is clearly profitable for them to do so or that ownership of all resources would be a preferable way to ensure environmental stewardship. The idea of deploying consumption preferences in the market fits the neo-liberal concept of 'consumer sovereignty', that theory presupposed only individualized self-interest being expressed by consumers. This uncertainty leaves some debate about the nature and efficacy of ethical consumption.

Key words: ethical consumption, consumption choice, market politics, consumer behavior, Corporate Social Responsibility

J.E.L. classification: M39, I19, Q59

1. Introduction

While notions of consumption choice as market politics can be traced back at least to the early 20th century (Fetter [1907], cited in Dickinson and Carsky, 2005), the reasons for the apparent rise of 'ethical consumption' during the last quarter of the 20th century have attracted academic interest (e.g. Harrison et al., 2005). In seeking to understand the growing interest in ethical consumer concern, some commentators have cited the 'increased media coverage' (Roberts, 1996; Strong, 1996), increased levels of information (Smith, 1995; Strong, 1996; Berry and McEachern, 2005) and the

greater availability of 'alternative' products (Strong, 1996) as possible reasons.

Other academics have been interested in the changed conditions of consumption. Borgmann (2000) argues, for example that our paradigm of consumption is characterized by being disassociated from production, products requiring little effort in use and the promise of pure pleasure is unencumbered by 'reality'. In mostly affluent societies, freed from basic needs, consumers, it has been argued (Hansen and Schrader, 1997; Dickinson and Carsky, 2005), become responsible for their behavior. It is consistent with this view that Brooker (1976), drawing on Maslow's hierarchy of needs, found that consumers adopting socially conscious consumer behavior scored high on 'self-actualization' (see also Etzioni, 2004).

In a similar way, both Parkins and Craig (2006) and Harrison et al. (2005) have referred to Beck's (1992) concept of 'risk society' to explain in part the apparent 'rise' of ethical consumption. Drawing on the notion of risk, it is observed that in an individualized culture we increasingly face the consequences of our consumer choices without the benefit of traditions to guide us. As Barnett et al. (2005) express this, commodity consumption has been 'problematical' such that 'Ethical consumption involves both a governing of consumption and a governing of the consuming self'. Parkins and Craig (2006) deliberately offer a more positive spin by arguing, 'Everyday life [. . .] has a creative and ethical potential; and [. . .] it must be reflexively negotiated and managed by contemporary subjects'.

2. Decision-making, information, complexity and the moral self

Although not specifically aimed at understanding ethical consumption as a project, the Hunt-Vitell model (Vitell et al., 2001) assumes a rational consumer employing a deontological and/or teleological evaluation of a clearly defined ethical problem. Some more recent work has suggested that a consumer's approach to ethical issues is part of their 'moral self-realization' (Kozinets and Handlman, 1998), where green and ethical consumers are 'obtaining a part of their identity through their consumption' (Langeland, 1998). Occasionally this is an 'oppositional' (Thompson and Arsel, 2004) or a changed identity (Cherrier, 2005). Since such identity concerns a consumer's virtue (Barnett et al., 2005a), ethical consumption is not best understood just as a rational calculation. Nevertheless, 'processes on self-actualization are determined increasingly by individual decisions about employment and labor, as well as consumption and leisure' (Parkins and Craig, 2006).

Thus, whilst one school of research has sought to model ethical consumer decision-making, another has sought to understand the construction of consumer identity from the discourses of ethical consumption. We look at these in turn. The notion of a rational consumer is apparent in Strong's (1996) assertion that information is the key to ethical consumption. 'The increasingly well-informed consumer is not only demanding fairly traded products, but is challenging manufacturers and retailers to guarantee the ethical claims they are making about their products'. Similarly, the importance of information, about company practices, in consumers' decision making has been the subject of research (Griffin et al., 1991; Creyer, 1997; Folkes and Kamins, 1999). However, Pearce (1999) notes that in consumption situations there is an information asymmetry.

To the extent that we see information as crucial to a good decision, ethical consumers are at a disadvantage and the market cannot, pearce argues, function according to the perfect 'laissez faire model'. Concepts of the consumer as rational allow decision-making models to be proposed, studied and refined.

Consumers perceive needs, gather information, set this within their attitudes and their perception of the social context and develop behavioral intentions. In this way primary causes of attitude changes and consumer behavior can be studied. Attitude is central to theories of consumer decision-making particularly in relation to attempts to bridge the so-called attitude-behavior gap. It is not surprising, therefore, to find research seeking to model ethical consumer decision-making which attempts to build on existing attitude-behavior theories. Exploring attitudes and behaviors Ellen (1994) examined the relationship between these dimensions and objective and subjective knowledge. Ellen (1994) raised concerns that consumers may not have the knowledge required to make sound ecological decisions and require cooperation from marketers, government and NGOs to support the development of effective consumer labeling and advertising programs. Minton and Rose (1997) examined the effects of attitude and norms on behavior and behavioral intention and found that 'personal norm had a primary influence on the behaviors while the [general environmental] attitude had the primary influence on behavioral intentions'. Follows and Jobber (2000) explored environmentally responsible behavior in the context of cloth diaper purchasing and found a values-attitudes-intentions-behavior hierarchical relationship.

The Theory of Planned Behavior (Ajzen, 1991) supports the proposition that behavioral intentions are explained by attitudes and subjective norms, while also highlighting the impact of perceived barriers to successfully carrying out a behavior. The issue of barriers to behavior was considered important in an ethical context where Shaw and Clarke (1999) found problems of availability, choice and information as obstacles to desired ethical consumer behaviors. A number of studies subsequently adopted the Theory of Planned Behavior as a framework by which to examine ethical consumer decision-making. The core framework of the theory has been broadened to include additional measures of 'ethical obligation' (Sparks et al., 1995; Shaw et al., 2000; Shaw and Shiu, 2003; Ozcaglar-Toulouse et al., 2006) and 'self-identity' (Sparks and Shepherd, 1992; Shaw et al.,

2000; Shaw and Shiu, 2003; Ozcaglar-Toulouse et al., 2006) found to be pertinent in ethical consumption contexts. Elements of the Theory of Planned Behavior have also been reconceptualised. Nuttin (1987) argued that while intention is undoubtedly an important precursor to action, its meaning and role need to be clarified. Bagozzi (1993) argued strongly that research is needed to understand the intervening processes linking attitudes and behavior and proposed a theory of volitional processes as the central mediators. In their study exploring intentions to avoid sweatshop clothing, Shaw et al. (2006) found that in addition to intention, desire and plan are also pertinent precursors to ethically motivated behavior.

In each of these studies there is a desire to more clearly understand the relationships between attitudes and behaviors. In an ethical context, however, concerned consumers may find themselves confronted by uncertainty in terms of information available to aid decision-making and the consequences of their decisions. Under such circumstances it could be considered hardly surprising that an attitude-behavior gap has been reported in terms of a weak relationship between what consumers say, and what they do (Burke et al., 1993; Roberts, 1996; Boulstridge and Carrigan, 2000). Carrigan and Attalla (2001), for example, say 'although we are more sophisticated as consumers today, this does not necessarily translate into behavior'. We cannot assume, therefore, that information will lead to action since higher prices and effort will often put would-be consumers off (De Pelsmaker et al., 2005). At one end of a spectrum of researchers addressing the words/deeds inconsistency, Ulrich and Sarasin (1995) claim that any research asking consumers any question on ethical buying behavior will not elicit reliable answers. At the other, narrowing the gap is a matter of refining the models (Follows and Jobber, 2000) or methods (Foxall, 1984). Newholm (2005) has argued that 'attitudes cannot be "read off" behavior or vice versa, not least because of social mediation and the varied meanings associated with particular practices'.

Additionally, since consumers seem willing to discuss their 'inconsistencies' (Burke et al., 1993), it might alternatively be suggested that a more interpretive approach

to an understanding of consumer morality in consumption practice would be appropriate.

Much of the research exploring ethical consumption practices has been carried out in relation to fair trade (Strong, 1996, 1997; Langeland, 1998; Shaw et al., 2000; Nicholls, 2002; Shaw and Shiu, 2003; Golding and Peattie, 2005; Low and Davenport, 2005; Fridell, 2006; Hira and Ferrie, 2006; Ozcaglar-Toulouse et al., 2006). In marketing terms this is the most successful and high profile element of ethical consumption. Conversely, Newholm (2005) has argued that from the consumer perspective it is the accumulation of consumption issues, dynamism in the market and complexity of competing ethical consumption claims that characterizes the environment within which a notion of consumer as ethical must be maintained.

This complexity of the consumers' decision-making environment has been noted (Newholm, 2005; Barnett et al., 2005) along with the consequent variety of legitimated consumer responses (Shaw and Newholm, 2002; see also Bekin et al., in this volume). Cook (2004) offers perhaps the most vivid rendering of the complexity in ethical consumption in his examination of the supply chain for papaya. The (single) end consumer in his research does not buy papaya and, therefore, need not be concerned with the ethical issues that arise frequently in the supply chain. However, she is unaware of the many papaya by-products used in the manufacture of products she does buy. Given the complexity of modern production, we might infer that any notion of a fully informed consumer is unattainable. Moreover, Newholm (2005) presented the spectre of the ethical consumer acting swiftly on 'prejudice'; conversely Ehrich and Irwin (2005) argue that whilst consumers might ask for 'ethical attribute information' they will not always use it. The overwhelmed ethical consumer sometimes finds additional information unwelcome (Shaw and Clarke, 1999; Newholm, 2005). Nevertheless, as many have argued in both the US and UK (Smith, 1995; Berry and McEachern, 2005), we have entered a period where consumers can make more informed decisions.

Arguing that too much emphasis has been placed on the individual, Barnett et al. (2005) recently looked at the collective spaces for

ethical consumption. Similarly, Cherrier (2005) sees ethical consumption more as a 'search for meanings in life' where those meanings are partial and continually socially (re)negotiated (see also Kozinets and Handelman, 1998). Such views are considered within the interpretive stream of marketing (Thompson et al., 1989) where consumers work-up their moral selves in complex cultural conditions (Barnett et al., 2005).

3. Individual consumer behavior, citizenship, spaces and collective (political) action

The boycott is the archetypal semi-organized (Gabriel and Lang, 1995) consumer action. Smith (1990, 1993) wrote the seminal work arguing that through such market oriented behavior consumers attained a degree of sovereignty. Whether consumers have to perceive a favorable outcome to take part in a boycott is debatable.

On the one hand Shaw et al. (2006) show how ethical consumers evoke 'vaguely conceptualized perception of a wider collective participation'. On the other, the research of Barnett et al. (2005) into campaign group localities showed how ethical consumption could 'enroll ordinary people in active political engagement. Roles of consumer and citizen would not necessarily, therefore, be exclusive'. Although 'success perceptions' might be seen as influencing participation (Sen et al., 2001), Kozinets and Handelman (1998) argue that in addition to the notion of a collective action, consumers frequently express their behavior 'as a vehicle for moral self-realization'. Again considerations of individual virtue (Barnett et al., 2005) are important motivators.

Over the last decade research has suggested that the number of boycotts organized worldwide has been increasing (Friedman, 1999). Indeed, the examples of boycotts against Shell (Brent Spar) and GM foods and boycotting (Friedman, 1996) of fair trade products highlight the deliberate use of consumer behavior as a tool to further ethical goals. Connolly and Prothero (2003) argue that such message sending through consumption and no consumption behaviors reveals the consumer as the holder of power.

Thus, whilst from an economist's utilitarian value perspective boycotting and boycotting are fundamentally different, through the voting metaphor both behaviors are seen to signal discontent to the market. This rather stronger notion of consumption as voting is presented in its most strident form in the work of Dickinson and Hollander (1991) and Dickinson and Carsky (2005). They argue unequivocally that consumers are responsible for the impact of the consumption choices they make and ought to be educated to be aware of this.

Using game theory Paavola (2001) tries to examine this relationship between individual consumer action and collective outcomes. However, perhaps the most interesting paper to address the individual/collective conundrum was not specifically directed to understanding ethical consumption. Sirsi et al. (1996) used social network analysis to study the consumption of a group of animal rights activists. Their finding of individual consumption patterns partially organized around a loosely held set of ideas of key and peripheral members captures something of the framework of 'consumer micro cultures' within which consumption patterns are negotiated and re-negotiated.

4. Encouraging pro-social (sustainable) consumer behavior

An enduring concern in the study of ethical consumption has been to understand how such pro-social and pro-environmental consumer behavior might be encouraged. As early as 1976, Brooker was interested in the personality traits of consumers exhibiting 'socially conscious consumer behavior' (1976). Since then, for example, researchers in both the US and Europe have considered barriers to extending the market for various fair traded products (Strong, 1997; Dickson, 2001; Nicholls, 2002); seen potential expansion in the morals of older consumers (Carrigan et al., 2004) and the morals of everyday consumption (Barnett et al., 2005); advanced theories for the encouragement of 'green consumerism' (Muldoon, 2006); 'positive purchase behavior' (Carrigan and Attalla, 2001; Belk et al., 2005) and to empower or encourage consumers towards sustainable lifestyles (Pieters et al., 1998; Thøgersen, 2005). These studies have sought

both to learn from the practice of self-styled ethical consumers and to apply marketing expertise to the extension of such consumption.

In criticizing the economist approach to consumption, Hansen and Schrader (1997) state 'In view of the reality of modern societies, it is neither possible nor ethically justifiable to make purchase decisions according to the individual maximization of utility only'. They present an alternative ethical model for sustainable consumption. In this context Jackson (2005) is one of the key writers in terms of encouraging sustainable consumption. Newholm (2000) has suggested a complementary observation that the moralities of ethical consumption could be seen as a resource to gain foresight into emerging trends.

5. Corporate Social Responsibility

Corporate Social Responsibility (hereafter CSR) is currently presented as a tool to involve corporations in the sustainability agenda. As the European Commission titled a communication about the issue, CSR is the "corporate contribution to sustainability" (European Commission 2002). CSR is seen as an effective mechanism to raise social welfare, especially where regulation has failed or in those countries where either there is an absence of rules or public authorities are unable to enforce them (for further information see Blowfield 2005; De la Cuesta and Valor 2004; Jenkins 2005).

It is accepted in the literature that companies will not act responsibly out of benevolence, but because it pays. Although CSR may be justified using economic and moral arguments (Michael 2003), the economic justification, the so-called business case, is frequently used to defend CSR, especially in the political realm (De la Cuesta and Valor 2004; European Commission 2002, 2006). The business case defends that companies will increase shareholder value by becoming more appealing to a wide range of stakeholders (Williamson et al. 2006). As Vogel (2005) puts it, "[w]hile profitability may not be the only reason corporations will or should behave virtuously, it has become the most influential."

Although CSR may pay in different ways (e.g., by attracting human capital, increasing efficiency or reducing risk), this paper focuses on consumers' attraction and retention. Strategists (Crosby and Johnson 2006; Fielding 2007; Lindsey 2007; Parnell 2005; Salzman and Matathia 2007) posit that companies would obtain a competitive advantage by leveraging their CSR efforts in the consumers' eyes. Therefore, undertaking a CSR programme is justified in economic terms: being responsibly will help, inter alia, increase corporate sales. This line of reasoning holds if consumers are willing and able to reward companies with better social and environmental performance. But, are we? This is a vital question within the business case for CSR. This paper focuses on individual consumers and their ability to offer economic incentives in business to consumer relationships, so that companies will improve their social and environmental performance. Many studies have tried to identify why, who and how consumers buy responsibly. This paper reviews the studies conducted within the marketing and consumer research discipline to critically evaluate whether consumers can or cannot buy responsibly.

This analysis leads to conclude that there are several obstacles that prevent consumers from buying responsibly. As Vogel (2005) noticed, the very structure of market impedes consumers to use markets as a site of political activity. The paper concludes by giving suggestions to policy-makers to correct these market failures. In the light of the previous discussion, the business case for CSR may not hold. To a large extent, studies on responsible consumer behavior cast doubts on the argument that CSR may give companies a competitive advantage. Actually, the business case implicitly assumes that consumers can behave responsibly in the marketplace. The previous review has evidenced the obstacles experienced by consumers, thus supporting those scholars who refute the existence of real "consumer sovereignty" (Smith 1990; Gabriel and Lang 1995; Hansen and Schrader 1997; Lodziak 2002). Applying Rezapakhsh et al. (2006) framework of consumer power, one can posit that consumers lack expert, sanction and legitimate power, because of the existence of market failures (Varian 2003).

Unless these failures are corrected, consumers will not be able to buy responsibly. Then the argument that CSR pays cannot be invoked, at least as far as consumers are concerned. This diminishes the motivation of companies to undertake CSR plans. Therefore, correcting these asymmetries so that consumers gain power in the marketplace is of outmost importance as part of a global strategy towards sustainability.

6. Conclusions

Despite the increasing eco-awareness in contemporary Western market economies, it is generally recognized that there are still considerable barriers to the diffusion of more ecologically oriented consumption styles. In lay discourse as well as in much of consumer research, these barriers are usually attributed to the motivational and practical complexity of green consumption (for a review see, e.g. Moisander, 2000). Owing to the conceptual and moral complexity of 'ecologically responsible consumer behavior' and to the perplexity of ecological information, different consumers have different conceptions of ecologically oriented consumer behavior and, thus, myriad ways of acting out their primary motivation for being green consumers (Hutton and Ahtola, 1991; Kempton, 1991; Bell, 1994; Niva and Timonen, 2001; Collins, 2004). Moreover, environmentally responsible behavior usually involves difficult motivational conflicts, arising from the fundamental incompatibility of environmental protection-related collective goals and individual consumers' personal or self-interested benefits and the resulting free-rider problem (Uusitalo, 1990; Wiener and Doesher, 1991) and finally, there are usually severe external constraints to green consumerism, arising from the cultural, infrastructural, political and economic circumstances in the markets and society (Auld, 2001; Casimir and Dutilh, 2003). Hence, environment-friendly consumption may be characterized as highly a complex form of consumer behavior, both intellectually and morally as well as in practice.

In conclusion, environmental policy the focus of attention needs to be shifted from the individual consumer/decision maker to whole communities of consumers. Moreover, there is a need for critical accounts of the social and behavioral dynamics of environmental problems that question, perhaps radically, the dominant individualistic techno-economic discourse on sustainable development, and open new alternative views and perspectives to the human dimensions of environmental policy. Such a critical voice should not be viewed as liquidating, but as something that invites an appropriate humility and fosters a pluralist politics, thus opening the environmental policy to multiple voices from the culture more generally (Gergen, 1997). A valuable potential contribution that consumer sciences can make to sustainable development and environmental policy would seem to be to feed into and to bring about such transformative criticism, exploring, building and introducing new kinds of subject positions for consumers as citizens.

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Replacement Value - Representation of Fair Value in Accounting. Techniques and Modeling Suitable for the Income Based Approach

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Abstract

The term fair value is spread within the sphere of international standards without reference to any detailed guidance on how to apply. However, specialized tangible assets, which are rarely sold, the rule IAS 16 "Intangible assets " makes it possible to estimate fair value using an income approach or a replacement cost or depreciation. The following material is intended to identify potential modeling of fair value as an income-based approach, appealing to techniques used by professional evaluators.

Key words: method of capitalization, actualized treasury cash flow, discount rate, capitalization rate, gross revenues to date.
J.E.L. classification: M41.

1. Introduction

Fair value has its origins in the more and more obvious evolution of accounting targets. This evolution occurs as a consequence of recent changes in the economic environment. Recently, an idea imposed itself more and more, that of accounting certain expenses, but mostly sustainable elements of financial statements like assets fixed at the estimated value of future cash flows that they are able to bring in for the company (recoverable amount or recoverable value). As a consequence of this concept one can take into account the possible resale price of an asset, in order to ensure a value in the accounts. This major change in vision aims to account for future flows of incomes rather than for past expenses, which means a considerable disruption in accounting. According to this perspective, accountings' purpose is that of

deepening and analyzing the future in order for it to be transposed into financial statements, this approach having a strong effect on the annual financial statements.

2. General consideration

The IASB has adopted this new trend in accounting since 1997: the accounting rules have to be set as to favor the provisions of the managers' and decision factors' forecasts etc.. Thus the accounting rule IAS 1 referring to financial statements ("Purpose of Financial statements") requires that the information shown in the accounts "to help users in their predictions regarding future cash flows and, especially on the reliability of obtaining cash or its equivalent." This change in accounting which has a deep impact on the economic environment, also favoring the appearance of the concept of fair value, has been made possible by the development of market operations and especially of complex financial instruments and derived products. In general, derived products (swaps, ...) are negotiated initially without involving cash flows. By not having an original cost, these financial products are not, according to the traditional accounting model, accounted for in the balance sheet. Nowadays, the entities use massively these financial instruments, thereby exposing themselves to great risk without even adjusting the informational content of their annual financial statements. Furthermore, the present economical context, being strongly influenced by the globalization process, contributes to the purchase of entities, very often at high prices, which contributes to the appearance of new methods of evaluation. Finally, the purchase price of an entity is based on information on its future, in other words on its future flows. Under these

circumstances the accounting value of the past, referring to the assets purchased is not, in fact, of much importance to the buyer. In order to respond to the users' need of information and in order to ensure the transparency of the informations, *fair value* must be used. For now, the term fair value is spread within international standards without reference to any detailed guidance on how to apply. Nevertheless[1], the FASB issued an Exposure Project on how to measure fair value and the IASB is expected to materialize in the near future its final version. The FASB project identifies three levels of fair value, the highest being that of market transactions that can be observed for the same type of asset, the second being that of market transactions which can be observed for similar assets, and the third level consists of using models with the same contributions from the market or with another base. When using the fair value, the entity has to present what level was used, and if it is the third, which was the model.

According to the financial theory, the value of an asset is the present value of future cash flows corresponding to that asset (utilization value). The instruments which have to reflect this value at any time, are no others than the markets themselves. It is required to ensure an essential condition: the market must be perfect, meaning organized and active. If the requirement is met, after BARTH and LANDSMAN [2], the fair value of an asset equals its market value. It's that market to market evaluation (evaluation by reference to a market). Market value is, therefore, the price that can be obtained for an asset, if there is an active exchange market, accessible to all, for the category of items the asset belongs to. An active market involves trading of homogeneous assets, among the actors permanently present on this market - buyers and sellers - the prices being known to the great public. In some fields of activity, the difficulty is the existence of an active market is obvious (for example, for derived products or specialized fixed assets, unique objects, etc..) in such situations - imperfect market - we will value the respective object by calculating its *fair value*. This fair or venal value, can be defined as the price for which an asset can be changed in a balanced transaction. One may talk about an estimation and not a statement as for the

market value. As we saw above "fair value is the amount for which an asset could be exchanged willingly between two knowledgeable parties, in a transaction with the price objectively determined." Using an evaluation technique is an alternative evaluation method, in the absence of a price established on the market. Two approaches can be met, namely:

- the first is characteristic to the analogy method which means to turn to the market value of a similar asset, with identical or at least similar characteristics as the asset under review;
- the second approach means valuing an asset by using the model technique. The method of determining the value of an amount by analogy or similarity is, theoretically valid but in practice this is difficult to accomplish, since the notion of similar characteristics is often difficult to establish and demonstrate.

The second approach used to measure fair value a model which is at the companies' disposal. In resorting to such a technique one is safe to say that we stand in front of a market to model valorization (referring to a model). For many, the concept of fair value knows only one reality: the market value. But this [3] only represents one way of measuring fair value, the one providing the greatest objectivity because its being based on information exterior to the company, and which cannot be influenced by it in any way.

The rule IAS 16 states that "*if there is no data on the market on fair value because of the specialized nature of the item of property, and the item is rarely sold, unless it is part of a continuous activity, an entity may need to estimate fair value using an approach based on income or replacement cost of depreciation.*"

Approaching the replacement value in terms of the definition given by the rules, it represents the amount or investment a company needs to make in order to replace an existing asset. The new asset may be different from the one replaced, but it has to must the maintenance of the activity in the field the asset changed is a part of. The technical progress and the continuous improvement to assets creates difficulties in measuring actual replacement value. An asset will very rarely be changed with a new identical one. Under these conditions fair

value measurement will be based on calculations made by qualified evaluation professionals. According to the income approach the information relating to income and expenses for the fixed asset evaluated are taken into account and its value is estimated by converting the income generated by the respective's asset value. This is not usually applicable to individual machinery and equipment, but nevertheless it is frequently used to evaluate a group of assets or individual machine units that are used together in order to obtain a marketable product, and this generates a flow of income. The approach of income includes two methods:

- The capitalization of income method;
- Updated cash flow method (DCF updated cash flow).

3. Capitalization method

Using this method, expected future revenues are converted into value by sharing the revenue, usually annually, with a capitalization rate or by multiplying the income by a multiplier (which is the inverse of the capitalization rate). The two stages of implementation the capitalization method are [4]:

- Estimating the annual income;
- Determining the capitalization rate.

The estimation of annual income is to be found as the income generated by a specific asset - the gross income, minus operating expenses, it is an *annual net exploitation income*. In the first place the capitalization rate is determined, rate which includes all those elements that an investor would normally take into account, such as the profitability of the investment, the degree risk the investment has, investment quality, or degree of liquidity of the investment. If the fair value minus the costs of disposal of a fixed asset are known, one can construct a multiplier by reporting an income at the fair value which is then to be used in order to estimate the value of another asset, starting from the income the latter generates using the formula:

Income capitalization rate = Annual income / fair value without any sales charges.

In order to determine the income capitalization an evaluator will use the formula:

Value = Income / Capitalization Rate or
Value = Income x multiplier (which is the opposite of the capitalization rate).

Example 1:

This example aims at establishing the fair value of the own capital a dental office has to have, using the income capitalization method, for its being purchased by a doctor on October 30, 2010. The following information are known: the office functions in a rented apartment - the remaining time of the contract being eight years, annual rent is 24000lei and will increase by 3% every year, in real terms (there are no renewal clause for the contract after the expiration of the contracted period); annual wage costs (a secretary and a nurse) – 84000 lei, increasing by 3% per year (in real terms); annual leasing rate for dental equipment – 14000 lei and will increase by 3% every year (in real terms); medical insurance – 3500 lei per year and increase by 3% per year (in real terms); income tax of 16% , other charges - 7000 lei, increasing by 3% per year (in real terms); number of working days - 250 days / year; average revenue per day – 1000 lei, annual revenues will increase by 3% per year; the dental office's purchase will be financed from two sources: 50% equity[own capital] of the dentist with a real cost of capital of 14 %, 50% by long-term credit, real interest rate of 8%.

The value of the dental clinic is estimated by applying an annuity FVPA to the annual net income from exploitation (which is reflected as net cash flow available to the investors). First the annual net operating income is measured, using the methodology below:

A. Total Annual Income	250000
(250 days x 1.000 lei / day)	
Annual Expenses:	
- Rent	24000
- Wage costs	84000
- Leasing rate	14000
- Health Insurance	3500
- Other expenses	7000
B. Total annual expenses	132500
C. Gross Profit from exploitation	117500
Income tax	18800
D. Net operating profit	98700

The average balanced cost of the k capital is calculated, representing in fact the update rate as follows: $k_r = cmpr_r = (14\% \times 0.5) + [8\% (1 - 0.16)] \times 0.5 = 7\% + 3\% = 10\%$. Since the capitalization rate r_c is obtained by deducting from the update rate r_g increase using the formula $r_c = k_r - r_g$ - in our case the actual rate of capitalization is $r_c = 10\% - 3\% = 7\%$.

FVPA annuity factor is obtained from the following equation:

$$FVPA = \frac{1 - (1 + r_c)^{-8}}{r_c} = 5,971$$

The fair value of the dental clinic by using the income capitalization method is determined as follows: $V_{cs} = CFN \times (1 + r_g) \times FVPA = 98700 \times 1,03 \times 5,971 = 607018$ lei. From the total value of 607018 lei that the dentist buyer will negotiate when purchasing the cabinet, his own capital is 303509 lei: $V_{ca} = 607018 \times 0,5 = 303509$ lei.

If the direct capitalization method involves the use of current annual income, obtained now, *discounted cash flow method* (DCF) attempt to estimate the annual net operating income forecast to a range of forecasting based on current information. Thereafter periodic net income from periodical explanation forecasted will be converted into updated value by using a discount rate applied to the annual income for each year in the considered period. The DCF method may lead to the determination of market value only if two conditions are met at the same time, namely:

- annual net operating income has to be the income that an medium investor normally estimates and not the revenue a certain investor is able to obtain;
- discount and capitalization rates are to be taken over by the market.

If those two conditions are not met, ie when the net operating income forecast is made in terms of a certain investor's criteria, the type value which results is the *value of utility* IAS 36 "Impairment of Assets ". The stages to be followed are:

- *estimating the gross income forecasted* normally expressed by the turnover generated by such fixed assets;

- *determining the size and periodicity of the projected gross income* (turnover) forecasted for the projected holding period;
- *determining the size and periodicity of the costs* associated with achieving projected gross revenue;
- *the reduction of the annual projected operating costs from the projected annual gross revenues*, in this way an annual gross operating profit is obtained, which the asset generates during the forecast period from whose value the entity will start in *determining the net cash flow available for invested capital*, using the formula [5]

Gross operating profit:

- (-) Income tax
- (=) Net Operating Profit
- (+) Depreciation and other non-cash expenses
- (=) Gross cash flow (gross cash flow)
- (-) Capital expenses
- (-/+)Changes revolving funds
- (=) Net treasury cash flow available to invested capital,

- *determining the discount rate* required by the investor;
- *estimating an eventual residual value* of any asset at the end of its life;
- *calculate the present value* of the asset under review.

Example no. 2:

The determination of the market value of the investors' capital and the capital invested in a restaurant is required, determination made by using the income-based approach, for its acquisition by a buyer. The following information are known: on August 31st 2010: number of seats - 70; occupancy - lunch 70%, 80% evening (at dinner), open 300 days per year and closed 65 days per year; daily revenues 100lei/seat/ lunch and 200lei/seat/dinner; annual wage costs - 1.3 million lei, the cost of food and beverages - 35% of revenue; the annual rent paid to the owner of the building - 1.48 million lei; the annual growth rate of net operating profit In nominal terms, was set at 5% per year over the next three years; and 3% per year starting with the 4th year to infinity, the cost of own capital is calculated by the CAPM model (Capital Asset Pricing Model), based on – the financing structure which means 95% equity and 5% long-term loans, nominal annual interest rate on borrowings is 10%; corporate

tax rate is 16; the coefficient β in the range - 1.1; the risk premium on the stock market - 6%; risk-free basic rate - 5%; long term loans at evaluation time - 2.75 million lei.

The income based approach by discounting net cash flow available for investors-meaning the owner and lender- is adopted by the evaluation specialist in order to obtain the market value of the restaurant. Net cash flow available for shareholders is firstly measured, considered to be equal to net operating profit because: it was accepted that the projected annual investment is equal to depreciation, and annual changes of net revolving capital is insignificant. The discount rate reflects the average cost of capital in nominal terms.

The amount of capital invested is calculated in two ways:

- From the original owner's position, namely,
- From the position of the future owner will inevitable suffer a loss of the customers, those attached to the former owner.

A. For the original owner, the restaurant's market value starts from the calculation of net cash flow available.

<i>Income</i>	<i>lei</i>
Lunch	1470000
Dinner	3360000
Total	4830000
<i>Expenses</i>	<i>lei</i>
Food + beverages	1690500
Wages	1300000
Rents	1480000
Total	4470500
Operating Profit	359500
Operating Profit (0.84)	301980

The update rate is determined:

$$k_r = cmpr = [5\% + (1,1 \times 6\%) \times 0,95] + [10\% \times (1 - 0,16) \times 0,05] = 11,44\%$$

The market value of the restaurant is calculated considering, at the end of the third year of use, a residual value of 2.43 million lei.

Net operating profit increases by 5% per year during the first three years, and by 3% during the fourth year, the following values being obtained: 317079 lei (1st year), 332933 lei (2nd year), 349580 lei (3rd year), 360067 lei (4th year). Knowing that the update rate is 11.44%, a discount factor of 0.897343 in the first year is obtained, 0.805226 for the second year, 0.722564 respectively in year 3.

Income and residual value have the following values: first year $-317079 \times 0.897343 = 284529$ lei; 2nd year $- 332933 \times 0.805226 = 268086$ lei; 3rd year $- (349580 + 2430000) \times 0.722564 = 2008424$ lei.

After three years of use, the restaurant has a market value of 2561039 lei.

B. A loss of current customers, loyal to the present restaurant owner is admitted, estimated at about 10% of all the customers, respectively that the occupancy degree will decrease after taking over the restaurant to 65% at lunch, and 74% in the evening at dinner. The other hypotheses for the assessment remain the same. Calculation of net cash flow available:

<i>Income</i>	<i>lei</i>
Lunch	1365000
Dinner	3108000
Total	4473000
<i>Expenses</i>	<i>lei</i>
Food + beverages	1565550
Wages	1300000
Rents	1480000
Total	4345550
Operating Profit	127450
Operating Profit (0.84)	107058

The calculation of the restaurant's market value, considering a residual value of 1.85 million lei at the end the 3rd year of use, involves in the first place an increase in net operating profit by 5% per year, resulting the following values: 112411 lei (1st year) 118032 lei (2nd year), 123934 lei (3rd year). Knowing that the update rate is 11.44%, an update factor of 0.897343 the 1st year is obtained, and 0.805226 in the 2nd year, respectively 0.722564 during the 3rd year.

Profit and residual actualized value have the following values: first year $-112411 \times 0.897343 = 100871$ lei; 2nd year $-118032 \times 0.805226 = 95042$ lei; 3rd year $- (123934 + 1850000) \times 0.722564 = 1426294$ lei.

The amount of own capital retained to negotiate the transaction price is 1426294 lei. If the former owner agrees to work for the new owner after selling the restaurant, the own capital value retained for the negotiation is of 2561039 lei.

Calculating the market value by using the income-based approach raises modeling and estimations that are the privilege of professional evaluators.

4. Conclusions

Nowadays, national destinies are strongly influenced by worldwide forces of global competition [6], so that operating financial and investments decisions, have international implications. As most of these decisions are founded on accounting information for the smooth running of the business the knowledge of national and international accounting rules becomes essential. We are thus witnessing a transformation of the accounting system, which required to ensure clear, credible and internationally comparable sources for the ones using the information - investors/ shareholders, creditors, etc in order to substantiate decisions.

In the past, global accounting opposed two traditions: the Anglo-Saxon, which serves the interests of the investors, having as its main objective the comparison of financial performances, namely the continental tradition, controlled by the state and oriented towards the partners of the entity-tax administration, creditors, employees, owners.

While the continental accounting system likes the historical cost measurement, the Anglo-Saxon one proposes to adopt the fair value.

From the examples presented above one can easily see that the technique of modeling the fair value based on the income approach is a complex process, which requires estimations and modeling of the value that are not always available to accounting professionals, so that entities are forced to appeal to the contribution of expert evaluators. And as the Romanian entities, especially in this time of deep economic crisis, do not have, most of the times, enough resources appeal to outside experts, the fair value modeling will encounter difficulties. One of the solutions could be setting up an evaluating department, for each entity, but this involves quite high costs.

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Food Security in Romania

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Abstract

Theoretical definitions are given within the article regarding food security and independence and also there are presented the agents that influence them. Moreover, a description of the security at global and national level is given, illustrated by a series of specific indicators and trends of their evolution. Finally, it is described the perspective of food security in our country.

Key words: food security, food independence, food crisis, price volatility, food consumption.

J.E.L. classification: L66

During the last three years, under the impact of crisis the global community faced, the problems related to food security aggravated. Predictions are no longer necessary to be made for Romania in regards to food crisis for a great part of the population is already affected by it. Romanians' precarious food security is not yet the direct consequence of the lack of food, but of the decrease of the purchasing power generated by at least four factors: salary adjustment, VAT increase, recalculation and taxation of pensions and inflation increase. The aforementioned agents highly contribute to the decreasing of the food consumption, both from quantitative and qualitative point of view, and to the volatility of the prices for food, to the decreasing of self-consumption at the same time with the substantial increase of imports.

From ONU's perspective, the national and international (collective) security notion is a single whole of the following dimensions: economics, food, environmental, community, demographics and military. All these dimensions of the security concept are highly connected and interact with each other.

According to many field specialists, the food security of a country is the most important dimension of the national security. A state has food security when it has sufficient agricultural and food products in order to cover the feeding necessities of all inhabitants within its borders and to assure, at the same time, the necessary reserves of feeding stuff for animals and water in cases of natural disasters, war, crises etc. Not being able to ensure food security may lead, within the country, to social tensions, to the physical and psychical health deterioration of the population and may create economic and political instability. And outside the country, it may create diplomatic, economic and political pressures, triggering unwanted and dangerous influence upon national security.

Hunger has become an endemic phenomenon in the world. According to FAO, presently, the number of the persons that suffer from hunger exceeds 1.26 billions, compared to the estimated amount of only 862 millions during 2000-2004. The existence and amplification of food penury is favored mainly by the following factors: demographic increase; cataclysms; drought; climatic disorders (mostly generated by global warming); oil appreciation; poverty; financial crisis; economic crisis; urban development; cleavage augmenting between production and food consumption etc.

According to ONU, for over 8 years humankind has been consuming more food than it produces. Until now the food penury was mitigated by consuming the reserves gathered in the favorable agricultural years. The issue has become more serious as since 1999 until now, at a global level, the cereals reserves have been reduced to half of the total amount. Thus, if in 1999 the global cereals reserves could have ensured around 116 days for the whole worldwide population, nowadays it can only provide for 56 days, a period which is below the

acceptable period of time for the food security assurance.

A few years ago, field experts estimated an imminent food crisis within the world, with serious manifestation forms for 2018-2020. Such crisis may have significant influence upon national and international security and may generate instability within economic, social, political and military environment. If unethical people or terrorist organizations should take the lead on such times, „food weapon” could cause unforeseeable effects that may outrun the ones caused by weapons of mass destruction. In fact, the World Bank Group and the International Monetary Fund have already noticed the state leaders from all over the world to take all necessary measures and to

lodge all immediate efforts in order to prevent such crisis from happening.

Influenced by crises that affected during the last three years the global economy and by the political instability in many Arab countries that generated into food appreciation, the issues related to global food security aggravated. The Japan nuclear crisis, generated by the earthquake of approximately 9° on the Richter scale and the serious drought China and other Asian countries are confronted with, will aggravate much more the aforementioned issues. In this case, we can consider that the estimated food crisis will take place sooner than expected. There are already visible signs, that is the evolution of the price volatility to the mainly agro-food products. (see tabel 1 and chart 1)

Table no. 1.

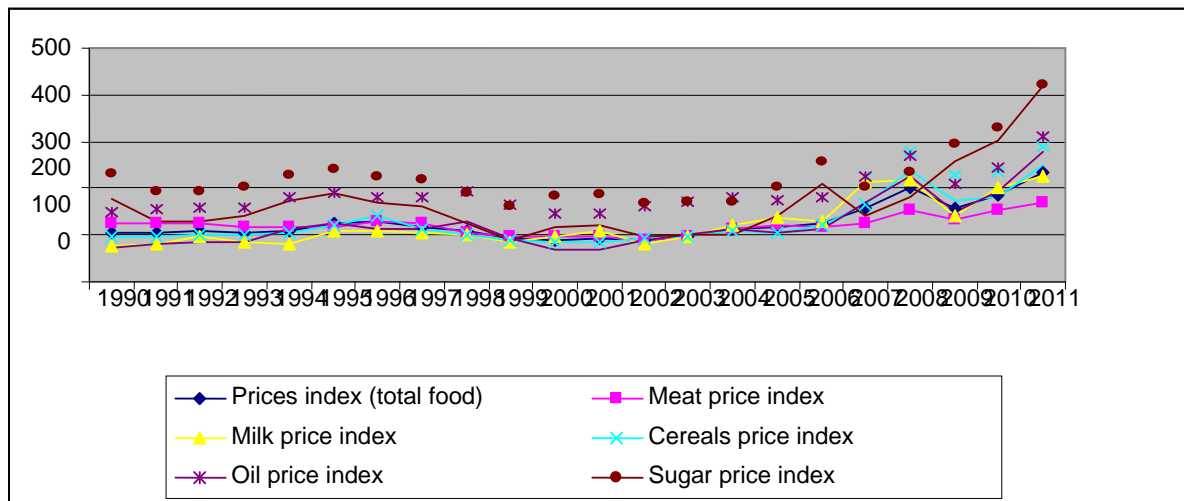
Annual indexes of the prices of primary food on a global level (1990-2011)

Year	Prices index					
	Total food	Meat	Milk	Cereals	Oil	Sugar
1990	105,4	124,0	74,8	97,6	74,0	178,1
1991	103,6	125,4	79,6	96,9	79,1	127,2
1992	108,4	125,2	95,4	102,3	84,3	128,5
1993	104,6	118,1	84,6	99,5	86,0	142,2
1994	110,5	115,0	82,3	104,5	113,4	171,8
1995	123,2	118,4	109,6	119,4	125,0	188,5
1996	129,1	128,4	109,4	140,7	111,2	169,7
1997	118,4	123,2	105,1	112,1	112,5	161,4
1998	107,1	103,2	99,1	99,8	129,9	126,6
1999	92,3	97,8	86,3	90,2	91,6	89,0
2000	90,2	95,8	95,4	84,5	67,8	116,1
2001	93,3	96,5	107,1	86,2	67,6	122,6
2002	89,9	89,5	82,2	94,6	87,0	97,8
2003	97,7	96,8	95,1	98,1	100,8	100,6
2004	112,4	113,7	122,6	107,4	112,2	101,7
2005	117,3	120,1	135,4	103,4	103,6	140,3
2006	126,5	118,5	128,0	121,5	112,0	209,6
2007	158,6	125,1	212,4	166,8	169,1	143,0
2008	199,6	153,2	219,6	237,9	225,4	181,6
2009	156,8	132,9	141,6	173,7	150,0	257,3
2010	185,1	152,0	200,4	182,6	193,0	302,0
2011	233,4	167,9	225,6	249,3	278,5	419,2

Source: Global Food Price Monitor March 2011, FAOSTAT

Chart no. 1

*The evolution of annual indexes of the prices for primary food on a global level
(1990-2011)*



Both from the table and the chart above it results a significant price increase (price volatility) that occurred in the last two years for primary food on a global level. This evolution forebodes the start of a food crisis of great proportions within the world.

After Romania has adhered to NATO – being a full rights and obligations state member- politicians with national security responsibilities have rightfully considered, taking into consideration some of our troops’ participation to several potential conflict areas, our country as a security insurer. It would be „magnificent” if we made the same statement about food security. Unfortunately, this is not possible because, nowadays, Romania is a „net importer” of food and thus, of food security.

Most advantaged countries in what concerns the insurance of food security are those that have a great agricultural potential and can provide great quantities of food raw materials and food above the national demand. Romania is one of these countries and has a generous agricultural potential, being on the 5th place of EU countries, and can provide food demand for approximately 80 millions people. We can state that such countries may have – and most of them have – food independence. This advantage that Romania has is not sufficiently valued because, according to experts’ estimations

and some of national and international institutes in domain, approximately 70% from the food aggregate demand is covered by import of such products.

In such conditions, the current status of Romania’s food independence and security is unacceptable.

Predictions of food crisis are no longer useful because a more increasing part of the population is affected by it. This food crisis is not yet the consequence of food lack on the market, but the decrease in the purchasing power, generated by at least four factors: public workers salary adjustment with 25%, re-calculation of pensions and health insurance taxation (5,5%), and from these, VAT increase with 5% and inflation increase (the biggest in all EU state members).

After the National Institute of Statistics published the consumption price index in February 2011, it was considered that Romania was in food crisis, emphasizing that food prices have increased, at least in the last three years, more than those of non-food products or other services.

We also mention the prognosis made by Nomura Bank in Japan, which states that Romania’s food problem will accentuate. According to it, our country is on the 12 place in the world in what concerns the food risk generated mostly by food price volatility (vulnerability). (tabel no. 2)

Table no. 2

Food price vulnerability index for 40 countries with food risk

#	COUNTRY	X	#	COUNTRY	X
1	Bangladesh	101,5	21	India	100,4
2	Morocco	101,3	22	China	100,4
3	Algeria	101,3	23	Latvia	100,4
4	Nigeria	101,2	24	Vietnam	100,4
5	Lebanon	101,2	25	Venezuela	100,4
6	Egipt	101	26	Portugual	100,4
7	Sri Lanka	101	27	Saudi Arabia	100,3
8	Sudan	100,9	28	Kazakhstan	100,3
9	Hong Kong	100,9	29	Uzbekistan	100,3
10	Azerbaijan	100,8	30	Russia	100,3
11	Angola	100,8	31	Mexico	100,3
12	Romania	100,7	32	Indonesia	100,2
13	Philippine	100,7	33	Croatia	100,2
14	Kenya	100,7	34	Peru	100,2
15	Pakistan	100,6	35	Greece	100,2
16	Libya	100,6	36	Belarus	100,1
17	Dominican Republic	100,6	37	Slovenia	100,1
18	Tunisia	100,5	38	Syria	100,1
19	Bulgaria	100,5	39	Turkey	100,1
20	Ukraine	100,5	40	South Korea	100,1

Source: Bussiness Inteligence no. 5074/2011, page 33

Regarding the disorders generated by food price vulnerability on the global market, Robert Zoellick, World Bank President, states the following: „We should be alarmed because price increase tendency causes pain for all poor people in the world”, but he advised the international community to be aware of this risk and not to aggravate this problem by imposing measures, such as interdicting exports or setting administered prices. Moreover, he requested G20 leaders to consider food as number one priority of 2011. Angel Gurría, Secretary General of the OECD, asserts that „Agricultural markets have always been unstable, but if governments collaborate such extreme price variations can be diminished and vulnerable consumers and producers may be protected.”

All the abovementioned regarding current situation and the perspectives of Romania's food security are supported by unfavourable trends of indexes evolutions by means of

which population alimentation is characterized, respectively: monthly average consumption per person of agrofood products, the share of self-consumption in the total consumption of agrofood products and the evolution of external trade with agrofood products.

The annual average consumption per inhabitant for the primary agrofood products during 2000-2009 (Tabel no. 3) had oscillating evolutions. An increase tendency was registered for Romania during the period before adherence to the European Union, and afterwards a slight decrease. Moreover, it results that in the last three years a series of basic products for population's alimentation (cereals and cereal products, potatoes, vegetables, fruits, sugar, milk and dairy products, beer and wine) have suffered a decreasing trend (chart no. 2), highlighting a deterioration of Romanians' alimentation.

Table no. 3

The annual average consumption of primary food products and beverages in Romania during 2000-2009 (kilo/pers./month)

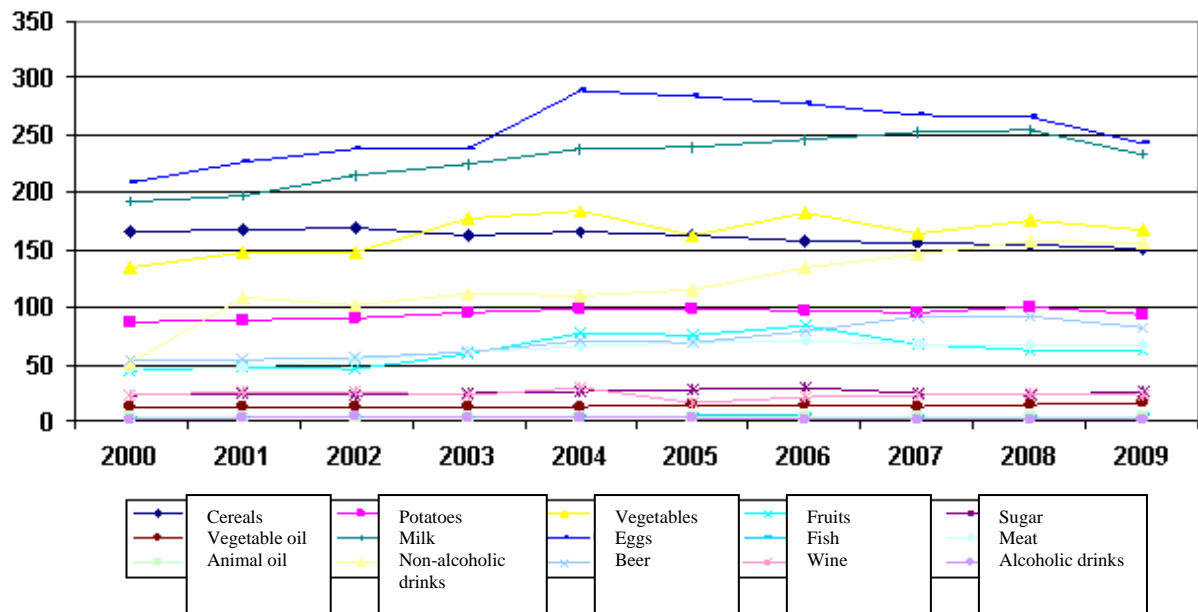
Product or product group	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Loaf	9,925	9,825	9,931	10,112	9,875	9,713	9,55	9,37	9,223	8,978
Pork	0,699	0,747	0,72	0,79	0,859	0,761	0,799	0,869	0,899	0,891
Poultry meat	0,919	0,918	1,062	1,121	1,098	1,198	1,262	1,34	1,418	1,499
Meat products	0,733	0,822	0,839	0,894	0,945	0,958	1,003	1,05	1,111	1,106
Fish and fish products	0,327	0,353	0,363	0,376	0,426	0,467	0,505	0,547	0,596	0,636
Milk*	6,441	5,96	5,82	5,854	5,934	5,962	5,85	6,067	6,151	6,168
Cheese and cream	1,143	1,101	1,09	1,14	1,127	1,186	1,218	1,28	1,319	1,329
Eggs**	13,819	13,879	14,277	14,471	13,428	13,479	13,319	12,977	13,065	13,055
Oil***	0,867	0,911	0,907	0,916	0,9	0,913	0,915	0,907	0,899	0,914
Fruits	2,291	2,144	2,019	2,277	2,457	2,56	2,705	3,082	3,312	3,552
Potatoes	3,967	4,58	4,396	4,114	4,027	4,028	3,705	3,639	3,614	3,586
Vegetables and vegetable tins	7,974	7,293	7,027	7,102	7,083	6,769	6,987	7,036	7,305	7,532
Tomatoes	2,065	0,923	0,94	0,994	0,891	0,825	1,007	1,032	1,089	1,148
Sugar	0,834	0,839	0,839	0,853	0,835	0,819	0,789	0,775	0,759	0,758
Honey	0,029	0,034	0,031	0,029	0,034	0,038	0,042	0,045	0,049	0,055
Mineral water and other non-alcoholic drinks *	1,735	1,842	2,132	2,48	2,737	3,067	3,437	4,259	4,833	4,821
Wine*	0,773	1,275	1,28	1,28	1,097	0,984	0,824	0,905	0,933	0,704
Beer*	0,64	0,554	0,549	0,634	0,701	0,797	0,919	1,081	1,201	1,165

* liter/pers./month ** pieces/pers./month *** corn, sunflower and soya oil liters

Source: Standard of living coordinates in Romania. Population's income and consumption, INS, Bucharest, editions 2000-2010

Chart no. 2.

The average monthly consumption evolution of primary food products and beverages in Romania during 2000-2009 (kilo/pers./month)



In 2009 self-consumption (Table no. 4) had significant shares in the primary agrofood products consumption, as it follows: eggs (52%), vegetables (37%), milk and dairy products (32%), potatoes (29%), pork (29%), poultry meat (25%), wine (75%) etc. The high level of agrofood products self-consumption influences the performance of agrofood system, the respective products are not validated on the market under no kind of performance in what concerns quality, safety and their prices. Economic agents resort to bigger and bigger imports of agricultural raw materials or finite food products in order to ensure continuity in providing manufacturing and distribution processes and satisfy the consumers' demand. In chart no. 3 it can be noted that, in the last three years, almost all products have registered self-consumption decreasing trends.

This situation could have a positive effect if subsistence and semi-subsistence farms (population's households) provide a greater quantity of products to the market. As it results from charts no. 4, 5 and 6, milk* imports (raw material), pork, meat products and sugar have an increase trend (in a negative sense) and the abovementioned farms have provided less and less quantities. For cereals and especially for oleaginous seeds, the evolution was favorable because, with few exceptions, during the entire period a substantial net export was registered.

* Imports are written with a minus sign and they are in the chart under the abscissa. Exports are written with a plus sign and they are in the chart above the abscissa.

Table no. 4

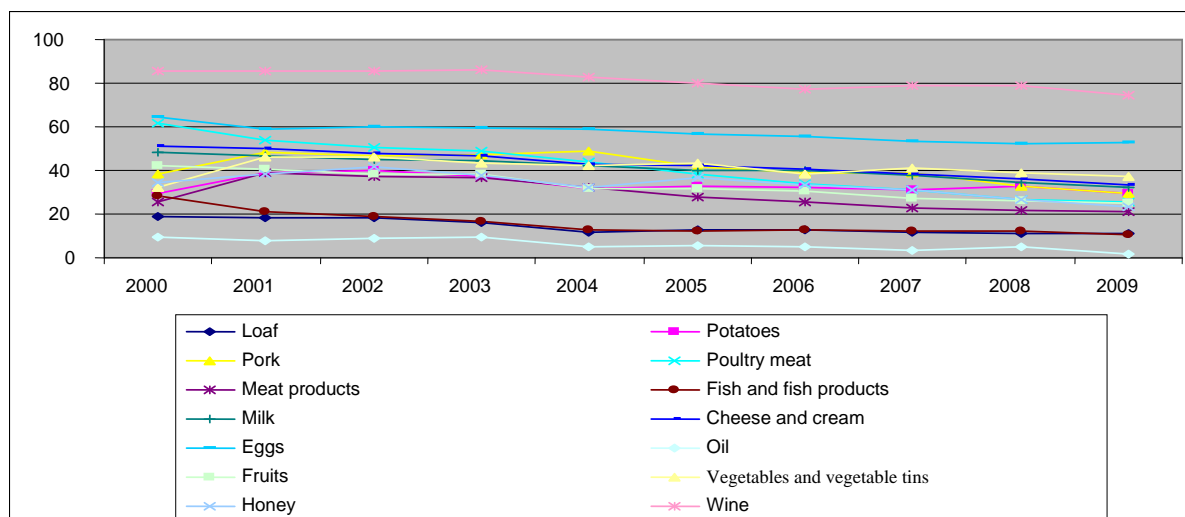
Share of self-consumption in the agrofood products and beverages' consumption in Romania
(2000-2009)

Product or product group	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Loaf	18,7	18,4	18,6	16,2	11,8	12,9	13,0	11,8	10,9	10,9
Potatoes	29,2	38,8	39,9	37,1	31,6	33,0	32,0	30,9	33,0	29,3
Pork	38,3	48,2	46,5	47,2	48,8	41,9	38,9	38,8	32,8	29,4
Poultry meat	61,8	54,0	50,5	49,1	43,8	38,6	34,1	31,0	26,7	25,4
Meat products	25,8	38,7	37,4	36,5	32,0	27,9	25,3	23,0	21,9	21,0
Fish and fish products	28,4	21,2	19,0	16,5	12,9	12,2	12,9	12,4	12,2	10,4
Milk	48,3	46,6	45,1	44,6	42,0	40,2	40,2	37,9	34,4	32,2
Cheese and cream	51,0	49,8	47,7	46,5	42,8	42,0	40,6	38,4	36,2	33,1
Eggs	64,2	59,1	60,0	59,6	59,1	56,5	55,5	53,3	52,5	52,6
Oil	9,3	7,9	8,9	9,2	5,2	5,3	4,9	3,3	5,2	1,9
Fruits	42,0	40,5	38,3	38,1	31,7	31,8	30,8	27,4	26,2	25,2
Vegetables and vegetable tins	32,2	46,0	46,1	43,5	42,5	43,1	38,6	41,1	38,9	37,1
Honey	34,5	38,2	41,9	37,9	32,4	36,8	33,3	31,1	26,5	23,6
Wine	85,3	85,6	85,5	86,1	83,0	79,8	77,2	78,7	78,7	74,7

Source: Own calculations over the data taken from INS

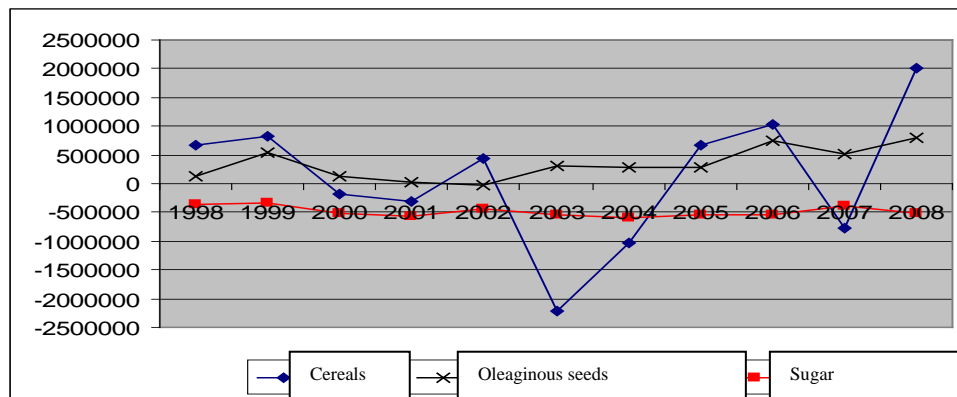
Chart no. 3.

Evolution of self-consumption share in agrofood products and beverages' consumption, in Romania (2000-2009)



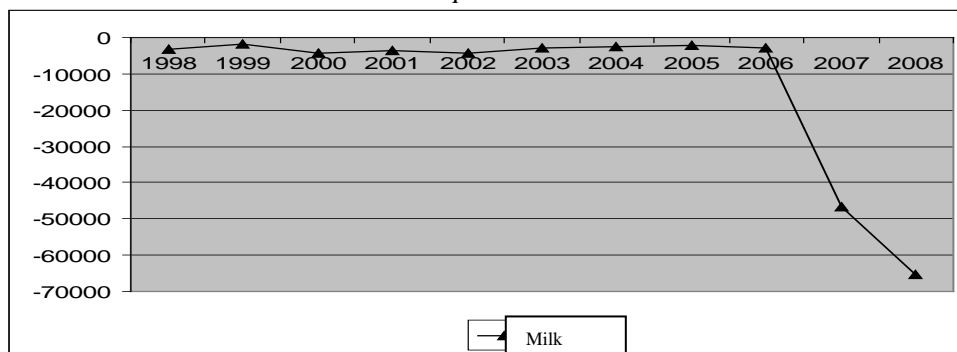
Source: Own calculations over the data taken from www.insse.ro

Chart no. 4.
Evolution of import/ export of cereals, oleaginous seeds and sugar



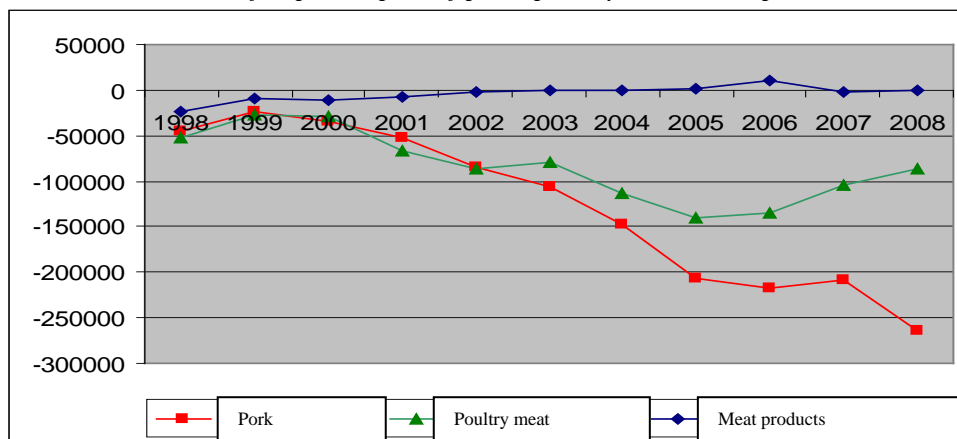
Source: Own calculations over the data taken from www.faostat.fao.org

Chart no. 5.
Milk import evolution



Source: Own calculations over the data taken from www.faostat.fao.org

Chart no. 6.
Evolution of import/export of pork, poultry meat, meat products



Source: Own calculations over the data taken from www.faostat.fao.org

As a conclusion, the evolutions in the first years regarding prices, average consumption, self-consumption per inhabitant, and also the external trade with agricultural products highlight an unfavourable evolution

regarding agricultural production and, especially, population's food security.

The increase of the valorification degree of agricultural potential may transform Romania in an independent state in what

concerns the assurance of population's food security, and also into a provider of such type of security for other countries by means of net export of agricultural products, raw materials and food. This can be made only by adequate strategies and policies, meant to stimulate investments in this area and to increase performance and competitiveness in agrofood sector and in all economic organizations that compound it. Thus, OCDE considers that „Agricultural investments in developing countries will be highly important for increasing the quantity of available food, and for obtaining income and creating new jobs.”

Without a systemic approach and fare financial and investment support together with agricultural and rural development strategies and policies, the food security of our country may be seriously affected in the future. We must take into consideration that this issue will be aggravated by the effects of global warming and climate instability, by the increase of drought manifestation on land and other natural phenomenon that will have a negative impact on agriculture.

Romania's adherence to European Union on the 1st of January 2007 is only the beginning of a complex and – we hope- not long process of full integration within EU's structures. At least on the economic level, this process generates many challenges Romania must face. Due to the small level of performance and the degree of compatibility between agricultural sector and rural economy in Romania and similar entities from EU developed countries, we can consider that most challenges may occur in this domain. In order to reduce the aforementioned deviations, now Romania may benefit from two European funds: European Agricultural Guidance and Guarantee Fund and European Agricultural Fund for Rural Development. The main purpose of the second fund is to contribute to the increase of productive performance and

competitiveness in agrofood and rural economy and to the food security of the country and reducing the deviations of development and standard of living in villages and towns, between different agricultural areas and economic regions.

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Indirect Tax Burden and Consumption in the EU Member States

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Abstract

In this paper is presented a general overview on the indirect fiscal burden and the impact on consumption in EU member states in the context of economic crisis.

Some EU member countries choose to increase the tax burden on consumption for covering the budget deficit. The question is if it was a real solution for reducing the budget deficit and to sacrifice the consumption.

In this analysis we try to capture the correlation between the indirect taxes and consumption in the European countries. For realizing this purpose first we follow the changes of consumption tax rates in EU member states.

Than is made a short analysis of indirect tax burden as percentage of GDP and finally the impact of consumption on the consumption tax revenue.

Key words: indirect taxation, tax burden, final consumption.

J.E.L. classification.: H62, E21, E62, E63 1

1. Introduction

The economic crisis has affected consumption, which generally implied a decrease in budget revenues. The need to cover public spending led to growth rates, especially for VAT. Any rate increase will be reflected on a decreasing of consumption, but will at least temporarily solve the needs of state funding and budget shortfalls.

The purpose of this study is to reveal the consumption trend in this context of economic crisis under the impact of increasing rates of VAT and excise duties

and how have evolved the budget revenues collected from these taxes comparative with GDP.

Our analysis considers the major categories of indirect taxation. Firstly, value added tax (VAT) which in all EU Member States is the single most important indirect tax, typically accounting for around half of indirect tax receipts. Secondly, excise duties or other taxes on consumption, in which context we generally distinguish between taxes on energy (fuel duties), tobacco, alcohol and others.

Tacking into consideration this fact we try to reveal if in the context of economic crises the tax burden of indirect taxation is changed because some countries consider that is essential to change the VAT rate, for the increasing the budget revenues. Starting with 2008 governments has introduced a wide range of fiscal measures to support the economy or to consolidate public finances.

The huge budget deficit and the decreasing the economic growth becomes a major issues for all EU countries which requires special fiscal measures, many of this only for a short period of time or only for special sectors.

Indirect taxes are less distortive on the economic growth comparative with direct taxes, because they don't fall on accumulated assets, or investment.

For indirect taxation the fiscal policy of EU countries is oriented on harmonization. In this area there are made important progress for VAT and excises, particularly through the minimum rates imposed for all the countries.

Reforms of the VAT, as well as some excise rate increases, have often involved large amounts of tax receipts. As general overview on the tax measures adopted by UE members, cuts dominate in corporate and personal income taxation, while increases

were clearly prevalent in excise duties and VAT.

In the case of VAT, the most of the countries decide to increase rates, but also a high number of measures narrowing the base. Base narrowing was in many cases linked to equity considerations, as some countries reduced the tax burden on food or necessities.

Generally, however, the measures increasing the standard VAT rates have had a much larger (positive) budgetary impact than the base narrowing measures; for the cases for which we have information, the ratio is almost 5:1 (Taxation trends in EU, 2010).

Overall, therefore, given also the widespread increases in excise duties, one of the effects of the crisis on tax systems seems likely to be a reinforcement of the trend of the last few years towards higher consumption taxes.

Because the economic crises have a negative impact on consumption contributing of decreasing of household and company consumption, the governments try to adopt the appropriate measures for stimulating the consumption and the economic growth.

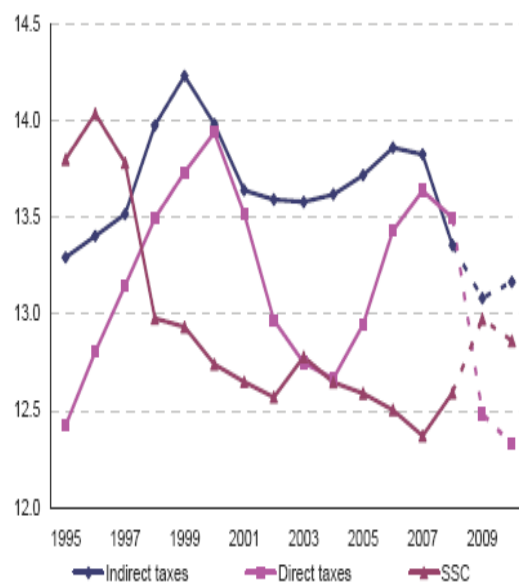
2. Indirect taxation – fiscal measures

The indirect taxation plays an important role for the state budget in any EU member states, especially for the new member states because the fiscal policy of these states try to impose a higher burden for spending the income, because the weight of the consumption in the total income is very high.

The significant fall in the ratio of indirect taxes to GDP since 2008 greatly exceeds its (moderate) previous increase until 2006/07, in sharp contrast to the symmetric pattern observed in the previous cycle. While this might point to negative confidence effects of the current crisis, leading to heightened precautionary saving, it also reflects discretionary tax cuts in some countries.

With such measures partly expiring in 2010 and private consumption to recover slowly, the ratio is set to pick up again (European Commission, 2010).

Figure 1. Structure of tax burden in EU 27



Source: Commission services.

The most important fiscal measures are referring to VAT rates, particularly standard VAT rate. Because VAT revenues are collected every month the governments decide to increase the rate and this thing was happening until 2011 in countries like Czech Republic from 19% to 20, Estonia from 18% to 20, Greece from 19% to 21% and again to 23%, Spain from 16% to 18%, Latvia from 18% to 21% and again to 22% (2011), Lithuania from 18% to 21%, Finland from 22% to 23%.

But the most important increase takes place in Hungary from 20% to 25% and Romania from 19% to 24%. Surprising or not this decreasing are continued in 2011 in UK with a increase from 17,5% to 20%, Poland from 22% to 23%, Slovakia from 19% to 20% and Portugal from 20% to 21% and even 23%.

There are two categories of states who decide to increase the rates, some new member states, like Baltic states with huge economic decreasing and the second category old member states but with huge budget deficit like Greece, Spain, Portugal and even UK.

In this context only in seven countries we have standard rates below 20% (Germany, France, Spain, Cyprus, Luxemburg, Malta and Netherlands).

Some EU member states choose to decrease some VAT rate for encouraging investment in the construction sector (for instance Romania 5% for social houses) or to strengthen the structural competitiveness of firms.

Other countries like Cyprus applied a temporary reduction of the VAT for hotel accommodation and restaurant services by 3 percentage points to 5 % (originally till 30.04.2010 extended to 31.12.2010). These kind of measures are adopted the tourism sector or restaurants. In Belgium VAT rate reduction (from 21 % to 12 %) for food served in restaurants and catering services in 2010. This measures even if will reduce the tax revenues almost with 0.15 is important for stimulating the food industry.

Also in this country was adopted VAT rate reduction (from 21 % to 6 %) for the construction of private (for € 50 000) and social dwellings.

Another important measures introduced by many EU countries is acceleration of VAT restitutions for improving the liquidity of businesses and individuals, by stretching out the payment terms.

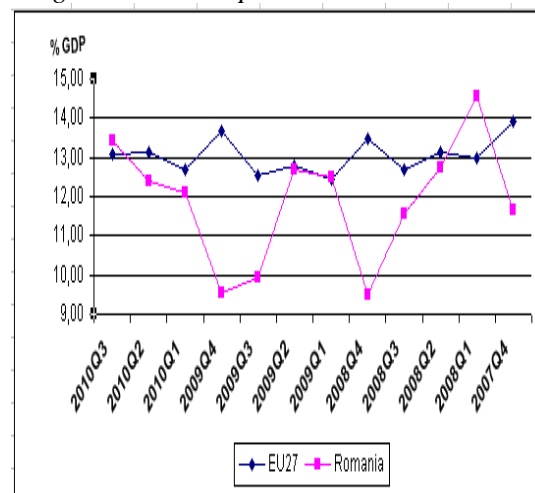
In Finland quite similar measures of decrease in the VAT rate on food from 17 % to 12 % as of 1 October 2009 and decrease of the VAT rate on restaurants from 22 % to 13 %. The same kinds of measures are taken by France and Germany.

Ireland is the only country which decreases the standard rate from 21.5 % to 21 %. This brings back the VAT rate to the value it had before December 2008 when the standard rate was increased from 21 % to 21.5 %.

For excises there are wide ranges of increasing in countries like Estonia, Greece where there are important increase in fuel taxes, increase in excise duties on cigarettes and alcohol.

Our analysis consider the period of the last quarter of 2007 until in 2010 the third quarter. In this period the tax burden of consumption tax have a slightly evolution in EU 27 (as average), maximum 2 percentage points change from 14% in 2007 to 13% in 2010, with a minimum in 2009 12,5%.

Figure 2. Consumption tax burden % GDP



Source: Based on Eurostat database

Consumption tax burden in Romania varies very much in this period with a maximum before the economic crisis started at almost 15 % of GDP and the minimum at the end of 2008 and 2009 below 10%.

Table 1. Indirect tax burden evolution

Taxes on production and imports % GDP 2010Q3/2007Q4			
Decrease	%	Increase	%
BE	-0,4	CZ	0,33
BG	-1,48	FR	0,29
DK	-1,63	PO	0,37
DE	-0,07	RO	1,73
EE	-0,77	HU	1,57
IE	-1,11	FI	0,32
EL	-0,84	SW	1,05
ES	-0,7	UK	0,52
IT	-1,25		
CY	-5,08		
LV	-0,16		
LT	-0,59		
LU	-0,9		
MT	-3,16		
NL	-1,99		
AU	-0,3		
PT	-1,5		
SI	-0,92		
SK	-1,61		

Source: Own calculations based on Eurostat

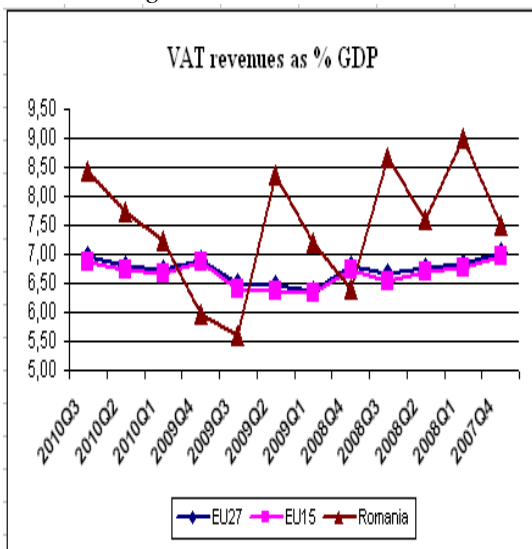
Analyzing the evolution of consumption of tax burden as % of GDP only in eight countries we have increases, especially in countries with VAT increases.

In Hungary and Romania we have the highest increase of the consumption revenues because the tax rates of VAT have increased with 5 percentage points.

The most important decreases are registered in countries with the lowest standard VAT rate like Cyprus with 5% (VAT rate is only 15%) and Malta with more than 3%.

For the Romania there is a huge decreasing almost 6 percentage points in 2008. The increasing of VAT rate from 1st July in 2010 was a good measure because we have a increasing of tax revenues and at the end of 2010 the consumption burden is higher in Romania comparative with EU 27. This is a good thing for the state budget even if it is not so good for the population.

Figure 3. VAT tax burden



Source: Based on Eurostat database

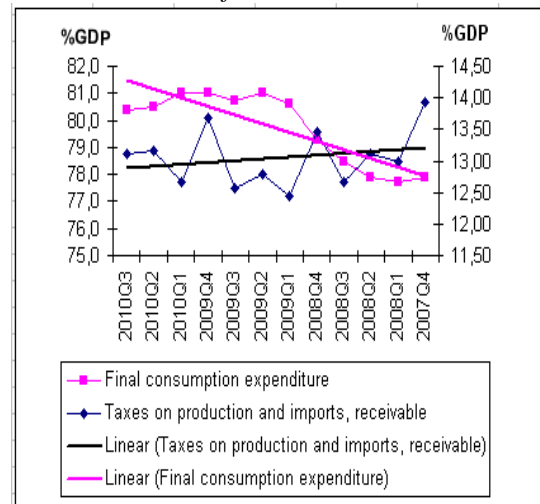
From the previously graph it can be seen a continuously increase for VAT as % in GDP starting with the end of 2009.

3. Evolution of consumption in EU 27 and Romania

For the EU space the final consumption expenditures was strongly affected by economic crises, but starting with the end of 2008 was registered an increase of this indicator as % of GDP.

The trend of weight of taxes on consumption in GDP varies quite weak on this period comparative with consumption as it can be seen in the next figure.

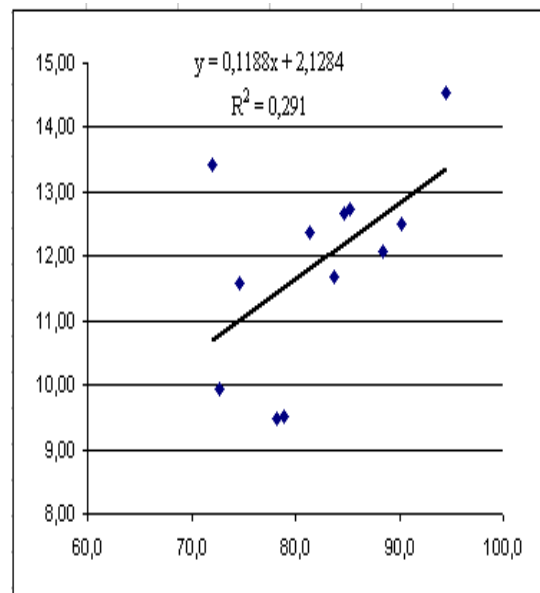
Figure 4. Consumption and consumption tax for UE27



Source: Based on Eurostat database

Analyzing the relation between the final consumption and consumption tax in Romania we find a low correlation almost 30%. If the final consumption increase with one point than the consumption tax increase with 0,11 (both indicators are expressed as % of GDP) and is a direct correlation.

Figure 5. Correlation between final consumption expenditures and consumption tax burden in Romania



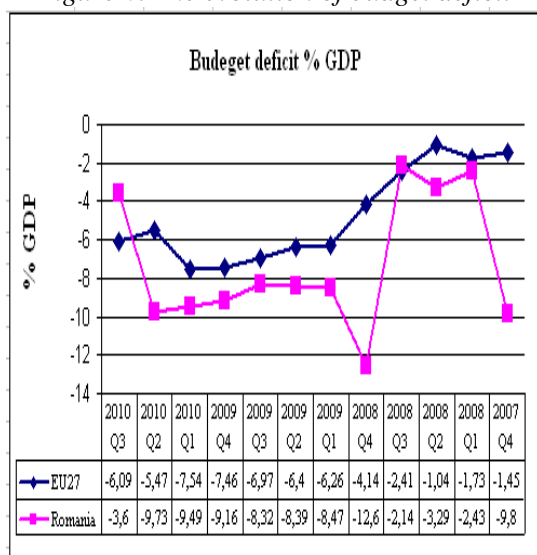
Source: Based on Eurostat database

Concerning the indirect tax revenues in Romania in the 1st quarter of 2009 comparative with the same period of 2008 it can be observed the follow trends (Mara, 2009):

- decreasing of VAT receipts with 16.8% (this is a consequence of decreasing consumption);
- increasing excises receipts with 6.2% (because the excise rates were increased starting with 2009).

There is a low correlation between economic growth and excises in Romania, this low correlation is explained through the fact that excises revenues are a stable source of public budget financing, because are imposed on the goods with inelastic demand and for this reason the evolution of economy has a reduced impact of excise receipts. (Mara, 2010)

Figure 6. The evolution of budget deficit



Source: Based on Eurostat database

The budget deficit was reduced in EU countries but is so far from the limit of 3%, but in Romania for the third quarter of 2010 is very closed by the 3% of GDP.

4. Conclusions

Although a shift of tax burden towards consumption taxation appears more desirable than the use of income taxes considering potential effects on growth, the widespread increase in VAT rates might potentially lead to distortions of trade flows and the allocation of capital.

The analysis reveals a strong dependence between the revenue from indirect taxes and consumption dynamics. Explosive growth of consumption has been tempered by economic crisis fact that increases the budget deficit. In

most European countries now economy is recovering and there is again economic growth and budget deficits were reduced.

Reducing the budget deficit was based on fiscal measures that focused increase in VAT standard rate. What will be the new trend of the EU fiscal policy concerning the indirect taxes after economic crises passed? We consider that for the countries with huge deficit is necessary to maintain these solutions and particularly the highest rate of VAT for assuring the budget revenues.

For Romania VAT rate increase was a proper solution for covering the public expenditures, but unfortunately it wasn't a good solution for households because of reducing the purchasing power. Express our opinion in favor of this 24% VAT rate because even if the government reduces the rate the prices don't decrease. But for increasing the budget revenues are necessary measures like elimination the tax evasion and fighting against underground economy. Indirect taxes even if there are very sensitive to the economic fluctuations are the most efficient instrument used by the governments for assuring the budget revenues for the state.

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The Purpose of the Information Accounting System for the Process of Taking Investment Decisions

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Abstract

Extremely useful in decisions making, real, clear, complete, credible and relevant accounting information are essential to the management.

Financial accounting provides financial - accounting information publishing the financial statements useful for all those interested in adopting decisions on investments, profitability analysis, quality management evaluation, entity diagnosis, assesment at its fair value of the financial position and performance, etc.

At the same time, management accounting is considered as a relevant and reliable source of information if it is adapted to the investement decision, collects all the needed data and accurately models them.

Key words: information, decision, accounting, management.

J.E.L. classification: M42

1. Introduction

In the overall information flow, of great importance is gathering and synthesizing the information to make them useful in decision making and optimising the decisions, information quality having a strong role on the choice, both on certain or uncertain situations.

Decision-making process identifies, collects and evaluates information including financial and accounting data on the analysed situation, identifies the need for a decision, identify alternative trends , choose the best action, then apply the chosen solution.

Looked upon as a comprehensive information system, accounting is and remains the mainstay of economic information systems, each of the parties

interested in running the entity making use of accounting information – as the only source that can provide the image of its work and its situation.

2. The role of data processing systems in financial accounting

The information accounting system plays an essential role in the transmission of economic data to all the departments of a company and all the third parts interested in the company.

The information systems used in the processing of accounting and financial data of a company have to meet the following minimal criteria:

- to provide accounting data according to the current laws and regulations;
- to provide maximal security in the processing of the accounting data;
- every data recorded in the books of the company has to be proved in documents available both to investors and to authorized external auditors;
- to list in a chronological order the economic activities of the company on the basis of documents in proof, without ulterior insertions or eliminations of data;
- to provide an automatic calculation of the total balances of the accounts at every new entry in accounts;
- to provide the storage of the data on a period of time in conformity to the Accountability Law 82/1992, reissued;
- to specify the storage devices for the recorded data, financial statements and other documents and the possibility for the reintroduction in the system of the archived data;
- to not allow ulterior insertions, changing, eliminations of data with regard to a closed period;

- to provide the following constitutive elements for the accounting entries: the date when the book was performed; the initial account book where the registrations are found; the ordinal number of the documents in proof assigned by the issuing entity;
- to provide the confidentiality and the protection of information and programs by using paroles and codes of identification for the access to information, back-ups for data;
- to provide clear, intelligible and complete lists with the following elements of identification on the heading of the document or on every page: the type of the document or statement, the name of the issuing entity, the period the respective information refers to, the date of the list, the chronological order of pages, the specification of the processing program used and its version;
- to provide the listing of the whole financial statements and centralized documents necessary to the operational management;
- to provide the correct content of the information for the respective printing forms;
- to allow in every moment the reconstitution of the content of the accounts, lists and information to be audited; all the balances of the accounts has to be the sum of a list of recordings and of a previous balance of the respective account; every entry has to contain elements of identification of the processed data;
- to not allowed: the opening of two accounts with the same symbol, the change of the symbol of an account if data were booked on that account, the elimination of an account in the current financial year or related to the previous financial year, if the respective account has records or balance, the issuing of two documents of a similar type with the same ordinal number and with a different content of information;
- to allow the elimination of an account which has no record in the previous two financial years;
- to stipulate in the documentation of the program the type of the processing system: for one or many companies, network, the portability of the files etc.
- to specify how the data are gathered: entries of groups of data that will be ulterior verified, entries of data immediately verified, a combination of the first two types;
- to allow a no limited number of entries in books;
- to posses the necessary technical documentation for the use of the program;
- to observe the current regulations regarding the security of the data and the accuracy of the information system for the processing of data.

The accountability represents the financial core of the managerial system of information and presents both to the management of the company and to third interested parties a complete image about the organization of the company.

The financial accounting records in books all the economic and financial operations of a company and presents a synthesis of this information in the financial statements. In the external medium of the company, financial accounting represents an instrument of financial language through the information furnished to the external users, while in the interior of the company it is an instrument of administration at the disposal of the management.

The informational activities specific to the accounting domain have in view the creation and the use of the accounting data. These actions consist in the creation, gathering, storage, processing and transmission of data and imply operations of booking, calculation, analysis, interpretation, grouping and the use of information in the process of taking decision.

In order to ground some correct decisions, the accounting information has to meet the following characteristics: clearness, relevance, credibility and comparability. More than that, in order to be credible, the accounting information resulted from the financial statements has to be convenient and to have a good ratio costs/ profit.

The balance sheet presents information related to the financial position, the profit and loss account speaks about the performance

and the changes in the financial position of the company are found in the explanatory notes.

The financial position of the company, defined in principal by structures of assets, debts and net assets, is determined by the economic resources of the company, by its financial structure, liquidity and solvability, and also by its capability to meet the changes in its external medium. The information resulted from the financial statements of a company can be used for different purposes, as follows:

- the information regarding the resources of the company are useful to forecast the capability of the company to generate cash flow in the present or in the future;
- the information regarding the financial structure are useful to forecast the needs for future credits and in which way the future profits and flows will be allocated between the people interested in the company; in the same time these kind of information are relevant for the chances of the company to attract future financing;
- the information regarding liquidity and solvability speak about the capacity of the company to meet its due debts. In this context, the liquidity is seen as the capacity of the company to use its cash-flow in the near future, after subtracting the short-term debts; solvability means the capacity of the company to use its cash flow on long term in order to meet its due financial debts.

The performance of the company is frequently measured by profit and is represented in the financial structure by the correspondent incomes and costs. The performance of a company is determined by a lot of factors beginning with the management and ending with the economic resources at the disposal of the company.

The information regarding the performance of the company in particular its profitability is useful to forecast the capacity of the entity to generate future cash flows with its available resources. At the same time they tell about the efficiency with which the company is able to manage new resources.

The changes in the financial statements provide information for the evaluation of the activities of exploitation, financing and investment of the company.

The financial statements are elaborated taking account of the engagements of the company and these are booked in accounts at the moment when they are assumed. This principle allows the users to know both the past transactions that already have generated payments and returns, but also the past ones that will generate in the future payments and returns.

At the same time, the financial statements are elaborated on the principle that an entity will carry on its activities in the future, what means that there is no intention and need to liquidate or to diminish significantly the activity.

The decisional processes in the economy cannot be conceived without the help of accounting information, characterized by the following attributes [1]:

- The grade of certitude and relevance of the accounting information is without doubt the highest within the whole informational economic system;
- It emphasizes relations of interdependence between economic phenomena and processes, which cannot be perceived with other instruments;
- It gives possibility to some comparative analyses in time and space, inclusive an objective estimation of the realized efficiency;
- It confirms or denies the profitability of any economical activity;
- It provides through specific means (account, calculation, account sold and financial statements) a global, general, but also analytical knowledge of the studied phenomena. Therefore, the possibility to elaborate the vital economic strategies of the company;
- Through its nature and structure it tends to describe the purpose of performance of the company.

The most part of the financial information is under the risk of lack of credibility. That is not due to partiality, but more to the inherent difficulties to identify the transactions and other elements that are going to be evaluated, or to conceive and apply the technique of evaluation.

In these cases the measurement of the financial effects of the events could be so uncertain, that the companies in general do not recognize them in their financial statements: for example, although the

majority of the companies generate goodwill, this element is very difficult to be evaluated in a credible way.

In these situations a possibility would be the recognizing of the respective elements, together with the risk that accompanies their evaluation.

3. Accounting information system auditing

The financial statements present the financial results of the transactions and other elements grouped in homogenous and large categories, according to the characteristics of the elements that form a given structure so:

- The balance sheet comprises structures related to the evaluation of the financial position as: assets, liabilities, net assets;
- The profit and loss account presents structures that evaluate the performance and is concretized in the incomes and the costs of the company on a certain period.
- The situation of the modifications in the financial position reflects structures that belong to the profit and loss account and to the balance sheet.

Checking the accuracy, compliance and reliability of the information provided by the accounting system is done through financial audit.

The audit of the financial statements elaborated through the systems of computerized information is structurally the same as the ordinary audit proceedings. As a difference, the auditor has to know the programs used in the processing of the accounting data, how these programs work and how they meet the needs of the users.

The computerized processing of data can improve the internal control by replacing the old proceedings of control through some new proceedings executed by computer.

The results generated by computer with the help of an algorithmic determination of information are more accurate but they do not exonerate the auditor from a rigorous control.

In practice the information generated by computer are considered too often veridical and it is no more verified, the auditors forgetting that a computer cannot do but the programs he was set to run. Therefore the auditors have to understand and to test the

computerized proceedings before they conclude the accuracy of the information processed by computer. A medium where the computerized technique is mainly used can affect:

- The proceedings used by the auditor in order to come to a sufficient understanding of the accounting system and of the system of internal control;
- The determination of a inherent risk regarding the correct application of the procedures of risk evaluation;
- The planning realized by the auditor and the performance of the verifying tests and of the procedures used to fulfill the objective of the audit

The use of the computerized proceedings supposes an improvement of the internal control of a company but in the same time can affect very serious the audit. A series of risks specific to the use of computers can appear as it follows [2]:

- The dependence on the functionality of the computer (hardware and software);
- The losing in visibility as regards the accounting information, inclusive the path of the audit;
- The diminishing of the implication of the human factor;
- The unauthorized access to the data basis and to the accounting programs;
- Systematic errors versus incidental errors;
- The lost of information, sometimes the lost of some whole files of accounting data;
- The decrease of the possibilities to separate the tasks;
- The absence of the traditional authorization;
- The necessity of experience in work with informational systems.

The risks can increase the potential of fraudulent activities in the specific applications, data bases or master files or in the processing of data. For example, the errors are identical in the systems that perform logical operations or complex calculation.

The system of internal control in the domain of informatics, which supervises the administration of a company in the processes of computerized processing of data comprises to types of controls- general and specific.

The general control provides the flows of processed data within a company well equipped with computerized technique and specialized staff.

The general control is a guarantee of an accurate function of the computerized systems of information. But it is not a sufficient condition of obtaining accurate accounting information. The certitude and the credibility of these information depends especially on the specific controls.

If the auditor has the information that the general control does not work in normal parameters, then it is obliged to take into account the influence of this problem on the specific controls. The credibility of the applications can be concluded.

The specific control refers to the booking and processing of data, in order to comprise the whole range of documents specific to every component of the financial statement: balance sheet, profit and loss account, cash flow, changes in the structure of the capital, the content of the explanatory notes.

The general controls and the specific controls enable the auditor to evaluate the quality and the functionality of the internal control and the importance of the logistic of the department of informatics as follows: the existence of some computers of latest generation, the proceedings of data processing, the complexity of the applicative systems, the efficiency regarding the strictness and the certitude of the procedures and of the information processes [2].

4. Conclusions

The financial statements – a final result of the financial accounting – represent the way in which the users receive the information necessary to ground the decisions regarding the orientation of the activities of the company in the future. Here are included the balance sheet, the profit and loss account, the statement regarding the financial position of the company and the explanatory notes added to financial statements.

The auditors have to understand and to test the computerized proceedings before they conclude the accuracy of the information processed by computer.

The auditor must continuously enhance their professional knowledge to know and understand his clients accounting system or consult a skilled IT professional that can be part of the auditors team or outside it, so resolving these issues lead to a quality audit.

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Objectives and Principles in the Statutory Audit

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Abstract

Statutory audit is conducted by an financial auditor in accordance with international auditing standards.

Unlike the statutory audit, financial audit covers the full range of services within the IAASB: audit services, review services, services upon agreed procedures development services (compilation) of information.

Therefore, global perspective on statutory audits ia looked upon as a part of the whole.

Key words: statutory audit, audit objectives, financial situation cycles, professional skepticism, reasonable assurance

J.E.L. classification: M42

1. Introduction

Statutory audit is the audit conducted by authorized persons in accordance with the provisions of GEO 90/2008 with subsequent amendments and additions, under the International Standards on Auditing issued by the IAASB and IFAC adopted, regardless of the type of entity to which they apply.

Financial audit is the whole of the assurance and non-assurance services that an auditor may perform, under the law, as a member of the Chamber of Romanian Financial Auditors (CFAR), no matter the entity for which the services are rendered.

2. The Goal of Performing a Statutory Audit of the Individual and Consolidated Financial Situations

The goal of an audit of the financial situations is that of giving the possibility to the auditor to express an opinion about the financial situations, if these are drawn under all the significant aspects according to an applicable frame of financial reporting.

According to the requirements of the International Standards of Audit, the audit shall give a reasonable assurance that the financial situations regarded as a whole, do not have significant misrepresentations, either as a consequence of embezzlements, or of errors.

It results the fact that, even if the auditor is not a guarantor or an institution giving absolute assurance about the fact that the accountancy information are right in the financial situations, he takes an important responsibility about the need of informing the users about the reliability of the financial situations. If the auditor reaches the conclusion that the financial situations do not give a faithful picture or if he finds himself in the situation of not being able to express appropriate conclusions, as a consequence of the fact that the evidence are scarce or of some given circumstances, then he has the whole responsibility for presenting this situation to the users by his report.

The general principles of an audit mission imply the following:

- The auditor shall act according to the requirements of the Code of Ethics, issued by the International Federation of Accountants (IFAC);
- The auditor shall perform the mission according to the International Standards of Audit (ISA);
- The auditor shall plan and perform a mission of audit with an attitude of professional skepticism, admitting the idea that, under certain circumstances, the financial situations might be misrepresented in a significant way;

In order to understand the role of collecting the evidence by the auditor, the auditor analyzes the stages to be gone through in order to define some objectives specific to the audit mission; in a general way, those are: understanding the objectives and the responsibilities of the audit; the segmentation of the financial situation in

cycles; knowing the declarations of the management about the accounts; knowing the general objectives of the audit about the categories of accounts and operations; knowing the specific objectives of the audit about the categories of accounts and operations.

An audit mission on the financial situations requires the segmentation of these ones in smaller and as homogenous as possible parts. This segmentation allows a more efficient management of an audit mission, thus making easy a rational sharing of the tasks between the members of the audit team. After closing the audit of every segment including the mutual connections with other segments, the results are interconnected. As a consequence of closing this part of the audit process, one may draw a conclusion about the whole of the financial situations.

In the audit practice, one meets different methods of segmentation of an audit mission. A first approach could be the audit of every balance of account of the financial situations as a distinct segment, but for different reasons, such an approach is not efficient for the accounts tightly correlated.

A more efficient, widely spread in the practice of the professionals is the including the tightly connected types of transactions and account balances in the same segment. This technique is known as the cycle method. One meets the following groups of cycles: the cycle sales-cashing; the cycle purchases – payments; the cycle human resources salaries; the cycle stocks – depositary; the cycle of capital operations.

According to the method of cycles, the auditors perform the missions of audit by applying tests of audit on the transactions which make the final account balances, but also applying some audit tests upon the balances of the accounts themselves. Out of the practical activity, one has reached the conclusion that a more efficient way of audit of the accounts consists in getting a number of combinations of assurances about each transaction, as well as the final account balance associated to the respective operations.

For any type of transaction, one may associate more audit objectives which shall be solved before the auditor can be able to reach the conclusion that the transactions

were correctly rendered by the account, these ones being known as audit objectives related to transactions.

Likely, one identifies a series of audit objectives which are to be reached about the balance of every account known as audit objectives related to balances.

A complete approach of these audit objectives cannot be done if the auditor does not understand the declarations of the management.

The declarations of the management are implicit or explicit statements about the categories of transactions and the accounts of the financial situations affected by these transactions; they are directly related to the criteria used by the management in order to record and present the accountancy information in the accountancy situations and the exact understanding by the auditors of these declarations leads them to perform high quality audits.

Analyzing carefully the audit objectives related to transactions and those related to account balances, one notices a lot of differences, among which two are more significant, one about the reference field, transactions and balances, and the other about the number of the audit objectives, i.e. the audit objectives for transactions are six and there are nine balance audit objectives.

The auditor shall get, within the frame of an audit mission, appropriate and enough evidence to confirm all the management declarations in the financial situations. As it results of the above mentioned facts, the audit evidence shall justify an appropriate combination of audit objectives related to balances and transactions. This thing is done by auditors applying an audit procedure based on a well-defined methodology of organizing an audit so that they could be sure that the audit evidence are appropriate and enough for the goal they wanted to reach.

After the auditor passes through all the procedures for every objective of the audit and for every account of the financial situations, one requires the grouping of information got and their being analyzed in order to reach a whole conclusion about the faithful picture presented in the financial situations. This is a very subjective matter and it is based on the professional reasoning of the auditor who is himself subjective. When the mission is ended and the auditor

issues a report, it shall respect a series of technical conditions.

The audit report is the final stage of the audit mission, the product of the auditor's activity by which the final conclusions are presented as a consequence of analyzing the financial information of a body, the auditor's opinion, the financial situations being drawn or not under all the significant aspects, according to an applicable financial reporting frame.

3. Regulations in the field of the Statutory Audit

The aspects about the statutory audit in Romania are approved by the Law no. 82/1991, The Law of Accountancy, with its subsequent changes and additions, OMFP no. 3055/2009 for approving the Accountancy Regulations according to the European Norms, with its subsequent changes and additions and beginning with the 29th of July 2008, by the Government Emergency Official Decision no. 90/2008 about the statutory audit of the yearly financial consolidated situations.

The yearly financial situations are accompanied by the managers' report, by the audit report or the report of the commission of auditors, as it is the case, and by the proposal of sharing the benefit or covering the accountancy loss. The yearly financial situations of the legal persons of public interest are subjected to a financial audit which is done by financial auditors, certified natural or legal persons. The financial situations drawn up by the bodies being compelled to do it are also subjected to an audit according to their specific legislation. The financial situations drawn up in order to merge, share or ceasing activity of the persons whose task is the audit of the yearly financial situation are also subjected to an audit. (Law no. 82/1991, art.34)

One may find other aspects about the audit in the Public Finance Minister's Order no. 3055/2009 which mentions the obligation of auditing the financial situations for the bodies which overpass at the balance time two of the three size criteria mentioned by the Fourth EC Norm.

The yearly financial situations drawn up by legal persons which at the balance time overpass the limits of two of the following three criteria : total assets: 3.650.000 euros, net turnover: 7.300.000 euros, average number of employees during the financial exercise: 50, are subjected to an audit according to the law. [1]

The yearly financial consolidated situations of the bodies are also subjected to an audit by one or more certified natural or legal persons under the circumstances stipulated by the law.

The Government Emergency Official Decision about the statutory audit expresses aspects included in the Norm 43/2006 CE, such as: certifying legal and natural persons, professional education and lifelong preparation, the public register, professional ethics, independence, objectivity, confidentiality and the professional secret, audit standards and reporting the Audit, quality assuring, the responsibility of the statutory auditor and of the audit company, the system of public surveyance, investigations and penalties

All the statutory auditors and the audit companies are the object of a system of assuring the quality, obeying to a least the following criteria:

- it shall be organized so that it should be independent from the controlled statutory auditors and audit companies and it shall be the object of the public surveyance;
- the financing of the system of assuring the quality shall be done without any influences from the statutory auditors or of the audit companies;
- the system of assuring the quality shall have enough resources. The Chamber and the Body of Public Surveyance shall assure the raising of the resources necessary to its functioning;
- the persons who perform the controls for assuring the quality shall have an adequate education and relevant experience in the statutory audit and in financial reporting, combined with specific preparation in the field of assuring the quality;
- the choosing of the persons who perform the controls of assuring the quality, is done on the basis of some objective procedures, designed so that one should be sure that there are no conflicts of interests between those who perform the

- controls and the statutory audit or the audit company;
- the applicability area of the control for assuring the quality, supported by an adequate testing of the audit files chosen include an assessment of the conformity to the existing audit standards and with the requirements of independence, of the quality, of the quantity of the spent resources, of the audit fees paid and of the internal systems of controlling the quality of the audit company;
 - the controls about assuring the quality are done at a period of time set according to the qualificatives got at the previous controls, but no more than 6 years, or 3 years, in the case of the auditors/public interest bodies, under the circumstances set by the regulations issued by the public surveyance body;
 - the general results of the activity done by the system of assuring the quality are published yearly;
 - the recommendations formulated at the end of the controls done in order to assure the quality shall be put into practice by the statutory auditor or by the audit company within the time set by the persons performing the controls for assuring the quality.

The Chamber is the competent authority in order to perform controls about assuring the quality.

The statutory auditors or the audit companies take the responsibility for any damage caused to their customers willingly or carelessly for which they shall conclude a compulsory insurance for covering the professional risks.

Performing the activity of statutory audit without having the quality of an auditor is a law infringement and it is punished according to the criminal law.

The national system of public surveyance of the activity of statutory audit is represented by all the bodies having approval responsibilities in the field of statutory audit, accountancy, by all the representatives of the professional bodies, the representative of the Justice Ministry, of the patronates and of the academic environment and all the relations and procedures which are set among these ones in order to perform the surveyance for the public interest.

All the statutory auditors and all the audit companies are the object of the public surveyance. The system has final responsibility about: approving and registering the statutory auditors and of the audit companies; adopting the standards about the professional ethics; the lifelong professional education; assuring the quality and performing control in order to assure the quality; assuring the investigation and discipline systems.

The penalties to be put into practice shall be efficient, proportional and discouraging and appropriately presented to the public.

The infringement of the stipulation of the Official Decision about the statutory audit of the yearly financial situations and of the consolidated financial situations by the statutory auditors and by the audit companies draws administrative, disciplinary, civil or criminal responsibility, according to the case.

The following ones are regarded as contraventions:

- The deeds of the associates, of the managers of the employees who do not have the quality of a statutory auditor in the independent exercise of the profession of an auditor on behalf of the audit company.
- Using the quality of a statutory auditor or of that of an audit company under other circumstances but those stipulated in OUG 90/2008.
- The exercise of the statutory audit activity without the yearly visa or by persons who are not recorded in the Public Register.

Steps: those stipulated at letter a above, with fine between 10.000 lei and 20.000 lei; those stipulated at letter b. above, with fine between 50.000 lei and 100.000 lei and the nullity of the drawn audit report; those stipulated at letter c. with fine between 10.000 lei and 20.000 lei.

The contraventional penalties are to be applied to the persons empowered by the Chamber and by the Public Surveyance Body.

The Disciplinary penalties applied by the Chamber to the auditors and to the audit companies are, according to the case: admonishing, written warning, suspending the right of exercising their activity on a period between 3 months and a year, the withdrawal of the certification accompanied by losing the quality of a statutory auditor.

4. Conclusions

A mission of audit cannot perform its role if the audit team does not know the elements of the following stages: the main objectives of the audit; the responsibilities that the auditor takes during performing his task; the specific objectives that the audit is trying to reach.

Without an understanding of these three stages, the planning of the audit and the collecting of the evidence along the mission will have no relevance.

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Agriculture - Sustainable Development Component of the South-West Oltenia Region

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Abstract

Agriculture is an important sector in South-West Oltenia. In communism agriculture in the region have an important contribution to the GDP. Currently the overall character of the area is subsistence farming (traditional). To reduce the effect of droughts, irrigation systems were built, used during the communist era. Unfortunately, nobody takes care about them and now creates a visual discomfort. People should be educated to support sustainable agriculture, using the technologies and agro-technical systems that preserve and regenerate the land: crop rotation, careful use of fertilizers, agro-forestry, terracing and mixed cultures.

Key words: agriculture, the region, sustainable development.

J.E.L. classification: O13

1. Introduction

When our country decided to join the European Union, the organization of national economic space in units appropriate implementation of regional development policies and develop an appropriate statistical system have become key elements of Romania's development policy in the European context.

Today Almost everything takes place under the banner of sustainable development, the company develops through the application of sustainable development must become sustainable education, industry and develop sustainable agriculture, research

needs to support sustainable development, water resources are sustainably used, etc..

We started this research in mind definition of sustainable development, now classic "model of development that ensures the well-being of human society today without compromising future generations similar opportunities, which I think is generous, emotional, that can motivate both individuals and institutions, but is very general.

So I asked how to determine whether the industry, agriculture contributes to sustainable development of the region. One of mankind's global problems, now is the national and even regional food security and environmental protection.

They talk about global "hunger crisis", which involves discussions on the question of providing food for the population at national level, with implications for each region. The sustainable development of agriculture crops made to understand that performance without destroying the biological basis of agriculture, protect the environment and food security of the population.

2. Sustainable Development of the South-West Oltenia Region

From the theoretical point of view, to benefit the sustainable development of the region would be that renewable resources not to be used only in relation to their regeneration rate and sources of raw materials to be used by man rather than as long as they can be replaced, both materially and functionally, as a renewable resource, while generating higher productivity. Should remain a temporary equivalence between time and intervention during the ongoing

processes in nature. This is a strong view of the concept of ecological sustainability and was conditioned by the fact that the discussion around sustainability has been marked since the beginning of the aspects of ecological modernization and the establishment of a new innovative environmental policies.

This situation should make us believe that economic and social functions will be treated equally. These factors are bound by certain rules of the game in terms of fair distribution of inter-and intra-generational tangible and intangible resources. Economic component, may ultimately most important, having a crucial development, because economic interests should be managed and regulated in a very special way. Realised price today of sexual exploitation or environmental degradation can no longer be tolerated in an economic system that bows to sustainability.

From an economic perspective, sustainable agriculture is manifested through successful commercial activities, which are doing less subsidies from the state, making it competitive. Persons employed in agriculture will not only gain from the production of healthy food and mostly regional marketing and processing, but in the sense of a multifunctional agriculture, and gain from other sources of income from tourism, the cultivation of raw materials or renewable energy production from biomass. In all these will add other sources of earnings, by honoring the raw state of environmental protection and natural conservation.

Sustainable development of agriculture is characterized in terms of organic soil that handles natural resources, water and air so that they are protected against negative influences of time. Specifically, this means that fertilizers and substances that protect plants should be used sparingly and with great care so that the land and waters near surfaces grown to be unaffected. Crops must allow the preservation of an environment characterized by diversity of species, and will encourage and genetic potential of crop plants or breeds of pets older.

And from a social perspective, it must ensure jobs in rural areas. Rational management of land ensures that by combining agricultural activities with environmental services to ensure sustainable rural development. The measures are

intended to ensure sustainable improvement of agricultural land use, to conserve and protect the natural landscape.

In the South-West Oltenia agriculture has an important role, with 1 million hectares for cultivation of cereals (mainly maize and wheat), oilseeds (especially sunflower), vegetables (soy, peas, beans, tomatoes, cabbage, leeks, onions) and fruit (apple, watermelon, melon, grapes), potatoes, sugar beets, production of honey, milk and milk products . It also produces good quality wine.

The soil in this region is favorable for cereals and vegetables, but as can be seen from the table above the cultivated area in the operating profile is continuously decreasing. I believe that the more we, as inhabitants of this region should benefit from every area of land to cultivate and harvest the fruit. You should not use other countries' agricultural products, the region has favorable soil, a favorable climate and skilled labor. South-West Oltenia has a very good agricultural potential, but very poorly capitalized, especially after 1990, due to the deterioration and disappearance of technical and organizational support and division of land. In 2008 the average yield of major crops is as follows:

Table 1 - Average yield per hectare of major crops in 2008

- kg / ha -

South-West Oltenia	Total	Of which: private sector
Wheat andrye	3044	3043
Barley andbarley	2845	2844
Oats	1783	1776
Grain Corn	2843	2843
Shelling	1859	1870
Beans	1183	1183
Sunflower	1417	1421
Sugar beet	-	-
Soya bean	1.456	1.456
Potatoes	11.148	11.117
Autumn Potatoes	11.334	11.267
Tomatoes	14.192	14.197
Dry Onions	10.084	10.085
Cabbage	15.765	15.768
Melons green and yellow	16 953	16 953

Source: National Institute of Statistics, Regional Statistics Department Dolj.

Overall character of the area is subsistence farming (traditional). To reduce the effect of droughts, irrigation systems were built, used in the communist period, especially in Olt county. Unfortunately, nobody takes care about them and now creates a visual discomfort. People should be educated to support sustainable agriculture, using the technologies and agro-technical systems that preserve and regenerate the land: crop rotation, careful use of fertilizers, agro-forestry, terracing and mixed cultures.

Distribution of the average total population in the region, highlights the prevalence of rural population with a number of 1,175,776 people (52.24%) than the urban population, which consists of 1,074,789 people (47.76%). Proportion of population in rural counties is as follows: Dolj - 46.15%, California - 59.52% Month - 54.57%, Mehedinti - and Gorj 51.35% - 52.78%. Note that Dolj and Mehedinti counties are below the regional average in terms of share of rural population.

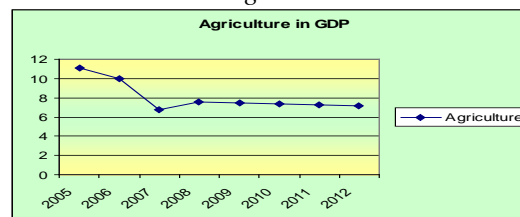
Greater percentage of rural population and vast area of arable land, particularly in the southern region are predominantly agriculture sector in the regional economy.

So, the increasing number of people employed in agriculture and further fragmentation of land ownership reform, and the use of less advanced technologies, have led to a notable decline in labor productivity in this sector.

And in the South-West Oltenia Region, implementing the concept of Sustainable development is the basic premise of sustainable development of agriculture and territorial restructuring and socio-economic development of rural areas.

Even though the region has a substantial agricultural area, this area contributes to the region's GDP in a small way, somewhere around 7% and is in constant decline, as shown in the chart below:

Chart. 1 Agriculture in GDP



Source: Graph was made by the author based on data from the Department of Statistics

In the region there are a number of farms analyzed with recognized nationally and internationally, who do not receive subsidies from the state and region who bring considerable income. Most important are wine farms in the area Drăgășani. Their development involves making labor as an important part of rural population to be trained in these fields. Always in the region have been using fertilizers and substances that protect plants economically and with great care so that the land and waters near surfaces not grown nor have they been affected.

Sustainable development of the region is to improve competitiveness agriculture and forestry. Restructuring the agricultural sector, which is absolutely necessary for the implementation of sustainable rural development, implies a constant for increasing the performance of agricultural holdings along with the introduction of environmental measures and rural social development. To achieve these objectives are necessary cost-cutting measures, the establishment or increase the size of farms, promote innovation, market orientation, investment in physical capital and human economic activities, production of quality products, environmentally friendly, using technologies cleaner. South-West Oltenia struggle for economic, social and environmental sustainable development hence effective.

Decisive role in the rapid and continuous acquisition and generalization of research results they have farms specialists (engineers, agronomists, horticulturists, veterinarians, engineers and economists) from all institutions at national and regional levels in the agriculture, the training of all workers in agriculture.

But we are fully convinced that the current conditions of the Romanian agriculture - South-West region ranking among countries European largest agricultural potential - with another technical and material specialists will find agriculture - will take the place of work and motivation that it is for the value of the land, the principles of sustainable agriculture, organic farming, a plentiful food healthy, eliminating the state of embarrassment that we all know, two-thirds of importers of food.

Let's hope for a wiser land policy promoted by the factors responsible for state-level and technical transformation of scientific achievements in a powerful force for progress and national dignity, the region will become net exporters of food products, taking a worthy place in the country and abroad.

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Estimating the Beveridge Curve of Romania between 2004 and 2010

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Abstract

The objective of this study is to prove the existence of an inverse relationship between the unemployment rate and the vacancy rate, i.e. the Beveridge curve, in the case of Romania. Estimation of this curve allows the identification of friction and matching process between demand and supply in the labor market. This study is structured in three parts. The first concerns the analysis of theoretical background of the Beveridge curve. In the second part we made the graphic representation of this curve between 2004 and 2010 years. On this basis, we explained why Beveridge curve shifted to inward until 2008 year and to outward when Romanian economy entered into recession. In the third part of paper, we validated the existence of the Beveridge curve in Romania, using a VAR model with two lags.

Key words: Beveridge curve, VAR model, vacancy rate, labour market, hysteresis.

J.E.L. classification: E24, E27, J08

1. Introduction

In 1989 Olivier Blanchard considered that, until that moment, the importance of the Beveridge curve was underestimated by the macroeconomists, although the labour market evolution in the OECD countries could have been explained with this analysis tool. Other empirical studies have validated both the existence of the inverse relation between the rate of unemployment and the rate of vacancy for certain regions or countries (Coles and Smith, 1996; Petrongolo and Pissarides, 2001), and also its stability (Wall and Zoega,

2002; Valletta 2005). Three of the economists who have studied the effectiveness of the labour market based on the Beveridge Curve (Pissarides, Diamond, Mortensen) were rewarded with the Nobel Prize for Economics in 2010 year.

Romania's labour market was characterized in the past ten years, both by increasing jobs deficits at the beginning of economic recovery and by deepening of the vacancies in certain areas of activity, as a consequence of economic overheating between 2006-2008 years and of active population migration. The reduction of unemployment process started in the 2000 year has been stressed since 2005, which has reduced the NAIRU by about 7.5% at the end of 2004, to 5.5% in July 2008. The minimum effective rate of unemployment was registered in July 2008 - 3.7%, while the economic crisis has led to the rise of the unemployment rate up to about 7% at the end of 2009. Evolution of unemployment up in July 2008 was caused by increasing the flexibility of the workforce in context of favorable economic evolutions in Romania and in EU countries.

The mismatch process between the qualifications of the workforce and those required to fill a job on different segments of the labour market has increased the number of vacancies since 2006, up to a maximum of about 27.000 in July 2007. The entry in the recession of the Romanian economy caused a reduction in the number of vacancies up to a level of about 3500 in December of 2010 year.

The decrease of unemployment in Romania was determined increasing the number of job vacancies (the claims of those who were seeking a job were higher), while

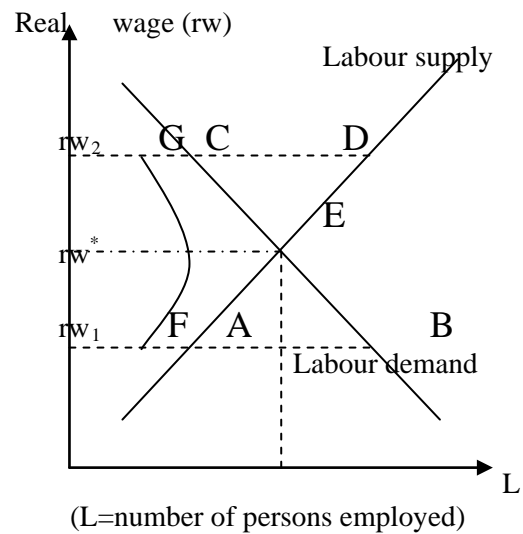
the economic crisis has depressed vacancies, in conditions of increase in the number of unemployed. Within this study, we used the Beveridge curve to explain both the matching process between supply and demand of labour in Romania, as well to estimate the degree of labour market flexibility. In light of changes in this curve, we estimated the direction in which changed the structural and cyclical unemployment.

2. Theoretical background of the Beveridge curve

One of the reasons for which deficits of the labour market are recorded consists of the lack of matching between the unemployed and the existing number of jobs vacancy in an economy. Thus, segments of the labour market (those which offer higher wages and better working conditions) can coexist with the segments in which there is a labour deficit, these ones being characterized by the constancy of a raised number of vacancy (those in which the wages are closer to the minimum wage, and the working conditions are difficult). However, the weak compensation of the surplus with the labour deficit can be caused both by the development differences of the regions, and also by disparities of the regional migration phenomenon.

The Beveridge curve can be derived from relationship between employment and real wage, and hence using the labour supply and demand curve. The equilibrium of the labour market is established at intersection between labour and demand curves. At point E are neither vacancies nor unemployed persons. If the real wage is below that level (rw_1), then the number of persons employed is lower than number of employment and distance between A and B measures the number of vacancies. If the real wage is above the equilibrium level (rw_2), then number of employment is lower than labour supply and distance between C and D represents unemployment.

Figure 1. The equilibrium of the labour market

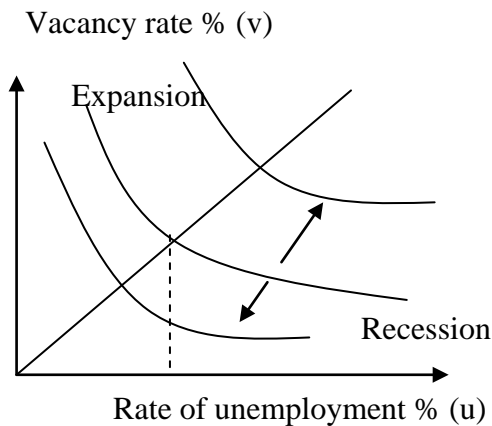


According to figure 1, each level of real wage different from equilibrium is characterized by one of labour deficit form – labour supply deficit (vacancies) or labour demand deficit (unemployment). But, in real economy, both labour market deficits coexist. In order to adapt the above graph to economic reality, we established the conditions existing at the same time of unemployment and of job vacancies. Thus, when the real wage is rw_2 , the employment will never be on the labor supply curve (point A), but at point F. The explanation is that some workers will not be able to find a job even though there are excess vacancies. This leads to unemployment measured by the distance between F and A, respectively to vacancies (AB). Also, when the real wage is rw_1 , employment will never be on the labor demand curve (at point C), but at point G. Under these conditions, some firms will not be able to find workers although there is excess supply of labour. This situation generates vacancies (distance between G and C), respectively unemployment (CD).

The curve GF highlights the correlation between unemployment and vacancies, in terms of both labour market deficits existence. The Beveridge curve can be derived starting from GF curve, but using unemployment and vacancies in terms of rates, dividing both variables by the labour force. Will results an inverse relationship between unemployment rate and vacancy rate, as in figure 2, where the 45 degree line

represents equilibrium in the labor market, which is point E in figure 1. Movements along the Beveridge curve indicate where the economy is in the business cycle. At times of a recessionary gap, there is low vacancy rate and high unemployment rate, and in an inflationary gap the economy experiences high vacancy rate and low unemployment rate.

Figure 2. The Beveridge curve



The changes of the Beveridge curve can be interpreted according to cyclical and structural factors that influence the real economy. Thus, the movements along the Beveridge curve are the result of cyclical changes of labour demand:

- The movement by flattened side of Beveridge curve signify the increase of the vacancies number and decrease of the unemployment, following the rising the economic activity or high demand. Thus, the probability of finding a job increases.
- The movement by inelastic side of Beveridge curve corresponds to decrease of vacancies and to increase of unemployment. If the economy is in recessionary gap, then aggregate demand is lower and the firms keep fewer jobs.

These movements explain the form of unemployment also. This is a cyclical one because reacts to changes of aggregate demand, so it will automatically decrease in expansion periods.

The shifts of the Beveridge curve are the result of structural changes in the real economy. Therefore, it results a higher or lower unemployment rate for a given vacancy rate, that have been interpreted as reflecting structural changes which affect the

matching between jobs and unemployed workers. There are four categories of factors could explain the outward and inward shift of the curve: composition of the unemployed population and the labor force, institutional factors affecting the matching efficiency between unemployed workers and job vacancies, business cycle, and other structural shocks such as productivity growth and reallocation of employment across sectors and regions.

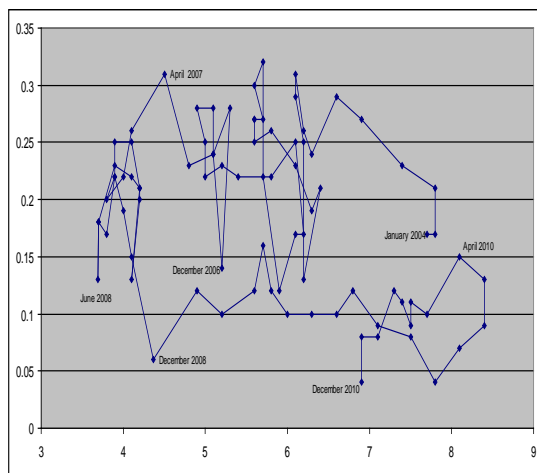
- If the Beveridge curve shifts inward, then will decrease the structural unemployment, the labour market frictions will be smaller and the matching process will be more efficient. Frictions can be due to information imperfections, skill mismatch, location mismatch or lack of workers' motivation. The mismatch could decrease due to changes in employment protection legislation, labour market policies and to increase of economic incentives for labour force.
- If the Beveridge curve shifts outward, then will appear a hysteresis effect of structural unemployment. The higher level of unemployment will be persistent and the vacancies will adjust rapidly. The unemployed must re-qualify to find a job, but number of vacancies is very limited.

3. The changes of Romanian Beveridge curve in the last seven years

Graphical representation of the Beveridge curve for Romania highlights increasing compatibility between vacancies and the unemployed in the context of economic expansion since 2004 year. According to figure 3, the curve inward shifted until the end of 2008 year, which corresponds to a significant decrease in structural unemployment (the unemployment rate is plotted on the horizontal axis and the rate of vacancies on the vertical axis, both sizes as percentage). This process has intensified since 2007 year, as a result of overheating the economy and labour migration. The minimum level of unemployment rate was achieved in July of 2008 year, at the level of 3.7%, the vacancy rate in that month being 0.18%.

The recession in that has entered the Romanian economy from the fourth quarter of 2008 year has generated in the first phase a rise of cyclical unemployment to a level of 5% (at the end of the year), after which a rise of the structural unemployment up to 8.4% in early 2010 year. Classification of unemployment in cyclical and structural can be based on the change curve Beveridge. Thus, in the first phase occurred a movement along the curve, then an outward shift of this. Therefore, increasing unemployment in Romania has a strong structural component, driven by job losses in sectors that have sustained economic growth (especially in real estate). Under these conditions, the unemployment rate decrease to levels lower than 5-6% can be achieved in terms of promoting sustainable economic growth and structural reforms (including labor market).

Figure 3. The Beveridge curve in Romania (2004 – 2010)



Source of data: Romanian National Institute of Statistics (2011)

4. Estimating the Beveridge curve with a VAR model

In order to estimate the inverse relation between the vacancy rate and the rate of unemployment in Romania, we estimated the Beveridge curve for the period between 2004 and 2010 years, by using monthly data series offered by the National Institute of Statistics (2011). The econometric model is described by following equation:

$$\log(u) = \alpha_0 + \alpha_1 \cdot \log(v) + \varepsilon \quad (1)$$

In the economic literature, the equation above was tested depending on the lagged values of the rate of unemployment, because lack of stationarity of these variables.

Using monthly data series, we observed the seasonality phenomenon in the case of unemployment and vacancy rates, so the increase in the rate of unemployment and by the decrease in the vacancy rate during the period between November and February of the consecutive years included within this paper. In order to eliminate the influence of the seasonal factors, we have used the de-seasonality of the data series by using the Census X12 procedure from Eviews 6 econometric package. During the period between 2004:1 and 2010:12, the rate of unemployment recorded an average value of 5.74%, a maximum value of 8.04% in March 2010 and a minimum value of 3.86% in May of 2010 year. The mean of the 84 observations for the rate of vacancy was of 0.18%, the maximum being 0.29% in January 2007, and the minimum value by 0.08% in October 2010.

In order to correctly identify the VAR model which describes the relation between the two variances, we have checked their stationarity hypothesis. The stationarity of a data series supposes that its stochastic features, respectively the average, the dispersion, the covariance are constant and they do not vary with time. Moreover, a stationary series tends to return to the average value and to fluctuate around it (it has a finite variance). On the contrary, a non-stationary series has an average which differs with various moments in time. If we analyze, based on the ADF test, the stationarity hypothesis for the two series expressed in logarithm, we can notice the acceptance of the initial H0 hypothesis, and this supposes the existence of a unit root (table 1). The two series used are those seasonally adjusted.

Table 1: Stationarity test of the variables included in Beveridge curve

Critical values of t statistics	$\log(u)$ ADF(0)	$\log(u)$ ADF(1)	$\log(v)$ ADF(0)	$\log(v)$ ADF(1)
	-2.3029	-3.2924	-2.3100	-12.935
1%	-3.5133	-2.5934	-4.0738	-2.5934
5%	-2.8976	-1.9448	-3.4655	-1.9448
10%	-2.5861	-1.6141	-3.1593	-1.6141

Source: our estimations in Eviews 6

According to the ADF test, the data series of the rate of unemployment and of the vacancy rates become stationary with the first difference, so the ADF(1) values are lower than those corresponding to the significance thresholds included in the table. In order to use stationary time series, we have calculated the first differences of the two variances:

$$\begin{aligned} d \log(u) &= \log(u) - \log(u - 1) \\ d \log(v) &= \log(v) - \log(v - 1) \end{aligned} \quad (2)$$

As the two variables of the model are stationary, we have created a VAR model in order to estimate the way in which the change of vacancy rate influences the unemployment rate. For the purpose of selecting the number of the model's lags, we have used the Akaike (AIC) and Schwarz (SIC) selection tests, according to which the optimum lag is selected depending on the minimum values of these information criteria. According to them and to the *lag exclusion test*, we have estimated the existence of two lags within the VAR model, which has the $d\log(u)$ and $d\log(v)$ as endogenous variables. Moreover, this VAR model of the 2nd order is also characterized by the highest value of the adjusted R² coefficient, namely 0.65. The VAR model is stable, all the four roots of the polynomial have values expressed in module which are lower than 0.87, thus meeting the condition to be inside the circle with the radius of 1. The residual VAR also meet all the necessary conditions for a good representation of the model: normal distribution, absence of heteroskedasticity and errors autocorrelation.

The VAR model with two lags has all coefficients statistically significant, as it results from the analysis of the t statistic criterion, which suggests a good representation of the relation between the rate of unemployment and the vacancy rate. According to the model, increase with 1 percentage point of the unemployment rate variation during the previous period leads to 0.54% increase of actual unemployment rate, what generates a persistent unemployment. The impact upon the current variation of rate of unemployment gets decreased in the case of variable lagged with two months. The relation between the first difference of the rate of unemployment (u) and the one and two months lagged differences of the vacancy rate (v) is negative and it is

statistically significant, and this fact confirms the inverse relation between the two variances. Thus, a 1% increase of the v variance, which is lagged with one lag, is reflected in the 0.05% decrease of the rate of unemployment variation (table 2).

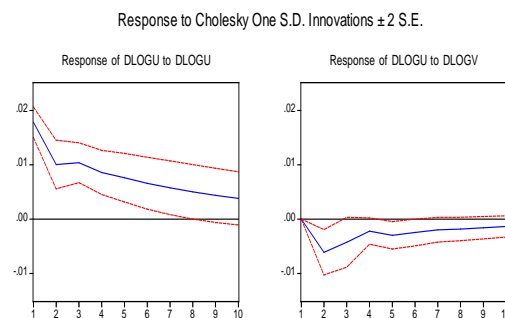
Table 3: The results of the VAR model estimation
- dependent variable: $d\log(u)$

Variab le	Coefficient	t statistics
$d\log(u)(-1)$	0.54	4.88
$d\log(u)(-2)$	0.25	2.27
$d\log(v)(-1)$	-0.06	-3.02
$d\log(v)(-2)$	-0.03	-1.79

Source: our calculations in Eviews 6

We have finalized VAR analysis using *impulse response function*. Figure 4 shows that the increase of the unemployment rate with 1% in t month leads to rise of unemployment rate with 0.2% during the month $t+1$, followed by a slight decrease during next months. The total impact of rising unemployment disappears after 30 months. The increase of vacancy rate with 1% leads to unemployment rate decrease with 0.06% after first month, the impact being neutralized after 20 months. The analysis of the response function suggests the occurrence of some consistent impulses upon the rate of unemployment during the period between 2004:1 and 2010:12, and this aspect may be explained by the existence of some different forms of the Beveridge curves during the period between 2004 and 2008 years and between 2008 and 2010 years. The decrease up to elimination of the impulses upon the variance $d\log u$ strengthens the stability feature of the used VAR model.

Figure 4. Responses of $d\log u$ to the $d\log u$ and $d\log v$ impulses



Source: our estimations in Eviews 6

5. Conclusions

Beveridge curve is a useful tool to identify both frictions and compatibilities on the labour market, but the nature of the unemployment (cyclical or structural) depending to economic activities evolutions. Based on the theoretical foundations of the Beveridge curve, we explained its change in period 2004-2008, respectively from 2008 to 2010 years. If in the first sub-period was recorded a decrease of both structural and cyclical unemployment, in second part it registered a significant increase of the structural unemployment. To assess the validity of the inverse relationship between unemployment and vacancy rates, we used a VAR model in which we included those two variables expressed as first difference. The results revealed the persistence of high unemployment in Romania and the existence of a coefficient of elasticity of the rate of unemployment at 0.06%.

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Critical Aspects in Evaluation of Infrastructure Projects Submitted for Financing under European Programmes in Romania

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Abstract

Infrastructure represents a national strategic objective and a high priority is given within the Romanian public policies. Financial assistance is received through the European Programmes to support country's efforts to develop and implement infrastructure projects. Despite the funds allocated for this area, the absorption level is low at national level.

Selection of the most appropriate and relevant infrastructure projects is an important task. The technical and financial evaluation of the applications submitted for financing is the most important stage of the evaluation and enables the selection of the projects that will be financed. Various criteria are assessed, like the opportunity of the project, the relevance for the public programme, the quality and sustainability of the project etc.

The present paper envisages to presenting the results of the study undertaken to identify the critical aspects that need to be taken into account in the evaluation of the infrastructure projects. The methodology applied in the study is based on in-depth analysis of existing documentation for elaboration of infrastructure projects, evaluation reports prepared by the individual evaluators and European Programmes progress. It also includes the extensive practical experience of the authors.

Key words: infrastructure projects, European Programmes, evaluation, public funds, Romania

J.E.L. classification: M 21.

1. Introduction

Selection of good infrastructure creates the premises for a successful implementation and development of existing infrastructure elements.

The aim of the present paper is to show the critical aspects that need to be addressed during the evaluation. The chapter 2 displays the main strategic documents and the available European funds in Romania through the Sectoral Operational Programmes. Then in chapter 3 is detailed the evaluation framework and the assessment stages of the applications submitted for financing. The chapter 4 emphasizes the critical points that require higher attention in the evaluation process. The last chapter presents the conclusions and several recommendations to be considered for a higher absorption of European funds.

The article is based on a desk research study based on in-depth analysis of public available documents and author practical experience in evaluation of projects financed through European Funds.

2. European Programmes that Finance Infrastructure Projects

The National Development Plan (NDP) for 2007-2013 represents the main strategic document defining the Romanian national policies. It sets out specific objectives in line with Lisbon Strategy and Göteborg objectives, which establish the national development priorities related to infrastructure: developing and modernizing transport infrastructure, protecting and improving the quality of the environment, diminishing development disparities between

country regions.

Further, these are detailed within the National Strategic Reference Framework (NSRF) for 2007-2013, which is the national strategic document that creates the links between the Romanian development priorities and the European Community ones. Thereby, development of infrastructure at European standards is one of the four thematic priorities. NSRF explains how the European Structural Instruments are implemented in Romania for the programming period 2007-2013, through the Sectoral Operational Programmes (SOPs).

The infrastructure investments are financed through the following SOPs:

- **Regional Operational Programme (ROP)**, financed through European Regional Development Fund (ERDF) – infrastructure projects for regional development, urban growth, local infrastructure, social infrastructure,
- **Sectoral Operational Programme Environment (SOP Environment)**, financed through European Regional Development Fund (ERDF) and Cohesion Fund (CF) – infrastructure projects for environmental infrastructure, water and wastewater systems, waste management systems, rehabilitation of historically contaminated sites, natural risk prevention,
- **Sectoral Operational Programme Transport (SOP Transport)**, financed through European Regional Development Fund (ERDF) and Cohesion Fund (CF) – modernization and development of transport systems,
- **Sectoral Operational Programme Increase of Economic Competitiveness (SOP EC)**, financed through European Regional Development Fund (ERDF) – energy related infrastructure, IT&C infrastructure, R&D infrastructure.

For each of the Sectoral Operational Programmes are launched Calls for proposals and the interested applicants have to submit their applications for financing based on the requirements set out in the Guidelines for Applicants. The financing applications consist of various documents, including a predefined Financing Application Form, detailed project description, property documents and rights if the case, applicant's

declarations and certificates, Master Plan and Feasibility Study, institutional analysis, curricula vitae of the team etc.

Using the official statistical data centralized at national level for each of the Sectoral Operational Programme, we have elaborated the following two tables that show for the four SOPs taken into account the low absorption of the European funds. Table 1 presents the amounts contracted by end of February from the total available funds and Table 2 presents the number of contracts signed compared with those submitted.

Table 1. Situation of funds contracted per SOP at 28 February 2011

Values in lei	Allocated amounts for 2007-2013*	Contracted amounts 28 Feb 2011		
		EU	National	Applicant
ROP	15,863,165,050	8,842,642,743	1,272,701,953	775,172,674
SOP Environment	19,211,390,366	9,357,212,300	1,893,235,535	247,059,198
SOP Transport	19,439,021,440	2,956,919,334	978,176,482	0
SOPEC	10,874,345,207	3,637,762,515	618,661,135	1,306,871,539

* infoeuro exchange rate

Table 2. Situation of applications per SOP at 28 February 2011

No of applications	Submitted	Approved	Signed contracts
ROP	7616	1357	1131
SOP Environment	292	174	164
SOP Transport	71	42	38
SOP EC	7705	2334	1586

3. Evaluation Process of Infrastructure Projects

The European Commission defines "evaluation" as an independent analysis of an intervention taking into account the results achieved, the impact estimated and the needs addressed to be satisfied.

The evaluation is made by independent consultants with experience in the field, usually following a tender procedure for technical assistance and selection experts undertaken by the Managing Authority of each SOP. Confidentiality and Impartiality Statements are signed by each evaluator.

The evaluation criteria are compulsory and are presented within the Guidelines for Applicants for transparency, along with the detailed evaluation grids that will be used during the evaluation.

The applications are assessed from three points of view:

a) administrative compliance – administrative aspects are assessed, including: submission of application within the deadline, correctness filling out of the forms, provision of all the requested documents, certificates, studies etc.

b) eligibility verification is two-folded:

- *eligibility of the applicant* – the eligible applicants are defined in each Guidelines for Applicants and only those entities are entitled to receive funding and may include county councils, city/town halls, utility companies, intercommunity agencies, etc. On the other hand, an eligible entity should have the capacity to implement the project, to provide the co-financing part, to respect all the institutional, legal and financial criteria, etc.
- *eligibility of the project* – the proposed project for funding should have objectives in line with the call for proposals scope, to include activities that under financed under that specific call, to respect the legislation for environment, public procurement, energy efficiency, horizontal themes, the duration and requested required funds comply with the call for proposals criteria, etc. In the same time, the proposed activities should not benefit of other public financing.

These first two evaluation stages are usually conducted by the experienced staff of the Managing Authorities/ Intermediate Bodies. The administrative compliance and eligibility criteria are assessed with YES/NO and a “NO” for any of these criteria leads in rejection of the whole application.

c) technical and financial evaluation – this represents the actual evaluation of the application. During this stage, the project objectives, results, activities, resources involved are assessed, as well the importance, technical solutions and methodology proposed, in other words the:

- relevance and opportunity of the project,
- maturity, quality and sustainability of the project.

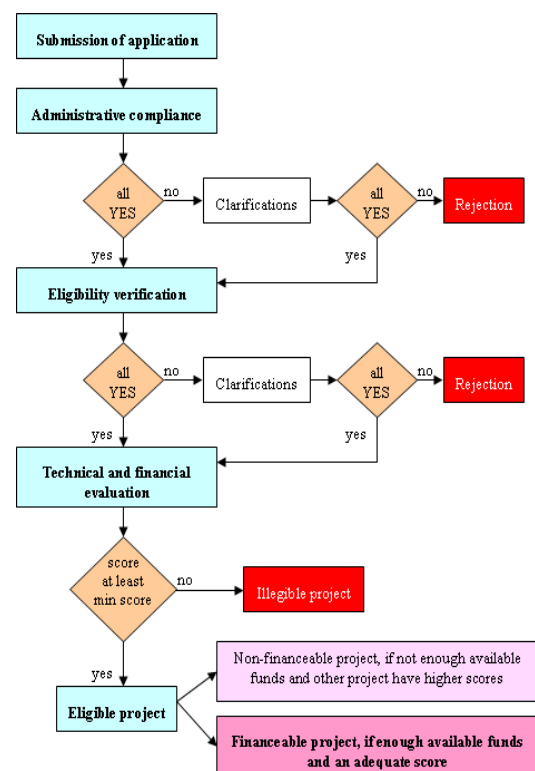
The technical and financial evaluation enables the selection of the projects that will be financed.

Independent evaluation of the applications is needed in order to ensure a better objectivity, as well as that specialized expertise is needed. Thus, the third evaluation stage is performed by independent evaluators. For projects with higher budgets, like those over 25 million euro under SOP Environment, beside the national evaluation European Commission’s approval is requested.

The evaluators assess the project from the technical and financial points of view and score each of the criteria as defined in the Guidelines for Applicants.

Figure 1 summarizes and presents the evaluation process in a logical flow from the submission of an application till it passes all the stages and is considered an eligible project that can be contracted.

Figure 1. Evaluation process



Source: Proceedings ICBE Brasov 2010, pp. 275-278

If a project is considered illegible because the application scores below the minimum threshold, it does not mean automatically that the project is not good, but that the project is not significantly in line with the SOP objectives, or that it is not enough elaborated,

or that has to be reviewed.

Once a project is considered eligible, a financing contract may be signed depending on funds available.

4. Critical Points in Evaluation of Infrastructure Projects

The Tables 1 and 2 presented above show that a high number of applications are rejected or receive low scores that determine the evaluated projects to be rejected or considered illegible. These reasons are various and in this section we present several points considered critical, that require attention and can contribute to increasing the number of eligible projects and creating premises for a higher absorption of European funds in Romania.

a) Evaluation has to be made based on responsibility for public money

Responsibility for public money requires paying special attention to assessing Government actions. Taking this into account, the evaluation of projects funded from public funds should focus on selection of projects relevant for the community, in line with the established priorities. As at programming level the evaluation is considered as a process that allows independent analysis of the benefits of a public funded intervention, the evaluation of the applications for financing should aim to select projects based on their impact, their efficiency and effectiveness, their continued relevance for the beneficiaries needs, their results sustainability etc.

b) Evaluation has to be objective

Projects need to be selected based on objective criteria. Assessment has to be performed by individuals/ entities outside the control or influence of those responsible for the development or implementation of actions. Objectivity and impartiality of the evaluators has to go beyond provision of a sworn statement and direct checking of the implication in the elaboration of the application that will be evaluated and interests in relation between the evaluator and evaluated project need to be conducted. Evaluation needs to take into account only the application and established criteria.

c) Evaluation has to be made by professionals

If in the case of the administrative compliance and eligibility verification the assessment can be made by persons who are acquainted with the Guidelines for Applicants and familiarized with documentation required for applications, the technical and financial evaluation has to be performed by specialized persons, who have extensive knowledge and expertise in the evaluated field. Understanding the procedures is not enough and extensive experience in the infrastructure field is needed, both in terms of technical and financial aspects.

d) Evaluation of technical documents

- evaluation of Master Plans

Master Plans provide an overview on the investments foreseen in an area as strategy and represent the base for the Feasibility Studies and other following documents of the project. Therefore, the evaluation of Master Plans is important and should focus on:

- checking the data provided to justify the proposed investment on three levels: horizontal, vertical and external,
- forecasts are made for the entire lifetime and are clearly correlated with the major assumptions,
- all existing deficiencies are explained in a precise and quantitative manner to justify the need for investments,
- sufficient strategic options are considered to identify the proposed technical solutions,
- all envisaged locations for the new infrastructure are suitable and available,
- all institutional aspects are taken into consideration,
- affordability to paying for public services is substantiated,
- a list of priority investments is clearly defined, and include a long-term investment plan,
- the applicant understands and accepts his obligations regarding the co-financing part for project implementation.

- evaluation of Feasibility Studies

As the Feasibility Studies are the base for the Technical Project/Detailed Design and getting construction approvals, their evaluation of should focus on the following aspects:

- detailed relevant analysis of the existing infrastructure in the target area and considered for funding,
- correlation of the project objectives with those at national/regional level,
- accurate quantification of established targets,
- provision of adequate estimations of demand for services/ operating standards, to justify the proposed measures,
- detailed relevant description of possible alternatives (size, location, investment, operation and maintenance costs etc.),
- criteria used to identify the optimum investment option (in terms of achieving targets and to compliance with regulations, with minimum costs, minimum environmental impact and minimum risk to public health),
- identification of the optimum alternative and explanations provided for selection,
- quantification of benefits and specification of performance indicators,
- description of the investment budget and the operation and maintenance costs,
- project implementation plan and procurement strategy.

Even that not always the Guidelines for Applicants clearly specify the provision of the approvals and agreements requested by the National Legislation (like those mentioned in the Urban Certificate – utilities, environment, health, emergency situations etc., Natura 2000, heritage agreement), the evaluation of the Feasibility Studies cannot be performed in their absence.

The percentage of the corresponding criteria in the technical and financial evaluation grid does not presently reflect the importance of the Feasibility Studies. A higher attention in elaboration of the Feasibility Study should be given as the technical specifications have direct financial implications, and may lead to the impossibility of implementing/ finalization of the project.

e) Evaluation of financial aspects
- evaluation of Project Budget

The project budget included in the financing application should be detailed to a degree that allows a proper financial assessment. Presenting only the main chapters may hide illegible costs.

- evaluation of Cost-Benefit Analysis

The Cost-Benefit Analysis should be made in line with the cost-benefit analysis guidelines. Evaluation is focused on the options from the financial and economic point of view, the justification of the selected variant, the sensitivity and risk analysis, the calculation of financing needed and the financing sources taken into consideration or already available.

The budget presents as well a forecast based on the existing financial accounts and the financial indicators are different for public institutions than for private operators.

f) Consideration of other aspects

- institutional analysis

Institutional Analysis is frequently put aside. It takes into account the definition of the institutional structure (human resources, revised organization chart etc.), management capacity, financial capacity, methodology for project implementation, relationship with other institutions, financial and operational management, quality indicators of the project etc.

- internal factors

There are several internal factors within the organization that determine the success or failure of a project. These include the following:

- inadequate evaluation of the resources needed for the project,
- faulty planning of project activities that undermine the possibilities to successfully achieve the proposed results,
- logistics and backstopping issues,
- inadequate allocation of project resources (human, financial and material),
- organizational inefficiency.

- quality management plan

Quality assurance is the ultimate target without being a demagogical statement. A quality management plan and clearly defined procedures create the premises for achieving the desired objectives.

- risk management plan

A good project includes a risk management plan that can overcome the impact of unpredictable factors and provides a framework to tackle the various problems that a project can face during the implementation.

5. Conclusions and recommendations

The impact and importance of good and viable infrastructure projects for Romania's development is well recognized. The financial assistance provided by the European Union supports national efforts in this sector. As the absorption level is low compared to allocated funds, identifying and understanding the critical points in evaluation of the submitted applications can help.

Several solutions are considered to diminish critical aspects identified:

- provision of detailed, concise and clear training for the potential applicants on how to prepare financing applications, emphasizing the key points and presenting the common mistakes,
- elaboration of more structured Guidelines for Applicants, underlining the important issues, to facilitate preparation of applications and evaluation of the projects, like enclosure of a detailed checklist with the studies and technical expertise required if the case,
- promotion of the call for proposals well in advance and provision of enough time for project preparation,
- establishment of help-desks able to clarify various aspects and to screen and orientate potential applicants,
- evaluation of the whole application should better assess the coherence of the documents provided and the justification of the technical-economical solution proposed,
- observations and recommendations included in the evaluation report should be concise and clear, to provide the foundation for designing future financing schemes,
- establishment of a better evaluation framework that allows the selection of the most appropriate projects that respond to specific community needs, and which provide higher benefits compared to the related costs.

Once the critical points are identified, further analyses can be conducted to identify possibilities to improve the evaluation procedure of infrastructure projects.

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Leadership: the Engine of Adaptive Change in Education

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Abstract

This article reviews recent developments in leadership that are to upgrade the pre-existent knowledge in this field. Also, it discusses the shift towards the language of performance outcomes used increasingly to describe leaders and leadership and the changing political and economic environments in which educational leaders act. As governments worldwide articulate the rhetoric of a 'knowledge economy', traditional cultures of education management and leadership are found to be wanting. At the same time, growing recognition that market and managerial reforms have not improved levels of educational performance, has increased government interest in the transformative powers of business and charismatic leadership. This paper considers this phenomenon with reference to the changing conditions of corporate leadership taking place in the education sector. In so doing the paper seeks to examine how principals and senior managers mediate changing education policy agendas in a sector recovering from an intense period of financial crisis, industrial action and low staff morale. The paper concludes with an example of visionary leadership in education.

Key words: educational leadership, adaptive change, knowledge

J.E.L. classification: M19

1. Introduction

In a world in perpetual motion, evolving from year to year, organizations keep their importance in the life of any individual. In organizations, man builds or loses his identity, his inner self is affected or shaped according to his own will. By their structures, mechanisms and purposes, organizations are producing a certain type of man and certain types of behaviours, called organizational man, respectively organizational behaviour. In turn, man and organizational behaviour are profoundly affecting and influencing the organizational life and effectiveness.

Making a natural analogy within the current education environment, we discover the academic ecosystem that produces people of a certain kind, so that then to "acclimatize" them for the ruthless jungle of the society where they will be able to enjoy the results of their and others' academic training, through the society's network system. It results from here the need to acknowledge a special kind of leadership, ethics and social responsibility which are applied in the first instance, to the academic function, in order to gain access to a generalized competitive organizational system.

2. The written and unwritten history of Leadership: from Charisma to Consensus

Nearly 100 years ago, the renowned political and social theorist of German descent, Max Weber, introduced the notion of "charismatic leadership" as an antidote to his grim prognosis for industrial society.

Without such leadership, the author has predicted that "not summer's bloom lies ahead of us, but rather a polar night of icy darkness and hardness." Since then, the notion of charisma has endured, alternatively attracting and repelling us as a function of events in the world at large. In the chaos that followed World War I, many scientists continued to see powerful leaders as a sort of Messiah. But in the aftermath of fascism, Nazism and the World War II, many scientists have turned against the notion that only character determines the effectiveness of leaders.

On the contrary, scientists began to favour "contingency models" which focus on the context in which leaders operate. For example, studies carried out in the '60s and '70s by the influential social psychologist Fred Fiedler at the University of Washington, suggested that the secret of good leadership lies in discovering "the perfect match" between the individual and the leadership challenge he or she confronts. For every would-be leader, there is an optimal leadership context; for every leadership challenge, there is a perfect candidate. This idea has proved to be a big money-maker; it underlies a multitude of best-selling business books and the tactics of corporate head-hunters who promote themselves as extraordinary individuals who manage to make mergers.

In fact, such models have delivered mixed results to humanity, contributing to a partial resurgence of charismatic models of leadership in recent decades. In particular, James MacGregor Burns and his work on transformational leadership in the late 1970s rekindled the view according to which only a figure with a specific and rare set of attributes is able to bring about necessary transformations in the structure of organizations and society.

How, then, do we get beyond this frustrating turnabout between those who argue that an effective leader can overcome circumstances and those who retort that circumstances define the leader? In our view, strong leadership arises out of a symbiotic relationship between leaders and followers within a given social group and hence requires an intimate understanding of group psychology.

In the 1970s Henri Tajfel and John C. Turner from the University of Bristol in England, performed seminal studies on how groups can restructure individual psychology. Tajfel introduced the term of "social identity" to refer to the part of a person's sense of self that is defined by a group. As Turner pointed out, social identity also allows people to identify and act together as group members - for example, as Catholics, Americans or Dodgers fans. Social identities thus make group behaviour possible: they enable us to reach consensus on what matters to us, to coordinate our actions with others and to strive for shared goals.

Tajfel and Turner's original social identity framework does not refer to leadership explicitly, but it helps to clarify why leadership requires a common "us" to represent. Leadership theorist Bernard Bass of Binghamton University has shown, for example, that leaders are most effective when they can induce followers to see themselves as group members and to see the group's interest as their own interest.

The emergence of social identity helps to explain the transformation in the strategies of rulers associated with the birth of modern nation states in the 19th century. According to historian Tim Blanning of the University of Cambridge, before national identities emerged, monarchs could only rule as autocrats, using power (rather than true leadership) to control people. But once people identified with nations, effective monarchs needed to rule as patriots who were able to lead the people because they embodied a shared national identity. Monarchs such as Louis XVI of France who misunderstood or ignored this shift, literally lost their heads.

In the context of the current situation, identifying with a structure meets the adaptive change - it starts from leaders who create and communicate their vision. Choosing the appropriate leadership style might be the best first step that a manager should make him towards sustainable development.

History attests many successful models of leadership, each with its own unique characteristics that are perfectly appropriate to certain situations. Leadership based on providing an example is perhaps the most powerful leadership style. Napoleon and

Patton led by giving an example to others and were widely admired by their troops because they led them into battle; but not all leadership situations occur in dramatic circumstances, such as those we encounter on the battlefield.

Leadership characterized by making difficult decisions in difficult times, the discernment and the ability to survive over a long period of time represents another powerful model.

In conclusion, leadership represents a phenomenon of influencing the subordinates' behaviour by using tools of psychosocial nature (motivation, involvement in achieving objectives, generating satisfaction). Ordway Tead defines leadership as "the art of influencing people to cooperate toward some goal which they come to find desirable" (The Art of Leadership). Also, The Collins English Dictionary gives several meanings for this term, including the ability to lead. Leadership can be viewed as a group dynamic process by which a person manages to determine by influencing other group members to voluntarily engage in group tasks or goals, over a certain period of time and in a particular organizational context. One can observe from most definitions of leadership that the leading process has a psychosocial nature because it is based on three fundamental elements: group, influence and purpose.

A very important aspect is that leadership is based on team spirit, which consists of the employee acceptance to think, act and behave harmonized, consistent with a well-defined and common purpose.

Among the major issues that organizations are facing today is one linked to adaptive change, which especially applies in the academic environment. Thus, changes occurring within society, on the market, at customer and technology level have forced organizations to develop new strategies and courses of action. Mobilizing people to adapt to new conditions represents one of the most difficult tasks of a leader.

Regarding the identification of adaptation challenge it is implicit that - when the organization cannot learn with proper speed to adapt to the new trends and challenges, it risks going irreversibly to decline. Heifetz and Laurie believe that to successfully overcome the adaptation obstacles, managers

must overcome prejudices according to which a leader commands and the employee performs. Solutions to achieve adaptation imply the collaboration of all members of an organization and to assume a collective responsibility to problematic situations they face.

A leader, regardless of his level and how he is invested, must support people in facing new challenges, in accommodating to new values, in changing perspectives and learning new rules.

3. The current model of educational leadership. Case Study: University of Bucharest, Faculty of Business and Administration

Theoretical elements presented in this paper find their application both in curricular and extracurricular activities of the Faculty of Business and Administration. Leadership functioned equally successful in developing the educational capacity of the Faculty of Business and Administration (Fig. 1) as in developing the attitudinal capacity of the Faculty of Business and Administration (Fig. 2). Reality has shown that an academic system is complete when the informational system is supported by practice. Here we can also consider volunteering. (Fig. 2)

Educational leadership is seen as a first class catalyst for adaptive change at the society level.

In our view, education is by far the number one public project of Romania in the next 20 years. The historical stake is the success or failure in terms of Romania obtaining on 1st of January 2007, the status of European Union member state.

The transformation of the School in Romania through a process of adaptive change starts at the vision of implementing an authentic educational system, which is cultivating values, which is useful and attractive.

Adaptive change generates discomfort, because, by its very nature, imposes significant losses for those facing this change: status, beliefs, attitudes, habits. To actually achieve in fact this adaptive process, Ronald A. Heifetz identifies the available resources of the leader and group within the educational context, resources that are

dealing with change (Heifetz emphasizes the importance of separation between technical problems and problems of adaptive nature, the first using the ingredient of the exerted authority and the last ones exploiting leadership processes for adaptive solutions.):

- *Gaining the group's attention.* This is a critical source of power and a resource that the leader can use to calibrate the focus on priority areas for action;
- *Accessing the information needed for change;*
- *Articulating problems and formulating questions,* ways in which the meaning of the actions is transmitted and the main directions of effort are being establish;
- *Orchestrating the conflict.* Managed intelligently, conflict is productive. Leaders can use dissonance and differences to determine to engage in the adaptive effort;
- *Choosing the team* (participants). To decide the participants in the crucial conversations and decision-making represents a powerful resource to influence the desirable results.

Educational leadership manifested in the circumstances of adaptive challenges must have the ability to manage long periods of anxiety and also to very accurate evaluate the group's ability to handle different levels of stress. There are several key factors that can help a group to perform tasks of adaptive nature:

- Internal cohesion;
- Confidence;
- Clear delineation of tasks;
- External structure of authority.

The adaptive challenges often emerge in the form of essential questions and the adaptive solutions are formed from the formulation of responses to essential questions:

- *What should I learn as a person and all of us, as a community of teachers?*
- *What should we keep and what should we give up?*
- *What values to cultivate in ourselves and in those we teach?*
- *I want to go enter this process of transforming School as a system*
- *Is it worthy to remain until the end?*

Here are, for instance, three illustrative examples of the projects axiomatic of transforming the School as a system in Romania, which means as many the most complex challenges for their immediate protagonists - pupils, students, teachers, education system - as for society in its whole:

- Achieving the strategic objective of generating sustainable highly competitive human resources, by allocating – starting from 2012 for at least 4 years - 8% of GDP under “Public expenditure for Education”;
- Placing the system of public universities on the principles of quality and competitiveness defined by the Bologna Process, with the goal that by 2020 at least one university in Romania to be included in the top 500 universities in the world, in accordance with any of the certified criteria systems and classifications;
- Implementing the project of teaching career, from the vision of a modern strategy for developing the human resource from education which confirms the dignity and the first class social status of the profession of being a teacher. The design parameters of the new model of teaching career are: the existence of career options and career transition with clear entry / exit points; the development of teaching skills and attitudes; continuous training; personal development; motivating financial offer provided on merit basis; conversion training.

To put on the public agenda projects such as those mentioned earlier out and to determine the responsibility of putting them into fact until the end means in terms of Dean Williams, managing a separate set of “real” leadership challenges, where the prevalent nature of orchestrating change is the adaptive one (“The crisis” challenges identified by Williams in his book, "Real Leadership" are consistently resorting as well to system solutions based on specific applications of crisis management).

Projects that adhere to the idea of adaptive change by implementing a highly topical educational leadership have already been done at the University of Bucharest, the Faculty of Business and Administration, with its specializations - Public Administration and Business Administration. This college is

a modern and attractive new structure, awarded by the EDUNIVERSAL International Association of Paris with the "Excellent Business School" prize in 2008 and 2009.

We further present as a relevant example of educational leadership, the schemes of the faculty projects by the values of curricular and extracurricular activities, which, by correlation, help in refining a system fertile to performance toward which the Romanian society tends, such as:

Figure 1 - Curricular activities in chronological order

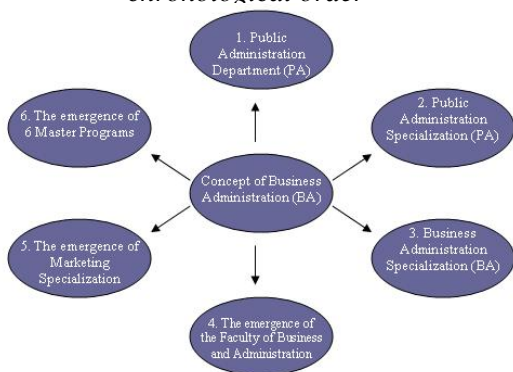
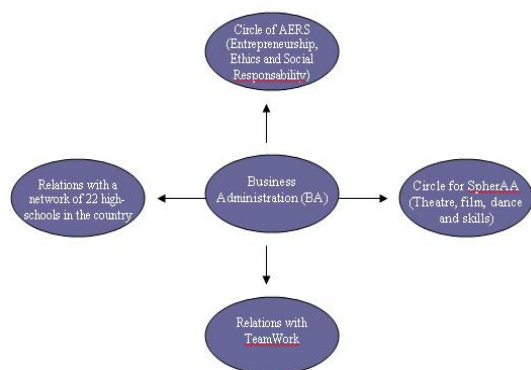


Figure 2 - Extracurricular activities



As you can see in Figures 1 and 2, curricular activities have the efficiency of a system of educational leadership which having been implemented in accordance with modern standards has generated a performance with *domino* effect, thus triggering the achievement of other successful projects, listed in the chronological steps.

While the first figure consists of a brief history of educational leadership as a catalyst for adaptive changes to the demand existent on the market, the second figure is

remarkable by refracting this leadership in a visionary schema which is profoundly original and it is for improvement and multilateral and creative completion of the bachelor and master programs through an extended and innovative view on the issue of the 21st Century student.

The projects implemented have generic roles to mould on the student's current profile, but also to achieve other objectives of European class, such as:

- Promoting among students a positive attitude towards volunteering and teamwork;
- Familiarizing students with different organizational environments by developing projects and internships;
- Discovering the multitude of creative resources and civic responsibility;
- Early social responsibility;
- The practical valuing of the students' theoretical knowledge;
- Developing partnership contracts with various companies.

All these objectives are fulfilled by the action of some synergistic, symbiotic forces, generated by a program of visionary leadership, applied to the educational environment, thus facilitating the achievement of immediate results.

4. Conclusions

Leadership is a form of knowledge and self-awareness. Through power (the ability to influence others) we can motivate people because we can offer something of expert power, resource owner power, and information owner power. The organizational mechanism is subtly linked to people's skills and the roles they can play.

Leadership gives people the opportunity to be creators of contexts and to visualize the hidden flaws of organizations of any kind, even universities. Visionaries see what is not seen and scanning the future, they make it visible to others.

As we have seen, it is more than obvious what renowned specialists say, that in this current turbulent world, leadership becomes more important than management techniques and methods.

One may say that leadership is a complex process by which guidance, direction and training of a group is accomplished without using coercive means, in a certain direction to achieve the long-term goals of the group itself, in agreement with the current changes.

At the same time leadership should also be regarded as a social process of exchange in which the leader "gives" something to those who follow him and "receives" something else of them in exchange. It appears that from this point of view, leadership implies three variables of involvement: the leader, those who are following him and the situation in which they act. Practice has proved that the existence of these three variables is absolutely necessary for carrying out the leadership process, especially the educational leadership, the lack of change at individual and managerial level could not support the adaptability to the turbulent factors of the environment.

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Posttransition Word Associations of Bulgarian Students – a Comparison to the 1980s Norms

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Abstract

Economic developments in South European countries raise questions about the sustainability of fiscal policy. We aim to study the attitudes of young people in Bulgaria towards prudent economic policy and we use the word-associations as a tool for this goal. To our knowledge, this is a pioneer attempt in this field, the present paper shows some results from our pilot study among Bulgarian students in economy.

Key words: word association norms, posttransition attitudes

J.E.L. classification: C92, D03, Z13

1. Introduction

Recent development in fiscal policies in Europe and around the globe, especially within the framework of the post-2008 financial and economic crisis raise many questions about the design of prospect fiscal policies. The PIIGS problem has particularly clearly showed, that maintenance of the Single Currency in EU continues to require conservative fiscal policies, from the one side, but from the other side also that attitudes towards prudent policies have to be cultivated among people – South European countries are seemingly more vulnerable to aberrant shifts in economic policies.

In this environment, an interesting question is what are the attitudes of young Bulgarian citizens towards economic policy, given that young people are the future "core" of the working force and of political parties electorate. Development of democracy will require political parties to act in accordance with these attitudes, thus future economic

policy will be strongly influenced by views of contemporary youth.

An often used tool for research of cognitive processes is the analysis of word associations. We believe it can be useful also for our goals of studying support to certain type of economic policy, thus such a research seems promising. Moreover, this is to our knowledge the first attempt in this area.

2. Word association norms and their research

Free association as a procedure for measuring the strength, number and direction of connections has a long history as a reliable technique. Although the idea that principles of association drive the thought processes might have earlier roots, the seminal study in word associations is Kent-Rosanoff (1910). Most of later studies, especially in languages other than English, base on the Kent-Rosanoff lexicon and principles of the experiment. Generating the associative response may involve numerous operations and is a fairly complex mental process, requiring time for initiating.

After attempts to use word associations as a psychodiagnostic tool (Jung 1918), in the mid-20th century studies shift towards collecting association norms through large-scale studies – the most influential and widely known paper in the field is Palermo and Jenkins (1964), but also others – Russell and Jenkins (1954) – the "1952 Minnesota norms", Kucera and Francis (1967), Postman and Keppel (1970) etc. Popular starting points for overview of literature are the Brown (1976) catalog, summarising 172 studies on scaled verbal materials and Bradshaw (1974) – a guide-index of 119 studies, also – Proctor and Vu (1999), who

provide an index of 142 norms published in the Psychonomic Society journals.

For Bulgaria the fundamental study of word associations is Gerganov (1984) – Bulgarian norms of word associations, influenced i.a. by several Soviet studies – a Russian dictionary of association norms – Leontiev (1977), a Kyrgyz and Russian dictionary – Titova (1975) et. al.

One common contemporary problem is that later research is based mainly on the influential studies, and examples exist that this is not always a good way to obtain plausible results – see e.g. Moss and Older (1996). This requires norms of word associations to be repeated and re-calibrated.

An often made assumption in association research is that concepts are represented as nodes, interconnected in a network (Collins and Loftus 1975). Activation of a concept leads to spreading along the links to the related concepts. Detailed analysis of data from word associations could reveal some qualitative aspects of the structure of semantic memory. Similarities in the representations of the words in the memory could infer similarity of the sets of responses to these words (Collins and Loftus 1975, Aitchison 1987).

As a measure for the strength of word associations traditionally the percentage of the subjects who produced each response is taken (see details in Moss and Older 1996).

Word association studies base upon the belief that they provide a direct window to the semantic memory, and even to the thought processes in general (for a discussion see Deese 1965).

Word association norms are considered to be an important factor in psycholinguistic research, especially in the area of lexical retrieval (see Church and Hanks 1989 for a discussion), who provide also an alternative informational measure for measuring word association norms, the association ratio. Robust estimates of word association norms for a large portion of the language can be obtained. For compiling of the word lists, often frequency of usage dictionaries are used. Anyway an arbitrary selection is to be preferred.

With the advance in information technologies, recent research widens towards speed recognition and optical character recognition (OCR), retrieving texts from

large-scale databases and enhancing the productivity of computational linguistics (see Church and Hanks 1991 for a discussion).

We limit our research to the basic properties of the results obtained from free word associations.

3. The experiment

Our lexicon – we compiled a list made of 50 Bulgarian words, half of which are from the Gerganov (1984) lexicon, and the other half are new. Here we present the results only for the 25 common words, and only for some of the statistical properties of response data, the full lexicon will be analysed in a further study.

Our subjects – we asked a group of 107 students in economy (75 female and 32 male; aged 20-24; 103 of them – Bulgarian native speakers, 4 – Turkish native speakers; all – Bulgarian citizens, living in a Bulgarian-speaking environment).

Our study is made among bachelor students in economy at the University of Economics – Varna, Bulgaria. As UE-Varna is a leading Bulgarian university in the field of economy, we consider the participating students as a part of the future top-level workers in companies in Bulgaria. Thus their views and attitudes are of certain importance for designing the fiscal policy in the future. Cued recall is strongly affected by the strength of the preexisting connection between the word-stimulus – test cue and the word-response – the target, the information to be recalled. The probability that the cue produced the target in free association is believed that it gives some information about the underlying attitudes of the subject on the matter.

We followed the traditional approach and asked the subjects to write down the first word they think of after hearing a sound signal. The respondents were asked to mark also the case when they have no associations. The stimulus words (cues) were given with a pause of 5 seconds between the words. Answers are written. After each 10 words-cues respondents were asked to match the number of the word-response. As in other similar studies, in the subsequent processing of data typographic and orthographic errors have been corrected, and illegible answers excluded from the sample.

In fulfilling the experiment, we underlined, that the subject are asked to (1) give the first response produced by the stimulus-word, (2) respond with only one word, and (3) speed of responding is important.

Traditionally most researchers follow the Palermo-Jenkins (1964) paper, so that studied are (1) response frequencies, (2) idiosyncratic responses, (3) response index – showing the response words in alphabetical order. Most investigators are unlikely to use multiple-word responses, these are of little interest.

In this paper we limit our results only to the response frequencies.

Our study should be regarded as allowing plausible comparisons to the Gerganov (1984) study, because the overwhelming majority of subjects in the 1984 study were high-school students in the last grade (usually 18-19 years old).

As for a common measure for the association strength the percentage of the particular word-response is taken, we present further the two most often responded words to the stimulus-words, with their percentage occurrences (in parentheses, after the respective word-response) – first in the Gerganov (1984), and then in our study (year 2011). Below we present the cues with their two most important targets, in parentheses we show the percentage people who gave that word-response.

Gerganov (1984):

justice - no(does not exist)(7.6), reality(7.6)
 town - village(17.6), big(13.3)
 health - sickness(13.5), strength(4.9)
 party – BCP(12.1) (the ruling party), people(5.3)
 want - desire(13.1), can(6.6)
 grandmother - grandfather(35.5), old(21.1)
 meeting - Komsomol(13.9), party(5.2)
 take - give(37.5), money(9.5)
 working - man(person)(17.4), worker(10.5)
 student - pupil(7.8), student(female)(4.9)
 market - big(4.9), commodity(4.7)
 success - big(9.3), excellent(8.3)
 money - many(17.5), wealth(5.4)
 village - town(19.6), little(9.7)
 truth - lie(22.2), reality(8.7)
 citizen - peasant(16.5), man(person)(12.5)
 week - month(11), Sunday(10.6)
 alcohol - wine(8.7), spirit(6.4)

way - long(14.5), road(8.3)
 thief - prison(6.9), of peaches(6.7)
 promise - fulfil(10.9), promise(6)
 car - light(personal car)(11.3), driver(7.9)
 sickness - health(9.4), hospital(5.3)
 give - take(30.1), money(12.8)
 pay - money(28), bill(8.3)

The average association strength for the first word-response is 15.9 (8.8), with a maximum of 37.5 and a minimum of 4.9 and for the second word-response – 8.4 (3.7), with a maximum of 21.1 and a minimum of 4.7, in parentheses we give the standard deviations.

Our study (2011):

justice - court(19.6), law(9.4)
 town - Varna(26.2), village(18.7)
 health - hospital(21.5), sickness(10.3)
 party - GERB(14) (the ruling party), politician(8.4)
 want - can(17.8), money(14)
 grandmother - grandfather(30.8), age(old age)(7.5)
 meeting - peoples'(Parliament)(21.5), people(7.5)
 take - give(29), money(21.5)
 working - man(person)(15), wage(10.3)
 student - university(15), learning(5.6)
 market - trade(7.5), economy(5.6)
 success - luck(8.4), excellent(6.5)
 money - many(11.2), power(5.6)
 village - town(25.2), tranquility(4.7)
 truth - lie(45.8), justice(4.7)
 citizen - peasant(16.8), man(person)(9.35)
 week - month(18.7), day(15.9)
 alcohol - cigarettes(15), party(feast)(6.5)
 way - highway(13.1), car(12.2)
 thief - prison(7.5), house(6.5)
 promise - lie(18.7), fulfil(15)
 car - way(13.1), gasoline(6.5)
 sickness - health(15.9), hospital(9.4)
 give - take(30.1), money(11.2)
 pay - money(15.9), bills(13.1).

The average association strength for the first word-response is 18.9 (8.64), with a maximum of 45.8 and a minimum of 7.5 and for the second word-response – 9.8 (4.5), with a maximum of 21.5 and a minimum of 4.7, in parentheses we give the standard deviations.

Such differing results are not to surprising – as Jenkins and Palermo (1965) stress, adult word-association norms collected in the USA in 1910, 1925, 1927, 1933 and 1952 show

that systematic changes take place.

Apparently associative patterns have significantly changed for the 30 years period, given the substantial difference in association strengths for the first associated word-response.

Among our on-going research is a comparison to another sample of subjects – high-school students in the last two grades. We expect to obtain results for existence (or lack) of a trend in association patterns in analysing responses of different ages. The rest of the words in our lexicon are more closely linked to visions about fiscal policy and we expect to make plausible conclusions about the prospect visions for economic policy and economy as a whole.

Our intentions are to possibly expand the study to other countries and languages, besides the in-depth analysis of semantical links.

This study is to be considered as a pilot study, as we plan to expand it spatially and among people of different age.

Participation of both authors in this paper is to be considered as equal.

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Financial Tool for SME Competitiveness Increase

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Abstract

Financing through a bank loan, commercial or other type of financing can be quite costly for a micro-enterprise or an SME, therefore accessing funding through the Community initiative JEREMIE can prove its usefulness. Thus, in this article we will present modus operandi of the program JEREMIE which, by its revolving, leverage and multiplying nature, using a portfolio of financial instruments created specifically to enable an easier access to capital, will facilitate the increase of small enterprises competitiveness in Romania.

Key words: JEREMIE, financing policies, Structural Funds, entrepreneurship

J.E.L. classification: G32, H81, L26, M13

Insufficient access to finance is an issue especially for SME sector, in particular, for micro-enterprises and for innovative initiatives. In Romania, despite of the availability of support programmes, a few aspects could be considered regarding small firms: - business start-ups have a very high mortality of in the first year, - undercapitalisation is still a big problem for most SMEs, - limited entrepreneurial experience and knowledge of how to enter and stay on the markets, - shortage of finance and other problems of business support services.

Diverse financial demands of SMEs could be covered by a range of funding sources including micro loans considering the excellent repayment rates and the wide distribution across the country of SMEs

sector. The potential credit demand is estimated at 400 million euros, with a remaining gap to fill of 372.6 million euros besides banks and other international and national institution [4]. Thus, banking micro credit covers just a part of the gap mostly because: - banks do not provide sufficient business development support to their SME customers (though SME's exposure to risk is very low), - many micro-enterprises are discouraged to apply to bank's capital due to the banks rules and procedures, lack of creation of specific programmes for SMEs, high interest rates, fixed costs and banking fees and short term horizon for credit granting, -the guarantees required by commercial banks are often beyond the means of entrepreneurs. All this gives a reason for self-financing, thus more than a half of the SMEs use their own financial sources for business financing and not loans from banks.

In Romania, just a few SMEs use guarantees from the four credit guarantee institutions providing products for SMEs¹ end only less than 1% of SMEs entrepreneurs resort to the National Credit Guarantee Fund [4]. The reason why small enterprises resort less to the guarantee institutions is that these institution do not provide a wide range of cover for banking loans (ex. only for the principal and not for the interest too) and the guarantees are usually short-term and not for

¹ The Export-Import Bank of Romania (EXIMBANK) established in 1992, the Romanian Loan Guarantee Fund started in 1993, the Rural Credit Guarantee Fund founded in 1994 and the National Credit Guarantee Fund for SMEs established in 2001.

long or medium term, supporting insufficiently the SMEs which apply for investment loans.

The National Credit Guarantee Fund for SMEs, which provides guarantees for bank loans with one general credit guarantee programme for all SMEs without any discrimination (regarding the sector, the region, the stage of development), introduced in 2004 a special guarantee programme for micro-enterprises which improved over the last few years micro-enterprises' access to guarantees. Thus, new series of facilities for firms are provided by the National Guarantee Fund (NGF) such as: - a more flexible and simplified procedure for obtaining a letter of guarantee, letter which is issued as an advance guarantee by NGF, based on a general analysis, - from the beginning of the 2008, the classical guarantees have the commission decreased to 1%, regardless of the project and the limitation of the guarantee percentage up to 80% of the amount financed, and - coverage of the payment of the consultant from credit financing and guarantee up to a maximum 200,000 euros for a maximum 3 years (with a period of grace of up to one year for the instalments), and the overall financing of the investments, including consultancy, could be between 1,000,000 and 50,000,000 euros for R&D activities for a period that varies according to the type of investment (Anda Georgescu, *"Companies are obliged to provide additional guarantees for the access to the European funds form the competitiveness operational programme intended for investment. Besides co-financing, the beneficiaries of European funds will be required to deposit guarantees for both the correct implementation of the project and also for the maintenance of the investment destination for at least three years"*) [4].

Nevertheless, considering the high refusal rate of guarantee applications to this fund (NGF) it is clear that the guarantee risk policy of the fund is not clearly delivered to its beneficiary and banks and the fund's overall support of for SMEs in accessing loans from banks could be regarded as limited, especially for start-ups and innovative enterprises.

In this context, in order to have a better access to finance and to guarantee their investment, enterprises will be able to resort

not just to NGF, to commercial banks and to national and international authorities but also to the JEREMIE Community initiative to support SMEs, which is available for Romania from middle of 2008. JEREMIE (Joint European Resources for Micro to Medium Enterprises. According to Francis Carpenter, the EIF's Chief Executive: "JEREMIE is a 'tool-kit' to create financial products that are focused on redressing gaps in SME finance. I believe that it will provide an effective response to the range of demands made by the regional and local authorities. JEREMIE brings together the expertise of the different financial European institutions to use Community funding resourcefully to support SMEs.") is an important instrument promoting innovative financial engineering tools, proposed by the European Commission together with the EIB group, which gives SMEs access to funds for venture capital, micro-credit, guarantee schemes and counter-guarantee (In monetary terms, the gap between early stage venture capital in EU-12 and in Romania is estimated at approx. 70 million Euro for the period 2007-2013. Source: Government of Romania, *National Strategic Reference Framework 2007-2013*, Final Version 2007).

Considering that in the "Cohesion Policy in support of growth and jobs, Community strategic guidelines 2007-2013" it is stressed the importance of improving access to finance for the development of SMEs, especially for start-ups and micro-enterprises (through grants and non-grant instruments such as loans, equity, venture capital and guarantees and through technical assistance), in the summer of 2005 appeared a joint initiative between the Commission (through European Regional Development Fund or ERDF- a structural fund which supports the less developed European regions by financing investments in the productive sector, infrastructure, education, health, local development and by supporting small and medium enterprises. ERDF finances up to 85% of eligible expenditure relating to regional development in Romania, through the Regional Operational Programme [6]. In addition to this program, the ERDF in Romania co-finances the operational programmes: Transport, Environment, Competitiveness, Technical Assistance and territorial cooperation programmes in) and EIB

Group (**EIB Group** is composed from European Investment Bank and European Investment Fund.). In this regard, having this goal, together with other Commission services and with the help of the EIB Group, DG REGIO (European Commission's General Directorate for Regional Policy) has prepared a proposal, for the next programming period, presented under the JEREMIE acronym, the proposal which was agreed and accepted, at the Ministerial meeting of 11 October 2005 in Brussels, by the ministers responsible for the Structural Funds in the 25 member states and candidate countries.

Therefore, JEREMIE Programme represents a series of coherent actions designed to optimise the use of European funds to improve access to finance for SMEs, offering its financial products on market terms, increasing the competitiveness of enterprises, enhancing entrepreneurship, and creating new jobs. JEREMIE is managed through financial institutions such as the EIF (European Investment Fund) and is available through EU Cohesion Policy for all Member States (MS).

JEREMIE is implemented on the basis of two phases:

- the first phase or the preliminary phase functioning in the period 2006-2007, in which the European Commission has joined forces with EIF (European Investment Fund), benefiting of the support of national and regional authorities, in order to undertake the evaluation of the gaps between the demand and supply for financial engineering instruments in the regions - named "gap analysis" (Financial Engineering is a form of financial support, other than grants- e.g. subsidised lending, equity, venture capital, guarantees, interest rate rebates, public-private partnership funds for investments. The European Union has set up three types of financial engineering tools: JASPERS, JESSICA and JEREMIE)[6]. Thus, the 75% of the required resources came from the ERDF technical assistance budget, at the initiative of the Commission, and the rest of 25% represented the EIF contribution. The assessment aimed to identify gaps between the existing supply capacity of the local specialised financial

intermediaries in providing financial engineering products in support of SMEs and the demand of these products in the region.

- the second phase or the implementation phase covering the period 2007-2013, established on previous phase, used for the elaboration of the next generation of operational programmes to be financed by the Structural Funds in this period. The programmes set out the necessary resources for the accomplishment of the proposed objectives and the allocation of these resources is specifically for actions to improve access to finance, actions which are implemented by programme authorities. Two essential steps will have to be considered for an improved access to finance: - first, it is envisaged that the programme authorities would organise a tendering process to identify a suitable fund holder, to act as "fund of funds". In this situation, the necessary advice in organizing the call for a tender will be provided by the Commission and when a tendering procedure is launched, the EIF will guarantee to the programme authorities that it will participate, alone or in co-operation with other International Financial Institutions (IFIs) or specialised financial institutions; -secondly, a clear "Funding Agreement" setting out the arrangements for funding and deliverables will be concluded between the programme authority and the selected fund holder.

Provisions for the transfer of resources from the concerned operational programme to specific national and regional accounts managed by the fund-holder selected by the programme authority are included in the "Funding Agreement". The transfer from the programme to the accounts consists of a national public component (whose ratio depending on the ERDF co-financing rate, according to the relevant priority axis of a specific operational programme) and of an ERDF component. Usually, when the EIF is selected as fund-holder, the EIB can refinance through loans the national public component of these programme grants, if this is requested by the Member States or regions, also taking into account the nature of this financial product. The transfer of the operational programme to the selected fund-holder will be irreversible throughout the

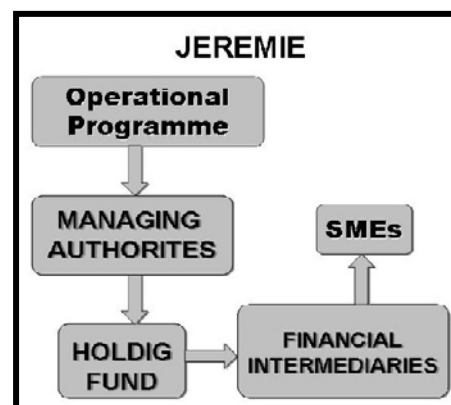
programming period 2007-2013 and will constitute an eligible interim payment of ERDF under the regulations of structural funds.

The selection of financial intermediaries will proceed like this: the programme authorities, assisted by the selected fund-holder, will make an open call for expressions of interest, which will remain open at least the first part of the programming period 2007-2013. For giving the opportunity to participate to the initiative, the open call for expressions of interest is addressed to all financial intermediaries (like venture capital, micro-credit funds, loans, guarantee funds providers). The fund-holder will analyze, evaluate, select and will formally accredit the financial intermediaries, accreditation which will be the subject of a periodical review. Selected financial intermediaries will be allowed to receive technical assistance, equity, loan capital and guarantees for on-lending to small – to medium businesses for the programming period 2007-2013.

In the specific national and regional accounts of the chosen fund-holder drawing on the resources will provide equity, guarantees or loans, to the accredited financial intermediaries and it may be decided by the programme authorities to make available technical assistance credits to accredited financial intermediaries from the relevant operational programme, in line with operational details established between the managing authority of the operational programme and chosen fund-holder. Also, the selected financial intermediaries will make these funds available, on competitive basis, on the principles agreed between the programme authority and the fund-holder, to SMEs and micro-enterprises.

Therefore, the *modus operandi* of JEREMIE initiative could be synthesized by the next figure:

Figure 1 The *modus operandi* Jeremie initiative



Source: Authors

It is recommended, when a "Funding Agreement" is signed by a Member State or a region with a fund-holder, that:

- Fund-holder to be concerned with ensuring a sufficient presence of in its local offices in regions for a more effective marketing and for providing information for financial intermediaries and the SMEs.
- Local offices of the fund-holder to include operational costs in management fees, for the amounts and under conditions specified by the "Funding Agreement". These management fees of the specific accounts will represent eligible expenditure to the ERDF for the concerned operational programme, on the conditions and for the amounts provided by the Funding Agreement;

The "Funding Agreements" between the fund-holder and programme authorities would be elaborate in a sufficiently flexible manner to allow additional ERDF contributions to be made from the relevant operational programme to the specific accounts of the fund-holder over the programming period.

To the extent that the ERDF component of the operational programme will finance equity-type products and loans for SMEs and micro-enterprises, reimbursements of these loans will be recycled to provide additional finance for these companies (revolving funding). Therefore, **JEREMIE Programme has a strong revolving or recycling character of resources and gives rise to a significant effect of leverage.**

JEREMIE sustainability and permanent financial support for social and economic structure of the Member State regions depend of this revolving character. Also, the leverage effect of the grant contribution is anticipated to bring in additional capital from the EIB Group, banks, and other IFIs, expecting a multiplier of disposed resources up to 10 times, depending on the financial products used in co-financing of SMEs.

After Greece, Romania is the second country which signed the "Funding Agreement" between government and EIF (European Investment Fund) in February 2008 (The first "JEREMIE funding agreement" was signed in June 2007 with the EIF by the Government of Greece. Other funding agreements are still in negotiations with Slovakia, Bulgaria, Cyprus and the Baltic countries. This "Funding Agreement" regulates the cooperation with the EIF concerning the implementation of JEREMIE in Romania, agreed under the Memorandum of Understanding signed on 23 January 2007 between the Romanian Government (through the Ministry of Public Finance) and the European Investment Fund, which was approved and published by Government Decision no. 776/2007). This "Funding agreement" provides that EIF is appointed the only manager of the JEREMIE in Romania and this institution will ensure the administration of 100 million euros from the amounts of pre-funding received from the European Commission from the Cohesion and Structural Funds contribution to the operational programmes. Following the transfer of approximately 100 million euros in the first year of the programme period 2007-2013, including ERDF resources and the Government co-financing through the Ministry of Economy and Finance (specifically, through the Certifying and

Paying Authority), JEREMIE fund may be increased, after the bilateral parties' approval.

In Romania, JEREMIE can support SMEs by:

- Developing and improving economic and financial environment at the local level, through flexible actions, specifically tailor-made for SMEs (reducing the loans' interest rates through the guarantees provided by programme JEREMIE, thus reducing the need for collateral).
- Increasing the supply of financing to SMEs at the local level, by finding appropriate expertise and investment schemes according to the assessment made for the SMEs development depending on the local needs;

JEREMIE initiative may attract contributions from a number of financial investors and donors and can raise the amount of capital available for the micro-credit providers, through the establishment of a micro-fund under this framework.

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Trade Performance in CSG of ESCAPE Member Nations and some Regional Groups in the Region¹

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Abstract

This paper deals with the mapping of trade performance of Climate Smart Goods (CSG) for ESCAP regional members and associate members including those for regional groups like ASEAN, SAARC and APTA for years 2002 through 2008¹.

Key words: trade performance, CSG, ESCAPE

J.E.L. classification: F14

1. Introduction

Trade performance is judged using some trade indices and indicators. Trade indices like Export and Import shares, Revealed Comparative Advantage index, Competitiveness index, Regional entation index and Michelaye index for trade of CSG and its sub categories of the ESCAP member nations and other regional groups are calculated to form a policy opinion on countries competitiveness, trade patterns, changing comparative advantage over time and regional bias.

CSG are defined as components, products and technologies which tend to have relatively less adverse impact on the

environment. For example, it consists of articles of iron and steel and aluminum, machinery and mechanical appliances, electrical machinery equipment, ships, boats and floating structures, glass and glass ware articles, among others.

The study finds that trade of such CSG has a regional bias for most of the countries in the region although almost all are net importers from Japan and Hong Kong and more recently from China.

Thereafter, gravity analysis done to explain determinants of imports of CGS and its sub categories of ESCAP countries with countries in the region and with US and countries in the EU. Gravity model is used to explain the role of tariff barriers, preferential trading arrangements, economic size and endowments, general policy environment and overall infrastructure, distance between trading partner, membership of multilateral agreement, foreign direct investments, common language and borders, among others on trade of such climate smart goods and sub categories.

In particular, the study will consider bilateral trading partners (83 permutation 2=6806) from 83 countries (57 ESCAP plus 25 EU and the US) for each of the CSG imports and its sub categories for years 2002 and 2008 for our gravity analysis. The study uses cross sectional analysis for 2008 and 2002 for import of CSG and its subcategories.

Please see Appendix Table I which lists the countries and regional groups considered in the study while Appendix II gives the entire list of the 64 CSG. The study has been able to define 64 such goods under 6 digit HS code (2002) by putting together various lists that have been defined by various international organizations recently. The list is arrived by defining concordance series from series of list given by the World Bank,

¹ ESCAP has 62 members including associated members. The study considers 57 of them by excluding the non regional members UK, France, the Netherlands, the US and Timor Leste for non availability of data from 2002 through 2008 (period of study). Trade statistics uses World Integrated Trade Solution (WITS) data base where in UN commodity trade data is culled out for estimating the various indices. For comparison purpose and saving space the study reflects figures for 2002 and 2008 mainly but the trade indices and indicators have been worked out for all the countries (for which data was available) in the ESCAP region from 2002 through 2008 and for some regional groups like APTA, SAARC and ASEAN. All countries of ASEAN, APTA and SAARC fall under ESCAP region. For comparison purpose the study has taken ESCAP as one region for our analysis.

ICTSD, WTO, APEC and the OECD². The study consider these 64 CGS as one category and calculates the above mentioned trade indicators for this category.

Further, following the World Bank (2008) we have been able to bifurcate such 64 goods further into clean coal technologies (HS code 840510,841181 and 841182), Wind Energy (HS code 848340, and 848360), Solar Photovoltaic systems (Hs code 850720, 853710 and 854140) and Energy Efficient Lighting (HS code 853931).

The study besides these four sub groups have also considered 'Other Codes' as the fifth group which consists of all HS codes not considered in the four categories above. The study also performs the trade analysis for such sub categories.

2. Some Background to Climate Goods Trade Analysis and Importance of Discussing Climate Smart Goods by the World Community

The CGS forms part of the broader group named 'environmental goods and services (EGS).

An Environmental good can be understood as equipment, material or technology used to address a particular environmental problem or as a product that is itself 'environmentally preferable' to other similar products because of its relatively benign impact on environment.

Environmental services are services provided by eco systems or human activities to address environmental problems.

EGS can be also classified as Environmental Goods comprising of pollution management products, cleaner technologies and products, resource management products and environmentally preferable products. EGS also has Environmental services comprising of sewage services, refuse services, sanitation and similar services and others.

The EGS were first discussed as part of the liberalizing agenda in the DOHA round

of the multilateral trading round in 2001. The countries had wanted the tariff and non tariff barriers to go down for trade of such EGS as this may lead to adoption of cleaner and cost effective technologies by firms and country at large and possibly mitigate climate change and improve energy efficiency.

Liberalization has followed three routes namely the list approach, project/integrated approach and request for offer approach. Environmental Goods were always part of trade agenda but were subsumed within industrial or agricultural negotiations.

Global EGS industry is worth 650 billion US dollars. Trade in EGS is estimated at roughly a tenth of that amount (Veena Jha, 2008). CGS exports to the world were worth 38 billion dollars out of total World Exports of 1488 billion US \$ in 2008 with World export share of CGS working out to be 2.5 % in the year 2008. This share has varied between 2.3 % in 2002 to 2.8 % in 2009. World imports of CSG were worth 38 billion US\$ out of total World Imports of 1557 billion US % in 2008 with World Import share of CGS working out to be 2.4 % and this share has varied from 2.2 % in 2002 to 2.68 % in 2009.

CGS (a subset of EGS) were discussed at the multilateral forums as countries wanted a smaller list to liberalize and where in negotiations could be easier done than concentrating on the entire list of environmental goods. CSG constitute low carbon growth technologies.

Also, it was felt that freer trade can make available such goods for countries that do not have access to these goods or where in domestic industry do not produce them in sufficient scale or at affordable prices. For exporters additional market access can provide incentives to develop new products or technologies with less green house emissions.

Most of the exporters of EGS are the developed nations, but some of the developing countries are also becoming important players in heat and energy management equipment, noise and vibration abatement and in environmental services like air pollution control and solid waste management (Veena Jha, 2008). Our preliminary findings do suggest that trade in CGS by countries belonging to ASEAN, SAARC and APTA have regional bias.

² This list builds on the 43-product list amalgamated by the World Bank, which was tabled as an initial starting point for discussions. The list at UNESCAP proposes an additional 21 products that appeared on one of the recent ICTSD lists (Renewables and Buildings) and also on either the APEC, OECD or WTO list. In total, the list comprises of 64 climate smart goods classified by H.S. 2002 codes at the 6-digit level

3. Analysis of CSG trade performance of members and associate members and some regional groups in ESCAP region

3.1. Export Share of CSG Trade in ESCAP Region

Only small percentage of total exports and imports of ESCAP economies goes on climate smart goods (CSG). Table I and II provide information on CSG exports and imports of ESCAP economies relative to their total export and imports, as well as ranking of these economies.

On export side (table I) Japan is ranked number 1 in the Asia-Pacific region with the share of CSG in its total exports increasing from 4 % in 2002 to 5.2% in 2008. Compared to the share of CSG at the world level as a whole, which is 2.5% in 2008, it appears that Japan has higher propensity to export CGS than the world on average.

Similarly, China and Hong Kong, China have exports shares above the world average depicting good trade performance of such countries for CSG goods. Noteworthy, is that

both APTA and ESCAP region record higher shares of CSG in their group's total exports than the world share.

This is in contrast to SAARC and ASEAN where the export share drops below the world average. In fact the export share for ASEAN as a group even falls slightly from 2002 to 2008, whereas for most countries in the region export share has risen. This growth is particularly notable for Japan and China whose share rises by more than 1%. In the context of very fast growth of total exports of China this is a good achievement.

It is also notable that Singapore and Malaysia have been replaced with Philippines and India for fifth and six positions in 2008. Republic of Korea and Thailand are ranked fourth and seventh respectively in 2002 and 2008.

ESCAP region again has export share figures above world average in 2002.

In summary, the finding that almost all economies record an increase in CSG export shares needs to be investigated to see if this is a result of applied policies or just a consequence of fast export growth for many of these countries.

Table I: Export Share of CSG in World Export for Countries and Regional Groups in 2002 and 2008

Countries	Export Share 2002(%)	Rank 2002	Gross CSG exports to World 2002(Million US\$)	Countries	Export Share 2008(%)	Rank 2008	Gross CSG exports to World 2008(Million US\$)
Japan	4.01	1	1670.89	Japan	5.2039	1	4066.4
Hong Kong, China	2.559	2	516.725	China	3.4148	2	4885.1
China	2.271	3	739.431	Hong Kong, China	2.64077	3	977.71
Korea, Rep.	2.057	4	334.212	Korea, Rep.	2.40536	4	1015
Singapore	1.654	5	207.031	Philippines	2.32969	5	114.34
Malaysia	1.63	6	153.321	India	1.95195	6	354.98
Thailand	1.59	7	108.316	Thailand	1.69835	7	298.72
New Zealand	1.101	8	15.7884	Malaysia	1.59069	8	316.29
Turkey	1.076	9	38.4657	Singapore	1.5525	9	525.02
Sri Lanka	0.594	10	2.80432	Macao	1.37727	10	2.752
Russian Federation	0.566	11	60.4209	Turkey	1.35513	11	178.78
Australia	0.508	12	33.0313	Vietnam	0.90053	12	56.45
Fiji	0.376	13	0.19623	New Zealand	0.88918	13	27.001
Macao	0.226	14	0.53212	Sri Lanka	0.61383	14	5.0189
Papua New Guinea	0.154	15	0.25058	Kyrgyz Republic	0.48963	15	0.792
Bangladesh	0.075	16	0.40872	Armenia	0.43983	16	0.464
Mongolia	0.004	17	0.00213	Australia	0.42982	17	79.641

				Georgia	0.32854	18	0.492
ESCAP-region	<u>2.22</u>	1	3881.83	Pakistan	0.27687	19	5.6145
APTA	<u>2.14</u>	2	1076.86	Russian Federation	0.25466	20	119.16
ASEAN	<u>1.78</u>	3	468.669	Cambodia	0.09698	21	0.4227
SAARC	<u>0.32</u>	4	3.21303	New Caledonia	0.08885	22	0.145
				French Polynesia	0.03138	23	0.0065
				Kazakhstan	0.02302	24	1.6381
				Azerbaijan	0.00814	25	0.3887
				Bhutan	0.00027	26	0.0001
				APTA	<u>3.07</u>	1	6260.1
				ESCAP-region	<u>2.85</u>	2	13032
				SAARC	1.80	<u>4</u>	365.62
				ASEAN	<u>1.97</u>	<u>3</u>	1311.2

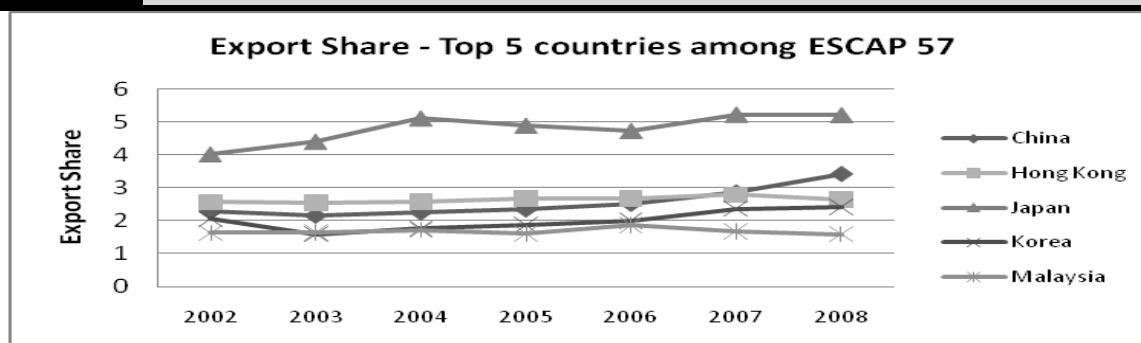
Source: Author's calculation from UN Commodity Trade Statistics in WITS. Please note that Gross Exports of all Products from each country and region is not shown in the table above. [Also, export shares of regional groupings are exports of CSG and its total exports to the Rest of the World\(not total World\)](#)

The figures below give the top 5 countries of ESCAP in terms of export share from 2002 through 2008. China, Hong Kong, Japan, South Korea and Malaysia figure in

the list. Except for Malaysia the export share has increased for CSG for countries in the list below.

Export share – Top 5 countries among ESCAP 57

Country/Year	2002	2003	2004	2005	2006	2007	2008
China	2.27103919	2.151644069	2.2485033	2.340182858	2.514077975	2.85745234	3.414800846
Hong Kong	2.558958195	2.53506104	2.57564027	2.668833748	2.67538287	2.78794448	2.640768254
Japan	4.009666273	4.394365537	5.10358165	4.884417135	4.722664748	5.21726227	5.203899355
Korea	2.057123392	1.591930971	1.75612102	1.870237984	1.989326288	2.35926845	2.405359329
Malaysia	1.630064997	1.635831182	1.71943274	1.615630549	1.868670015	1.67134067	1.590685657



With respect to import, as table II shows the import share of CSG in countries and regions total world imports in 2002 and 2008. The findings show that countries with ranks 1 to 10 in both 2002 and 2008 have import shares above the world averages.

The 10 countries above world import average of 2.4% in 2008 are Kazakhstan, South Korea, Azerbaijan, China, Vietnam,

Pakistan, Thailand, Russia, Australia and Hong Kong. The 10 countries above world import share of CSG goods of 2.2% in 2002 are Papua New Guinea, China, Thailand, Turkey, South Korea, Malaysia, Singapore, Russia, Australia and Hong Kong.

The above are indications that most of the countries in ESCAP region are basically importers of CSG products from countries within regions.

One confirms the above statement by looking at the regional groups performance

of ASEAN, APTA and ESCAP. All have import shares above world import share of CSG in 2002, while ESCAP import share is above world import share of CSG in 2008.

Table II: Import share of CSG in World Import For Countries and Regional Groups in 2002 and 2008

Countries	CSG Imports(Million US\$) 2002	Import Share 2002(%)	Rank 2002	Country	CSG Imports(million US\$) 2008	Import Share 2008(%)	Rank 2008
Papua New Guinea	4.804427	4.050977	1	Kazakhstan	155.1769	4.103543	1
China	1063.787	3.60398	2	Korea, Rep.	1699.418	3.904315	2
Thailand	210.3652	3.254151	3	Azerbaijan	27.63193	3.858212	3
Turkey	166.7347	3.252187	4	China	3779.723	3.337328	4
Korea, Rep.	450.9999	2.964698	5	Vietnam	265.4911	3.289289	5
Malaysia	231.8784	2.94734	6	Pakistan	118.6929	2.804255	6
Singapore	318.1874	2.732609	7	Thailand	494.2622	2.767228	7
Russian Federation	114.0838	2.470578	8	Russian Federation	691.5269	2.589506	8
Australia	160.9846	2.325006	9	Australia	487.9755	2.564199	9
Hong Kong, China	478.3808	2.300251	10	Hong Kong, China	983.9694	2.503979	10
Macao	5.055721	1.997666	11	Malaysia	358.8461	2.297316	11
Sri Lanka	11.73048	1.942561	12	New Zealand	76.07462	2.213574	12
New Zealand	28.89005	1.920358	13	French Polynesia	4.804526	2.147652	13
Fiji	1.501851	1.888605	14	Turkey	432.3559	2.140815	14
Japan	606.9205	1.797703	15	Singapore	657.3272	2.055559	15
Bangladesh	10.84525	1.17694	16	Cambodia	9.047993	2.048619	16
				Bhutan	1.08875	2.004066	17
APTA	1537.363	3.61	1	Maldives	2.719729	1.960153	18
ASEAN	760.431	3.40	2	New Caledonia	6.349048	1.942462	19
ESCAP-region	3865.15	2.82	3	Japan	1328.56	1.742298	20
SAARC	22.57573	1.33	4	Georgia	10.44866	1.725433	21
				India	536.8778	1.70053	22
				Philippines	83.86008	1.38796	23
				Armenia	5.370029	1.309374	24
				Sri Lanka	16.63813	1.220801	25
				Kyrgyz Republic	4.116829	1.010928	26
				Macao	4.461681	0.758808	27
				Afghanistan	0.599417	0.198492	28
				ESCAP-region	12243.42	2.58	3
				ASEAN	1868.835	2.81	2
				APTA	6032.657	3.18	1
				SAARC	676.6168	1.71	4

Source: Authors calculations.

3.2. Competitiveness

Competitiveness indices are shown in table III together with the rankings of the countries. This index is broadly defined as the capacity of an industry to increase its share in international markets at the expenses of its rivals (ESCAP, 2009, p56). By its construction, the competitiveness index is an indirect measure of international market power, as it tracks country's share of the world market in a selected product or a group of products. The index takes a value between 0 and 100 percent, with higher values

indicating greater market power of the country in question.

From the information in table III, in 2008 China, Japan and Republic of Korea are the highest ranked among the ESCAP economies with shares of the world market in CSG of 12.6 %, 10.5% and 2.6% respectively. APTA as a group enjoys 14 % share of the world market in CSG – double from what the share was in 2002 (compared to its overall share in world exports). Among the high performers are India, China and Republic of Korea whose competitiveness has improved from 2002.

Table III: Competitiveness Index for Export of CSG by member states and Regional Groupings, in 2002 and 2008

Country	Competitiveness Index 2008(%)	Rank2008	Country	Competitiveness Index 2002(%)	Rank2002
China	12.6211	1	Japan	12.47941	1
Japan	10.50588	2	China	5.522607	2
Korea, Rep.	2.622392	3	Hong Kong, China	3.859273	3
Hong Kong, China	2.526027	4	Korea, Rep.	2.496137	4
Singapore	1.356435	5	Singapore	1.54626	5
India	0.917137	6	Malaysia	1.145113	6
Malaysia	0.81717	7	Thailand	0.808985	7
Thailand	0.771784	8	Russian Federation	0.451267	8
Turkey	0.461903	9	Turkey	0.287289	9
Russian Federation	0.307856	10	Australia	0.246702	10
Philippines	0.295397	11	New Zealand	0.117919	11
Australia	0.205759	12	Sri Lanka	0.020945	12
Vietnam	0.145845	13	Macao	0.003974	13
New Zealand	0.06976	14	Bangladesh	0.003053	14
Pakistan	0.014506	15	Papua New Guinea	0.001872	15
Sri Lanka	0.012967	16	Fiji	0.001466	16
Macao	0.00711	17	Mongolia	1.59E-05	17
Kazakhstan	0.004232	18			
Kyrgyz Republic	0.002046	19	ESCAP-region	13.81	1
Georgia	0.001271	20	APTA	7.00	2
Armenia	0.001199	21	ASEAN	2.78	3
Cambodia	0.001092	22	SAARC	0.02	4
Azerbaijan	0.001004	23			
New Caledonia	0.000375	24			
French Polynesia	1.68E-05	25			
Bhutan	3.64E-07	26			
ESCAP-region	17.20	1			
APTA	14	2			
ASEAN	2.68	3			
SAARC	0.89	4			

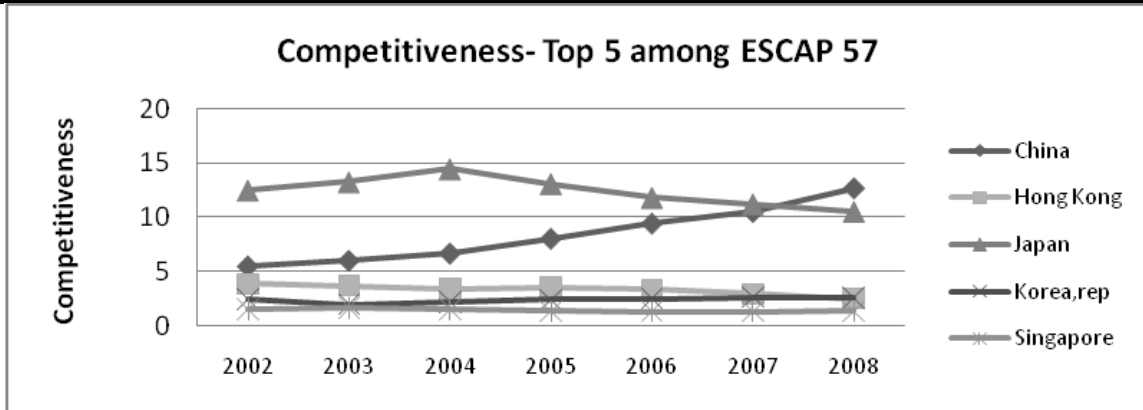
Source: Author's Calculations

The figures below give the top 5 member nations competitiveness from 2002 through 2008. China, Hong Kong, Japan, South Korea and Singapore figures in the list.

China's and South Korea's competitiveness has increased from what it was in 2002 to what it is in 2008.

Competitiveness – Top 5 among ESCAP 57

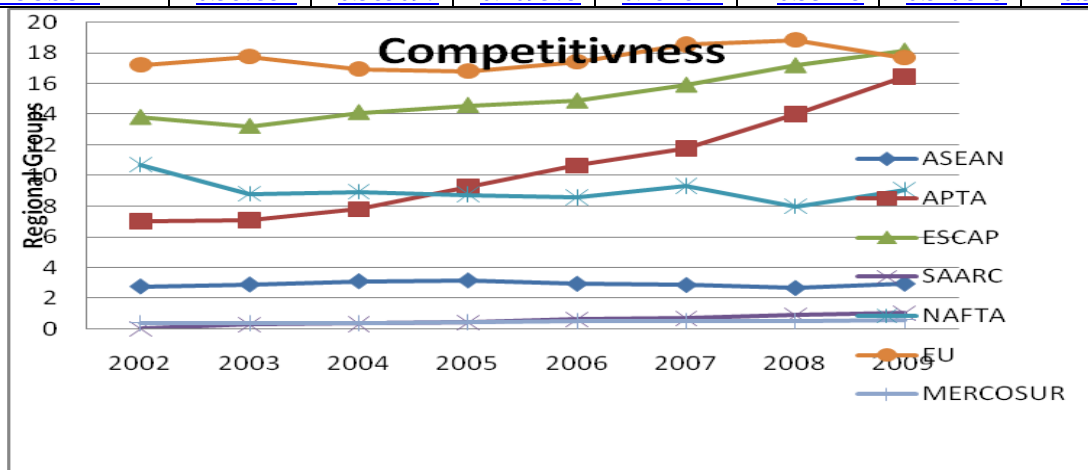
Country/Year	2002	2003	2004	2005	2006	2007	2008
China	5.522607464	6.021640244	6.676737772	8.027913597	9.40953099	10.48365622	12.62110139
Hong Kong	3.859273172	3.701853377	3.422986443	3.51008723	3.334637373	2.929352807	2.52602706
Japan	12.47940908	13.24603417	14.45085555	13.08352401	11.7981492	11.20792255	10.50587762
Korea,rep.	2.496136675	1.970443171	2.231013014	2.394817542	2.500962318	2.635701267	2.62239184
Singapore	1.546259978	1.66701169	1.534630713	1.354304709	1.330389432	1.312385155	1.356434663



The competitiveness figures below are for the regional groups. ESCAP and APTA have

improved on their competitiveness in 2008 as compared to 2002.

Competitiveness	2002	2003	2004	2005	2006	2007	2008
ASEAN	2.786994	2.917963	3.130218	3.181071	2.961447	2.880867	2.686154
APTA	7.006773	7.099632	7.805999	9.262968	10.6568	11.76774	14.00801
ESCAP	13.8172	13.22633	14.13342	14.60488	14.89492	15.93055	17.20917
SAARC	0.022279	0.288209	0.323972	0.439404	0.633056	0.679728	0.897801
NAFTA	10.71362	8.816577	8.948009	8.774753	8.579115	9.32466	7.998433
EU	17.19749	17.77679	16.93082	16.82007	17.42265	18.55833	18.8394
MERCOSUR	0.387354	0.385097	0.409375	0.452821	0.53415	0.549345	0.51425



3.3. Michelaye Index and Revealed Comparative Advantage in CSG for member states of ESCAP and for selected Regional Groups

There are two indices that are frequently used to assess comparative advantage of countries in particular products. Comparative advantage which conceptually means that a country has an ability to produce the same product at lower relative cost (and price) than its trading partners (but prior trade has started) is approximated by a ratio of country's export share to the world's export share in a specific product. So, in absence of necessary information to measure comparative advantage (i.e. autarky relative prices) if a country demonstrates larger share of a certain product in its exports than the world on average, it is said to have a comparative advantage. Thus values below 1 are indicative of disadvantage.

The Michelaye index is defined as the difference of two shares: share in export and in import. The share of a country's total exports of the product of interest in its total exports and the share of the same country's imports of the same product in its total imports. The index takes a value between -1

and +1. A country is said to have a revealed comparative if the value exceeds zero.

The Revealed Comparative Advantage is defined as the ratio of two shares. The numerator is the share of a country's total exports of the commodity of interest in its total exports. The denominator is share of world exports of the same commodity in total world exports. The RCA takes a value between 0 and + infinity. A Country is said to have a revealed comparative advantage if the value exceeds unity.

Tables IV and V present the values of calculated Michelaye Index and RCA for selected countries from 2002 through 2008

Base on Michelaye index, not too many countries in the region indicate having a comparative advantage in CSG- see table IV. Nevertheless, several countries do show positive values meaning and it would be interesting to see if they are the source of export of these goods for the other countries in the region. However, they may be importing regionally from some good performers (Hong Kong, Japan, Philippines, Macao, and China) or in few cases from outside the ESCAP region like what Philippines and India are doing.

Table IV: Michelaye Index for Various Years for Some Selected Countries, 2002 through 2008

	JPN	HKG	Philippines	RUS	MAC	IND	China	AUS
YEAR	CSG	CSG	CSG	CSG	CSG	CSG	CSG	CGS
2002	0.022	0.002		-0.019	-0.018		-0.013	-0.0181
2003	0.024	0.001		-0.0201	-0.009	-0.006	-0.014	-0.017
2004	0.031	0.002		-0.021	-0.009	-0.005	-0.016	-0.020
2005	0.030	0.002		-0.0254	-0.004	-0.005	-0.012	-0.0198
2006	0.029	0.002		-0.025	-0.006	-0.0007	-0.009	-0.020
2007	0.032	0.003	0.01	-0.023	-0.0017	-0.002	-0.007	-0.020
2008	0.035	0.001	0.009	-0.023	0.006	0.0025	0.0007	-0.021

Source: Author's calculations

Table V shows that RCA figures for Japan, China and Hong Kong have figures greater than one and have a comparative advantage in the production of these CSG products in 2008. Japan and Hong Kong have figures greater than one in 2002. Again one sees a rise of China. China had figure of 0.98 in

2002 while the figure in 2008 works out to be 1.31. Any value of RCA greater than one indicates comparative advantage in the production of the good. APTA and ESCAP region as a whole has RCA figures greater than one in 2008 while none of the regional groups had RCA greater than one in 2002.

Table V: Revealed Comparative Analysis of CSG for Selected Members and Regional Groups in 2002 and 2008

Country	RCA2008	Country	RCA2002
Japan	2.001394	Japan	1.740797
China	1.313315	Hong Kong, China	1.110972
Hong Kong, China	1.015626	China	0.985972
Korea, Rep.	0.925089	Korea, Rep.	0.8931
Philippines	0.895987	Singapore	0.718044
India	0.750711	Malaysia	0.707693
Thailand	0.653177	Thailand	0.690463
Malaysia	0.61177	New Zealand	0.478081
Singapore	0.597082	Turkey	0.467081
Macao	0.529691	Sri Lanka	0.257782
Turkey	0.521177	Russian Federation	0.245864
Vietnam	0.346341	Australia	0.220605
New Zealand	0.341972	Fiji	0.163031
Sri Lanka	0.236075	Macao	0.098024
Kyrgyz Republic	0.188311	Papua New Guinea	0.066943
Armenia	0.169155	Bangladesh	0.032756
Australia	0.165308	Mongolia	0.001922
Georgia	0.126356		
Pakistan	0.106484	ESCAP-region	<u>0.928</u>
Russian Federation	0.097942	APTA	<u>0.90</u>
Cambodia	0.037298	ASEAN	<u>0.752</u>
New Caledonia	0.034172	SAARC	0.13
French Polynesia	0.012067		
Kazakhstan	0.008852		
Azerbaijan	0.003131		
Bhutan	0.000104		
APTA	<u>1.188</u>		
ESCAP-region	<u>1.027</u>		
SAARC	0.69		
ASEAN	<u>0.673</u>		

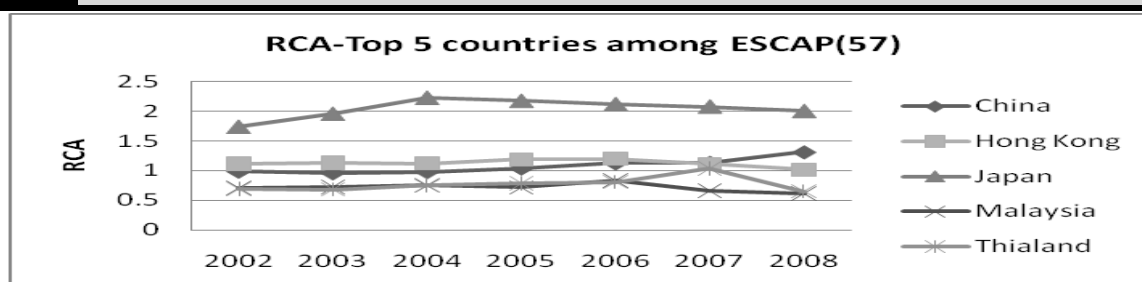
Source: Author's calculations

Below are figures of RCA of top 5 countries from 2002 through 2008. China has

been the major gainer in terms of RCA from 2002 till 2008.

RCA – Top 5 countries among ESCAP 57

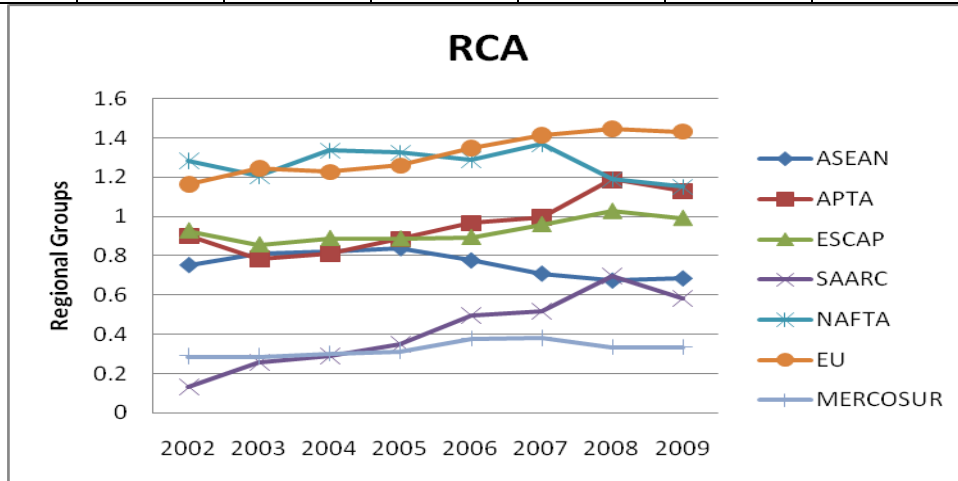
Country/year	2002	2003	2004	2005	2006	2007	2008
China	0.985971664	0.958170137	0.978946622	1.040047468	1.1259801	1.1369517	1.3133153
Hong Kong	1.1109717	1.128913382	1.121374536	1.186109783	1.19822373	1.1092952	1.0156263
Japan	1.740796612	1.956898861	2.221982068	2.170781507	2.11513986	2.0758965	2.0013937
Malaysia	0.707692718	0.728468342	0.74860147	0.718034685	0.83692124	0.6650097	0.6117698
Thailand	0.690463273	0.683147457	0.757079627	0.786438743	0.80944918	1.0351882	0.6531774



Also, given below are figures for RCA for Regional Groups from 2002 through 2008.

APTA has been the gainer. ESCAP has performed well in all the years.

RCA	2002	2003	2004	2005	2006	2007	2008
<u>ASEAN</u>	<u>0.75223</u>	<u>0.81245</u>	<u>0.82317</u>	<u>0.83771</u>	<u>0.77541</u>	<u>0.7086</u>	<u>0.6735</u>
<u>APTA</u>	<u>0.90097</u>	<u>0.78404</u>	<u>0.81191</u>	<u>0.88540</u>	<u>0.96744</u>	<u>0.99640</u>	<u>1.1887</u>
<u>ESCAP</u>	<u>0.92812</u>	<u>0.85591</u>	<u>0.88873</u>	<u>0.88679</u>	<u>0.89471</u>	<u>0.96019</u>	<u>1.0278</u>
<u>SAARC</u>	0.131944	0.25822	0.291014	0.350455	0.4974467	0.518135	0.697722
<u>NAFTA</u>	<u>1.28300</u>	<u>1.20389</u>	<u>1.33521</u>	<u>1.32501</u>	<u>1.28866</u>	<u>1.36817</u>	<u>1.1865</u>
<u>EU</u>	<u>1.16299</u>	<u>1.24475</u>	<u>1.22682</u>	<u>1.25842</u>	<u>1.34962</u>	<u>1.41160</u>	<u>1.4462</u>
<u>MERCOSUR</u>	<u>0.287442</u>	<u>0.286299</u>	<u>0.300531</u>	<u>0.313927</u>	<u>0.377331</u>	<u>0.380435</u>	<u>0.33329</u>



3.4. Regional Orientation Index of CSG goods trade

Table VI presents the values for the Regional orientation index (ROI) for selected countries of the ESCAP region in context of them being member states of APTA, ASEAN and SAARC. The regional orientation index shows whether exports of a particular product from the country under study to a given destination (its own regional grouping) are greater than exports of the same product to other destinations (Rest of the World). The index is the ratio of two shares. The numerator is the share of a country's exports of a given product to the region of interest in total exports to the region. The denominator

is the share of exports of the product to other countries in total exports to other countries (Rest of the World). The ROI takes value between 0 and + infinity. A value greater than unity implies a regional bias in exports.

The study finds that for most of the countries in the ASEAN and APTA there is a regional bias for CSG goods based on values which are over 1. It seems that countries in the ASEAN and APTA may not have comparative advantage and may be net importers but most of them are importing from countries within the region. There are few exceptions though. These are Philippines and India which are exporting more (CSG) with the countries outside ESCAP in 2008

Table VI: Exports of CGS: Regional Orientation Index For Selected Countries and Regional Groups, 2002 and 2008

	ASEAN		APTA		SAARC		ESCAP	
	2002	2008	2002	2008	2002	2008	2002	2008
China			0.73	1.28				
Malaysia	1.08	1.14						
Philippines	0.95***	0.62						
Singapore	2.12	1.81						
Thailand	1.13	1.37						
Vietnam	1.60**	1.15						
India			0.85*	0.39	1.16*	0.62		
Pakistan					9.46*	1.02		
Sri- Lanka			2.25	2.26	1.37	1.88		
South Korea			1.30	1.74				
ASEAN	1.51	1.42						
APTA			1.01	1.13				
SAARC					2.11	0.55		
ESCAP							1.25	1.03

Source: Authors calculations *2003 **2004 ***2007

7. Conclusions

The study works out some trade indices like Export and Import Shares, Competitiveness index, RCA, Michelaye and Regional Orientation index for ESCAP member nations and some regional groups for trade of CSG for years 2002 through 2008. The objective is to map the trade performance of ESCAP region in trade of cleaner technologies.

Analysis of the Export shares of CSG (in terms of its total exports of all products to the World) indicates that only few of the countries in the region like Hong Kong, Japan and China (only recently as 2008) have shares above the world average. All are importers of such technologies from the ESCAP region and some of them are importing such technologies from regions outside ESCAP.

Import share of CSG (in terms of its total imports of all products from the World) indicate that as many as ten developing economies of the ESCAP have import shares above the world average. This indicates the realization of such countries in importing such technologies from the World.

The Comparative advantage analysis is worked out through two indices, namely, Michelaye and RCA. Both of them indicate that Hong Kong, Japan and China (only recently) have comparative advantage in the

production of CSG goods and are net exporters of such products. ESCAP as a group and APTA also have RCA greater than one in 2008. One of the stark fact which comes out of Michelaye index analysis is that except for except Japan, Hong Kong, Philippines and India, China, Macao and APTA (2009) all have negative figures in almost all years from 2002 through 2008. Most of the members in the region do not have comparative advantage in the production of CGS. However, they may be importing regionally from some good performers (Hong Kong, Japan, Philippines, Macao, China) or in few cases from outside the ESCAP region like what Philippines and India are doing.

The competitiveness figures (an index of countries performance in terms of World exports of the same product) and ranks in Table III show the most important economies in world export of CSG in 2008 and 2002. These are China, Hong Kong and Japan and ESCAP and APTA as regions. Among the performers India, China and South Korea's competitiveness has improved from 2002 position to what it was in 2008.

The study finds that for most of the countries (and regional groups) in the ASEAN and APTA and ESCAP there is a regional bias for CSG goods based on Regional Orientation index values which are over 1.

8. References

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Appendix Table I:

ESCAP countries(57)	EU(25)	ASEAN(10)	APTA(06)	SAARC(08)
Afghanistan	Austria	Brunei Darussalam	Bangladesh	Afghanistan
American Samoa	Belgium	Burma(Myanmar)	China	Pakistan
Armenia	Cyprus	Cambodia	India	India
Australia	Czech Republic	Indonesia	South Korea	Nepal
Azerbaijan	Denmark	Laos	Laos	Bhutan
Bangladesh	Estonia	Malaysia	Sri-Lanka	Bangladesh
Bhutan	Finland	Philippines		Sri-Lanka
Brunei Darussalam	France	Singapore		Maldives
Cambodia	Germany	Thailand		
China, People's Republic of	Greece	Vietnam		
Cook Islands	Hungary			
Democratic People's Republic of Korea (North Korea)	Ireland			
Federated States of Micronesia	Italy			
Fiji	Latvia			
French Polynesia	Lithuania			
Georgia	Luxembourg			
Guam	Malta			
Hong Kong, China	Netherlands			
India	Poland			
Indonesia	Portugal			
Islamic Republic of Iran	Slovakia			
Japans	Slovenia			
Kazakhstan	Spain			
Kiribati	Sweden			
Kyrgyzstan	United Kingdom			
Lao People's Democratic Republic				
Macau, China				
Malaysia				
Maldives				
Marshall Islands				
Mongolia				
Myanmar				
Nauru				
Nepal				
New Caledonia				
New Zealand				

Niue
Northern Mariana Islands
Pakistan
Palau
Papua New Guinea
Philippines
Republic of Korea (South Korea)
Russian Federation
Samoa
Singapore
Solomon Islands
Sri Lanka
Tajikistan
Thailand
Tonga
Turkey
Turkmenistan
Tuvalu
Uzbekistan
Vanuatu
Viet Nam

Appendix Table II: 64 Climate Smart Goods

SERIAL No.	HS CODES6 DIGIT(2002)	DEFINITION
1	380210	Activated carbon
2	392690	Articles of plastics & arts. of oth. mats. of 39.01-39.14, n.e.s. in Ch.39
3	392010	PVC or polyethylene plastic membrane systems to provide an impermeable base for landfill sites and protect soil under gas stations, oil refineries, etc. from infiltration by pollutants and for reinforcement of soil.
4	560314	Nonwovens, whether or not impregnated, coated, covered or laminated: of manmade filaments; weighing more than 150 g/m2 for filtering wastewater.
5	701931	Thin sheets (voiles), webs, mats, mattresses, boards, and similar nonwoven products.
6	730820	Towers and lattice masts for wind turbine.
7	730900	Containers of any material, of any form, for liquid or solid waste, including for municipal or dangerous waste.
8	732111	Solar driven stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas-rings, plate warmers and similar non-electric domestic appliances, and parts thereof, of iron or steel.
9	732190	Stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas-rings, plate warmers and similar non-electric domestic appliances, and parts thereof, of iron or steel.
10	732490	Water saving shower.
11	761100	Aluminum reservoirs, tanks, vats and similar containers for any material (specifically tanks or vats for anaerobic digesters for biomass gasification).
12	761290	Containers of any material, of any form, for liquid or solid waste, including for municipal or dangerous waste.
13	840219	Vapor generating boilers, not elsewhere specified or included hybrid.

14	840290	Super-heated water boilers and parts of steam generating boilers.
15	840410	Auxiliary plant for steam, water, and central boiler.
16	840490	Parts for auxiliary plant for boilers, condensers for steam, vapor power unit.
17	840510	Producer gas or water gas generators, with or without purifiers.
18	840681	Turbines, steam and other vapor, over 40 MW, not elsewhere specified or included.
19	841011	Hydraulic turbines and water wheels of a power not exceeding 1,000 kW.
20	841090	Hydraulic turbines and water wheels; parts, including regulators.
21	841181	Gas turbines of a power not exceeding 5,000 kW.
22	841182	Gas turbines of a power exceeding 5,000 kW.
23	841581	Compression type refrigerating, freezing equipment incorporating a valve for reversal of cooling/heating cycles (reverse heat pumps).
24	841861	Compression type refrigerating, freezing equipment incorporating a valve for reversal of cooling/heating cycles (reverse heat pumps).
25	841869	Compression type refrigerating, freezing equipment incorporating a valve for reversal of cooling/heating cycles (reverse heat pumps).
26	841919	Solar boiler (water heater).
27	841940	Distilling or rectifying plant.
28	841950	Solar collector and solar system controller, heat exchanger.
29	841989	Machinery, plant or laboratory equipment whether or not electrically heated (excluding furnaces, ovens etc.) for treatment of materials by a process involving a change of temperature.
30	841990	Medical, surgical or laboratory stabilizers.
31	848340	Gears and gearing and other speed changers (specifically for wind turbines).
32	848360	Clutches and universal joints (specifically for wind turbines).
33	850161	AC generators not exceeding 75 kVA (specifically for all electricity generating renewable energy plants).
34	850162	AC generators exceeding 75 kVA but not 375 kVA (specifically for all electricity generating renewable energy plants).
35	850163	AC generators not exceeding 375 kVA but not 750 kVA (specifically for all electricity generating renewable energy plants).
36	850164	AC generators exceeding 750 kVA (specifically for all electricity generating renewable energy plants).
37	850231	Electric generating sets and rotary converters; wind-powered.
38	850680	Fuel cells use hydrogen or hydrogen-containing fuels such as methane to produce an electric current, through an electrochemical process rather than combustion.
39	850720	Other lead acid accumulators.
40	853710	Photovoltaic system controller.
41	853931	Discharge lamps, (ex ultraviolet), fluorescent.
42	854140	Photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes.
43	900190	Mirrors of other than glass (specifically for solar concentrator systems).
44	900290	Mirrors of glass (specifically for solar concentrator systems).
45	903210	Thermostats.
46	903220	Manostats.
47	700800	Multiple-walled insulating units of glass
48	730431	Tubes, pipes & hollow profiles (excl. of 7304.10-7304.29), seamless, of circular cross-section, of cold-drawn/cold-rolled (cold-reduced) steel
49	730441	Tubes, pipes & hollow profiles (excl. of 7304.10-7304.39), seamless, of circular cross-section, of stainless steel, cold-drawn/cold-rolled (cold-reduced)

50	730451	Tubes, pipes & hollow profiles (excl. of 7304.10-7304.49), seamless, of circular cross-section, of alloy steel other than stainless steel, cold-drawn/cold-rolled (cold-reduced)
51	840682	Steam turbines & oth. vapour turbines (excl. for marine propulsion), of an output not >40MW
52	841012	Hydraulic turbines & water wheels, of a power >1000kW but not >10000kW
53	841013	Hydraulic turbines & water wheels, of a power >10000kW
54	850239	Electric generating sets n.e.s. in 85.02
55	850300	Parts suit. for use solely/princ. with the machines of 85.01/85.02
56	850440	Static converters
57	902830	Electricity meters, incl. calibrating meters therefor
58	903020	Cathode-ray oscilloscopes & cathode-ray oscillographs
59	903031	Multimeters
60	903039	Instruments & app. for meas./checking voltage/current/resistance/power (excl. of 9030.31), without a recording device
61	890790	Floating structures other than inflatable rafts (e.g., rafts (excl. inflatable), tanks, coffer-dams, landing-stages, buoys & beacons)
62	847989	Machines & mech. appls. having individual functions, n.e.s./incl. in Ch.84
63	842129	Filtering/purifying mach. & app. for liquids (excl. of 8421.21-8421.23)
64	842139	Filtering/purifying mach. & app. for gases, other than intake air filters for int. comb. engines

Trade Analysis of CSG subcategories for Regional Groups and Some Selected Member States of ESCAP¹ in 2002-2008

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Abstract

This paper deals with the mapping of trade performance of Climate Smart Goods (CSG) for ESCAP regional members and associate members including those for regional groups like ASEAN, SAARC and APTA for years 2002 through 2008¹.

Key words: trade performance, CSG, ESCAPE

J.E.L. classification: F14

1. Introduction

CSG are defined as components, products and technologies which tend to have relatively less adverse impact on the environment. For example, it consists of articles of iron and steel and aluminum, machinery and mechanical appliances, electrical machinery equipment, ships, boats and loading structures, glass and glass ware articles, among others.

The study finds that trade of such CSG has a regional bias for most of the countries in the region although almost all are net importers from Japan and Hong Kong and more recently from China.

Thereafter, gravity analysis done to explain determinants of imports of CGS and its sub categories of ESCAP countries with countries in the region and with US and countries in the EU. Gravity model is used to explain the role of tariff barriers, preferential trading arrangements, economic size and endowments, general policy environment and overall infrastructure, distance between trading partner, membership of multilateral agreement, foreign direct investments, common language and borders, among others on trade of such climate smart goods and sub categories.

In particular, the study will consider bilateral trading partners (83 permutation $2=6806$) from 83 countries (57 ESCAP plus 25 EU and the US) for each of the CSG imports and its sub categories for years 2002 and 2008 for our gravity analysis. The study uses cross sectional analysis for 2008 and 2002 for import of CSG and its subcategories.

Further, following the World Bank (2008) we have been able to bifurcate such 64 goods further into clean coal technologies (HS code 840510,841181 and 841182), Wind Energy (HS code 848340, and 848360), Solar Photovoltaic systems (HS code 850720, 853710 and 854140) and Energy Efficient Lighting (HS code 853931).

The study besides these four sub groups have also considered 'Other Codes' as the fifth group which consists of all HS codes not considered in the four categories above. The study also performs the trade analysis for such sub categories.

¹ ESCAP has 62 members including associated members. The study considers 57 of them by excluding the non regional members UK, France, the Netherlands, the US and Timor Leste for non availability of data from 2002 through 2008 (period of study). Trade statistics uses World Integrated Trade Solution (WITS) data base where in UN commodity trade data is culled out for estimating the various indices. For comparison purpose and saving space the study reflects figures for 2002 and 2008 mainly but the trade indices and indicators have been worked out for all the countries (for which data was available) in the ESCAP region from 2002 through 2008 and for some regional groups like APTA, SAARC and ASEAN. All countries of ASEAN, APTA and SAARC fall under ESCAP region. For comparison purpose the study has taken ESCAP as one region for our analysis.

2. Trade Analysis of CSG subcategories for Regional Groups and Some Selected Member States of ESCAP in 2002-2008

This section will work out Michelaye index, Revealed Comparative Advantage, Competitiveness Index and Regional Orientation index for sub categories of CSG, namely clean coal technologies (HS code 840510, 841181 and 841182), Wind Energy(HS code 848340, and 848360), Solar Photovoltaic systems (HS code 850720, 853710 and 854140) and Energy Efficient Lighting (HS code 853931). The study besides these four sub groups have also considered 'Other Codes' as the fifth group which consists of all HS codes of CSG not considered in the four categories above. The indices have been worked out for regional groups and some selected member states from 2002 through 2008.

2.1. Michelaye Index of CSG subcategories for Regional Groups

Michelaye index identifies the sectors in which an economy or a group has a comparative advantage. A country is said to have a revealed comparative advantage if the value exceeds zero. The Michelaye index takes a value between -1 and +1.

Michelaye index is worked out for ESCAP, ASEAN, APTA and SAARC (see tables I-IV) for CSG and its sub categories. The positive figures for two codes out of other codes including CGS for ESCAP (Table I) indicate that Solar Photovoltaic Systems (SP) and Energy Efficient Lighting are two sub categories of CGS in which the region as a whole has comparative advantage. All figures for CSG broad category for ESCAP works out be negative. However, the above analysis and this one has shown that most of the member nations in the region do not have a comparative advantage in the production of CSG and are net importers of CSG.

Therefore, the study identifies and works out the Michelaye index for those countries and regional groups whose values for sub categories of CSG works out to be positive. The analysis for member states of ESCAP for the trade in subcategories will be done in the next section. The results indicate that China, Hong- Kong, India, Japan, Macao, Malaysia, Philippines, Thailand and Vietnam performs better for some sub categories in terms of export pattern to its own import pattern. For example China, India, Japan, Macao, Thailand and Vietnam have positive Michelaye index for Energy Efficient Lighting in some if not all from 2002 through 2008 while Japan, India, Macao and Malaysia perform better in Solar Photovoltaic systems

Table I: Michelaye Index for CSG subcategories and CSG from 2002-2008 for ESCAP

Year	CCT	WE	SP	EEL	OTHER	CSG
2002	-0.00093	3.42E-06	0.000321	0.000229	-0.00581	-0.00619
2003	-0.00109	-0.00035	0.001074	0.000283	-0.00654	-0.00627
2004	-0.00132	-0.00044	0.001407	0.00032	-0.00699	-0.00658
2005	-0.00134	-0.00048	0.001641	0.000341	-0.00573	-0.00509
2006	-0.00065	-0.00062	0.001471	0.000516	-0.0047	-0.00336
2007	-0.00075	-0.00085	0.001821	0.000736	-0.00581	-0.004
2008	-0.00064	-0.00094	0.003767	0.000819	-0.0032	0.000746

Source: Author's calculations

Table II works out the Michelaye index for ASEAN. The sub category Solar Photovoltaic systems in comparison with other sub categories including CSG have positive figures from 2002 through 2008 indicating of the comparative advantage in

such sub categories. All other categories have negative figures indicating that ASEAN as a group does better in terms of export pattern to its own import structure for the sub category Solar Photovoltaic systems only.

Table II: Michelaye Index for CSG subcategories from 2002-2008 for ASEAN

Year	CCT	WE	SP	EEL	OTHER	CSG
2002	-0.00086	-0.00057	0.001928	3.35E-05	-0.0172316	-0.01613
2003	-0.00086	-0.00083	0.004244	-7E-06	-0.0151214	-0.01174
2004	-0.00131	-0.00082	0.004761	-4.5E-05	-0.0150375	-0.01163
2005	-0.00102	-0.00068	0.005454	-4E-05	-0.0127815	-0.00839
2006	-0.00097	-0.00065	0.003651	-8.3E-05	-0.0122716	-0.00967
2007	-0.00149	-0.00073	0.002473	-8.6E-07	-0.0120484	-0.01106
2008	-0.0009	-0.00071	0.00225	-2.8E-05	-0.010472	-0.00915

Source: Authors calculations

Michelaye index for SAARC is worked out and figures given below in Table III. CSG sub categories Clean Coal Technologies, Solar Voltaic Systems and Energy Efficient Lighting show some positive values for some years (2008) indicating that SAARC as

a region are net importers of CSG and sub category goods from the rest of the world. The positive values indicate the changing trade pattern of these countries in SAARC towards producing and exporting more cleaner technologies.

Table III: Michelaye Index for CSG subcategories from 2002-2008 for SAARC

Year	CCT	WE	SP	EEL	OTHER	CSG
2002	-0.00097	-0.00022	-0.00107	-0.00038	-0.0078	-0.01022
2003	-0.00052	-0.00098	-0.00061	-0.00013	-0.00617	-0.00743
2004	0.000115	-0.00078	-0.00031	-0.00011	-0.00646	-0.00676
2005	0.000165	-0.00082	-0.00028	-0.00013	-0.00679	-0.00703
2006	-0.00013	-0.00062	-0.00017	-0.00013	-0.00327	-0.0037
2007	-0.00035	-0.00093	-0.00026	7.88E-06	-0.00395	-0.00456
2008	-0.00027	-0.00112	0.001202	3.36E-05	-3.7E-05	0.000927

Source: Authors calculations

The Michelaye index for APTA is given in Table IV. Positive values come for only Energy Efficient Lighting. Thailand,

Vietnam and Macao in APTA perform better in terms of their export pattern.

Table IV: Michelaye Index for CSG subcategories from 2002-2008 for APTA

Year	CCT	WE	SP	EEL	OTHER	CSG
2002	-0.00046	-0.00071	-0.00423	0.000718	-0.01076	-0.01473
2003	-0.00062	-0.00099	-0.00387	0.000758	-0.0124	-0.01614
2004	-0.00049	-0.00104	-0.0038	0.000819	-0.01403	-0.0175
2005	-0.00052	-0.00118	-0.00306	0.000812	-0.01015	-0.01291
2006	-0.00037	-0.00117	-0.00195	0.00105	-0.00844	-0.0097
2007	-0.00029	-0.00131	-0.00078	0.00127	-0.01089	-0.01069
2008	-0.00021	-0.00137	0.002866	0.001506	-0.00526	-0.0011

Source: Authors calculations

2.1.1. Michelaye Index of CSG subcategories for Selected Member States of the ESCAP

This section works out the Michelaye index for CSG subcategories for selected and identified countries of ESCAP. We have identified those member states which show positive values in some years for sub

categories. For convenience and comparison purpose CSG results are reproduced.

Table V shows that the index is positive for Energy Efficient Lighting for all years from 2002 through 2008 indicating that China may have a comparative advantage in production of energy efficient lighting. Michelaye index is positive for CSG and Solar photovoltaic systems in 2008 only.

Table V: Michelaye Index for China, 2002 -2008

Year	CSG	CCT	SP	WE	EEL	Other
2002	-0.013329411	-2.96E-05	-0.0038708	-0.0005	0.001082	-0.012764
2003	-0.013936756	-9.93E-05	-0.0036163	-0.0007	0.001178	-0.012853
2004	-0.016258747	-0.000183	-0.0035291	-0.0008	0.001251	-0.015066
2005	-0.012433417	-0.000382	-0.0028244	-0.001	0.001101	-0.011085
2006	-0.009334832	-0.000178	-0.0017505	-0.001	0.001366	-0.009358
2007	-0.007551035	-0.00019	-6.804E-05	-0.0011	0.001639	-0.009448
2008	0.000774729	-8.42E-05	0.00418212	-0.0011	0.001975	-0.005564

Source: Authors calculations

Table VI for Japan shows that Michelaye index for CCT, SP, WE and OC (except EEL) are all positive indicating strong comparative advantage of the country in such codes in the

region. Japan being an industrialized nations performs better in trade of CSG goods which are basically component trade to cleaner and energy efficient technologies.

Table VI: Michelaye Index for Japan, 2002 -2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	0.022119633	0.000349	0.00688839	0.00229	4.19E-05	0.0156403
2003	0.024545125	0.00017	0.00814641	0.00208	-2.43E-06	0.0172972
2004	0.031424507	0.000313	0.00917999	0.00207	-8.23E-05	0.0236711
2005	0.030018944	0.000326	0.00878819	0.00228	-0.000109	0.0221997
2006	0.02876132	0.000184	0.00873877	0.00201	-0.000117	0.0209122
2007	0.031941356	0.000136	0.00850102	0.00184	-0.000158	0.0242835
2008	0.034616014	0.000162	0.00868525	0.00205	-0.000204	0.0264099

Source: Authors calculations

Table VII indicates that Hong Kong perform better in terms of clean coal technologies and other codes besides CSG goods in all. Hong Kong again an

industrialized city under China has performed better in terms of its export pattern in comparison with its own import profile for such products.

Table VII: Michelaye Index for Hong Kong,2002-2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	0.002587073	2.26E-06	-0.0010792	-0.0001	-8.55E-05	0.0039176
2003	0.001476985	2.27E-07	-0.001249	-0.0001	-8.01E-05	0.0028375
2004	0.002228808	7.68E-06	-0.0011045	-6E-05	-8.05E-05	0.0034444
2005	0.002527084	-4.03E-06	-0.0011378	2.8E-06	-4.85E-05	0.0036519
2006	0.002195706	7.84E-06	-0.00127	6.3E-06	-5.87E-05	0.0035211
2007	0.002893431	2.41E-05	-0.000809	2.1E-05	-6.57E-06	0.0036228
2008	0.001367895	2.66E-05	-0.0011604	5.5E-06	3.94E-07	0.0024565

Source: Authors calculations

The Michelaye index for Thailand shows that Thailand has comparative advantage in production of EFL in all years although it has

a comparative disadvantage in production of broad category of CSG.

Table VIII: Michelaye Index for Thailand, 2002-2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	-0.016637712	-4.19E-05	0.00110435	-0.0008	0.000579	-0.017157
2003	-0.019191602	-0.000368	0.00226786	-0.001	0.000455	-0.019169
2004	-0.014488008	-0.000592	0.0014636	-0.0009	0.000327	-0.014732
2005	-0.013992792	-0.000818	-0.0012571	-0.0005	0.000301	-0.014505
2006	-0.010786081	-0.00103	-7.981E-05	-0.0005	0.000191	-0.012082

2007	-0.004440311	-0.000765	-0.0014344	-0.0005	0.00022	-0.005841
2008	-0.010688764	-0.000224	-0.0015957	-0.0005	0.000211	-0.012051

Source: Authors calculations

Table IX shows that figures for SP are positive for Malaysia but like Thailand the

figure indicates a comparative disadvantage in all other codes including CSG.

Table IX: Michelaye Index for Malaysia, 2002-2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	-0.013172752	-0.001401	0.00426976	-0.0004	-0.000162	-0.014188
2003	-0.010142361	-0.000342	0.00678859	-0.0006	-0.000194	-0.012587
2004	-0.008458461	-0.000664	0.00969249	-0.0005	-0.000177	-0.010885
2005	-0.008477096	-0.000953	0.01317291	-0.0005	-0.000137	-0.010535
2006	-0.008713062	-0.000681	0.00974084	-0.0006	-0.000241	-0.011707
2007	-0.009400091	-0.000814	0.00652286	-0.0009	-0.000269	-0.010677
2008	-0.007066304	-0.000671	0.00392281	-0.0008	-0.000133	-0.007283

Source: Authors calculations

Table X shows that Michelaye index is positive for CSG, CCT, SP, EEL and for other codes in 2008. The trade pattern of India seems to be changing from the earlier

years for trade of CSG goods.. This may reflect the continuing and good economic performance of liberalizing and matured India.

Table X: Michelaye Index for India, 2003-2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2003	-0.005894408	-0.000484	-0.0005131	-0.0012	-4.71E-05	-0.00444
2004	-0.004820726	0.000175	-0.0001512	-0.0009	-6.75E-05	-0.004432
2005	-0.005246931	0.000214	-8.782E-05	-0.0009	-9.71E-05	-0.004733
2006	-0.000792943	-9.5E-05	8.3266E-05	-0.0007	-9.51E-05	-0.000134
2007	-0.002248424	8.68E-05	5.0074E-05	-0.001	4.55E-05	-0.001636
2008	0.002514224	0.000311	0.00140527	-0.0012	5.62E-05	0.002117

Source: Authors calculations

Table XI shows the Michelaye index for Macao. Macao has positive figures for the CGS, SP, WE and EFL for 2008. Like India,

Macao has set itself of the change in its trade pattern for such CGS and its subcategories from its performance in earlier years.

Table XI: Michelaye Index for Macao, 2002 -2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	-0.017718833	0	-0.0041252	-1E-04	-0.000264	-0.013674
2003	-0.008954188	3.58E-05	-0.0016688	3.9E-05	-0.000121	-0.007348
2004	-0.008794925	-2.67E-07	-0.0014917	-4E-05	-0.00012	-0.007687
2005	-0.004110612	-3.09E-05	0.00026063	-3E-06	-4.32E-05	-0.004868
2006	-0.005859298	-0.002998	-0.0013226	-2E-05	0.000155	-0.003847
2007	-0.001722915	-3.09E-06	0.00274494	-4E-06	0.000144	-0.00545
2008	0.006184608	-5.1E-07	0.00474437	6.1E-05	0.000156	-0.000221

Source: Authors calculations

Table XII shows the Michelaye index for Philippines, 2007-2008 for all the CSG sub

categories and CSG. They are positive for CSG and other codes.

Table XII: Michelaye index for Philippines, 2007-2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2007	0.009654928	-3.21E-05	0.00039559	-0.0002	-0.000176	0.0097314
2008	0.009417292	-7.21E-05	-8.778E-05	-0.0002	-0.000158	0.0099908

Source: Authors calculations

Table XIII shows that Michelaye index for Vietnam. The values are positive for SP

and EEL in 2007 and 2008 while they are negative for all codes including CSG.

Table XII :Michelaye index for Vietnam, 2004-2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2004	-0.013252372	-0.001211	-0.0001244	-0.0008	2.8E-05	-0.011572
2005	-0.016520337	-0.001689	-0.0002469	-0.0009	4.61E-06	-0.014179
2006	-0.014582256	-0.002057	-0.0002536	-0.0008	-3.71E-06	-0.011986
2007	-0.027410192	-0.005977	0.00025249	-0.0009	0.000852	-0.02215
2008	-0.023887551	-0.001501	0.00016743	-0.001	3.48E-07	-0.022231

Source: Authors calculations

Table XIV shows the comparative disadvantage of Sri-Lanka in the production

of CSG and for its subcategories except for EEL in 2007.

Table XIV: Michelaye Index for Sri-Lanka, 2002-2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	-0.013487992	-1.19E-05	-0.0017256	-0.0002	-0.000579	-0.011645
2003	-0.005874594	-2.96E-05	-0.0012163	-0.0002	-0.000302	-0.004511
2004	-0.007036297	-6.91E-05	-0.0009699	-0.001	-9.36E-05	-0.006001
2005	-0.007213341	-1.44E-05	-0.000347	-0.0004	6.47E-05	-0.006272
2006	-0.009596398	-0.000101	-0.0010202	-0.0004	-0.000214	-0.007812
2007	-0.008345658	-0.002635	-0.0005292	-0.0004	0.00039	-0.004802
2008	-0.006069723	-1.57E-05	3.4152E-05	-0.0003	-0.000346	-0.004958

Source: Authors calculations

Table XV shows that South Korea's does not have comparative advantage in production of CSG and its sub categories and

is importing from other nations of APTA and the rest of the World

Table XV: Michelaye Index for South Korea, 2002 -2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	-0.009075749	-0.001043	-0.003856	-0.0009	-6.84E-05	-0.00504
2003	-0.018069444	-0.001522	-0.0045445	-0.0011	-9.85E-05	-0.012436
2004	-0.018367873	-0.00118	-0.004319	-0.0011	-0.000144	-0.013253
2005	-0.014877582	-0.000785	-0.0042082	-0.001	-0.000177	-0.010547
2006	-0.013289666	-0.000867	-0.0034181	-0.0011	-0.000182	-0.009144
2007	-0.021559932	-0.000572	-0.0041143	-0.001	-0.000166	-0.017658
2008	-0.01498956	-0.0005	-0.0045976	-0.0009	-0.000135	-0.010338

Source: Authors calculations

Table XVI shows that Pakistan also does not seem to have comparative advantage in CSG trade and is importing the products

from other countries in SAARC and the rest of the world.

Table XVI: Michelaye Index for Pakistan, 2002 -2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2003	-0.012334195	-0.000882	-0.0005089	-0.0004	-0.000186	-0.010688
2004	-0.011146644	-8.51E-05	-0.0003068	-0.0005	-0.000147	-0.009923
2005	-0.010033217	-0.00011	-0.0005023	-0.0005	-0.000117	-0.008977
2006	-0.012949758	-7.52E-05	-0.0005659	-0.0005	-7.49E-05	-0.011924
2007	-0.019968829	-0.002348	-0.0008803	-0.0007	-8.07E-05	-0.016411
2008	-0.025273825	-0.003625	-0.001125	-0.0008	-3.94E-05	-0.020258
2009	-0.034243714	-0.00366	-0.0016565	-0.0006	-0.000153	-0.029033

Source: Authors calculations

The Table XVII below shows the Michelaye for Singapore. The values are positive for SP in 2007 and 2008.

Table XVII: Michelaye Index for Singapore, 2002 -2008

YEAR	CSG	CCT	SP	WE	EEL	OTHER
2002	-0.010787001	-0.000379	-0.0010366	-7E-05	-8.97E-05	-0.009474
2003	-0.007256312	-0.000775	-0.0004062	-0.0002	-0.00012	-0.00586
2004	-0.010895964	-0.000952	-0.0005938	-0.0003	-0.000111	-0.0091
2005	-0.006031824	-0.000254	-0.0003275	-0.0003	-8.74E-05	-0.004994
2006	-0.007080815	-2.56E-05	-0.0003878	-0.0003	-6.34E-05	-0.00639
2007	-0.00714882	-0.000343	5.3646E-05	-0.0003	-8.7E-05	-0.005926
2008	-0.005030634	-0.000274	0.00103166	-0.0003	-6.91E-05	-0.004626

Source: Authors calculations

2.2. Revealed Comparative Advantage (RCA) in CSG Categories for Member Nations and Regional Groups of ESCAP in 2008 and 2002

The Revealed Comparative Advantage is defined as the ratio of two shares. The numerator is the share of a country's total exports of the commodity of interest in its total exports. The denominator is share of world exports of the same commodity in total world exports. The RCA takes a value between 0 and + infinity. A Country is said to have a revealed comparative advantage if the value exceeds unity.

The Table XVIII indicates that the Revealed Comparative advantage index for Energy Efficient Lighting is greater than one

for China, Sri-Lanka and Macao in 2008 while it was greater than one for China and Thailand in 2002. This indicates that the share of EFL exports in the total exports of each of these countries is greater than the World share of EFL in Worlds total exports. The greater than one RCA figure for China in 2008 are also reflected in the alternative Michelaye index for China which is positive. This reconfirms that China is performing better than other is such technologies. The same happens with Macao in 2008 reconfirming that Macao has a revealed comparative advantage in 2008 and is reflected in its export pattern. Both APTA and ESCAP as a groups have values of RCA greater than one in 2008 and 2002 indicative of its strong performance.

Table XVIII: RCA in EFL for Member Nations and Regional Groups, in 2008 and 2002

Country/ Regional Groups	RCA in Energy Efficient Lighting 2008	Country Regional Groups	RCA in Energy Efficient Lighting 2002
China	6.019017	China	5.529182
Sri Lanka	1.92231	Thailand	2.989666
Macao	1.264191	Sri Lanka	0.796008
Thailand	0.978966	Japan	0.592959
Hong Kong, China	0.91824	Korea, Rep.	0.558382

India	0.479794	Hong Kong, China	0.311097
Vietnam	0.219344	Turkey	0.220703
Korea, Rep.	0.142065	Bangladesh	0.204511
Japan	0.142036	Macao	0.163152
Turkey	0.125991	Russian Federation	0.119411
Malaysia	0.086959	Fiji	0.089664
Russian Federation	0.046237	Australia	0.046886
Australia	0.022322	New Zealand	0.040714
New Zealand	0.015559	Malaysia	0.037607
Philippines	0.01169		
Kyrgyz Republic	0.002161	APTA	3.86
Armenia	0.001648	ESCAP-region	1.57
New Caledonia	0.001195	ASEAN	0.81
Pakistan	0.000153	SAARC	.139
Kazakhstan	1.48E-05		
APTA	4.73		
ESCAP-region	2.69		
SAARC	0.489		
ASEAN	0.29		

Source: Authors calculations

The Table XIX shows RCA in Solar Photovoltaic systems in 2008 and 2002 for member nations and regional groupings in ESCAP region. Japan, China, Malaysia and Macao show greater than one values in 2008 while Malaysia, Japan, Thailand, New Zealand and Hong Kong had greater than one figures in 2002. The Figures show the rise of

China and Macao in 2008 to levels reached in 2002. All regional groups APTA and ASEAN and ESCAP regions show greater than one figure for SPS in 2008. In the year 2002 only ASEAN and ESCAP had values greater than one. This shows the rise of APTA in terms of SPS.

Table XIX: RCA in Solar Photovoltaic Systems for Member Nations and Regional Groups in 2008 and 2002

Countries/ Regional Groupings	RCA in Solar Photovoltaic Systems in 2008	Countries/ Regional Groupings	RCA in Solar Photovoltaic Systems in 2002
Japan	2.200128	Malaysia	3.57185
China	2.065597	Japan	2.835465
Malaysia	1.925274	Thailand	1.996247
Macao	1.284082	New Zealand	1.289013
Hong Kong, China	0.979779	Hong Kong, China	1.193914
Thailand	0.935637	Singapore	0.797021
Singapore	0.80443	China	0.545747
India	0.726069	Korea, Rep.	0.4271
Korea, Rep.	0.510866	Australia	0.20657
Vietnam	0.397511	Turkey	0.195027
Australia	0.290465	Russian Federation	0.160004
Sri Lanka	0.270347	Sri Lanka	0.057216
Turkey	0.259201	Macao	0.033465
New Zealand	0.214947	Bangladesh	0.013766
Philippines	0.168554	Fiji	0.013129
Armenia	0.118806	Papua New Guinea	0.001443
Russian Federation	0.086525	ASEAN	2.17
Kyrgyz Republic	0.057467	ESCAP-region	1.18
French Polynesia	0.022104	APTA	0.5011
Kazakhstan	0.012606	SAARC	0.027

New Caledonia	0.012492		
Pakistan	0.01218		
Georgia	0.001721		
Cambodia	0.000523		
Azerbaijan	0.000361		
APTA	1.73		
ESCAP-region	1.56		
ASEAN	1.18		
SAARC	0.676		

Source: Authors calculations

Table XX gives the figures for RCA for clean coal technologies. It is to be noted that Pakistan and Singapore are the only countries in 2008 who have secured more than one figure in RCA. India is close at third with value of 0.85. It seems that SAARC countries have developed expertise in the production of CCT. It is also notable that no country in the ESCAP region had a comparative advantage

in clean coal technologies in 2002. Also, no regional group have comparative advantage in the production of clean coal technologies. Maybe the world community at large need to rethink and review the policies related to clean coal technologies. ESCAP and ASEAN are already showing impressive export performance in relation to its import profile.

Table XX: RCA in Clean Coal Technologies for Member Nations and Regional Groupings in 2002 and 2008

<i>Country/ Regional Groups</i>	<i>RCA in Clean Coal Technologies in 2008</i>	<i>Countries/ Regional Groups</i>	<i>RCA in Clean Coal Technologies in 2002</i>
Pakistan	1.339412	Japan	0.8675
Singapore	1.11702	Turkey	0.4799
India	0.846607	Singapore	0.202781
Japan	0.828923	Russian Federation	0.176912
New Zealand	0.49134	Australia	0.110158
Turkey	0.233853	China	0.091215
Russian Federation	0.210555	Malaysia	0.085864
Australia	0.177488	New Zealand	0.049755
Thailand	0.157268	Hong Kong, China	0.038315
Hong Kong, China	0.068638	Thailand	0.028098
Malaysia	0.057095	Korea, Rep.	0.027017
Korea, Rep.	0.047489	Sri Lanka	0.001077
China	0.046887	Papua New Guinea	0.000174
Georgia	0.017563		
Kazakhstan	0.013491	ESCAP-region	0.47
Azerbaijan	0.002907	ASEAN	0.07
Kyrgyz Republic	0.002009	APTA	0.07
Macao	0.000676	SAARC	0.0005
Vietnam	0.000267		
Philippines	1.72E-05		
New Caledonia	1.07E-05		
SAARC	0.718		
ASEAN	0.09		
ESCAP-region	0.23		
APTA	0.10		

Source: Authors calculations

Table XXI indicates that only Japan has a comparative advantage in the production of

Wind technology both in 2002 and 2008.

Table XXI: RCA in Wind Energy for Member States and Regional Groups in 2002 and 2008

Member State/ Regions	RCA in Wind Energy in 2008	Member State/ Regions	RCA in Wind Energy in 2002
Japan	2.043342	Japan	2.579826
Turkey	0.567223	China	0.591862
China	0.467872	Singapore	0.402196
Korea, Rep.	0.461961	Turkey	0.348298
India	0.381314	Korea, Rep.	0.249783
Singapore	0.325889	Russian Federation	0.185859
Thailand	0.219029	Hong Kong, China	0.179297
Australia	0.200782	New Zealand	0.158322
New Zealand	0.195335	Thailand	0.144574
Hong Kong, China	0.153545	Australia	0.134971
Russian Federation	0.111131	Papua New Guinea	0.048595
Georgia	0.090814	Malaysia	0.03349
Armenia	0.086058	Macao	0.007864
Macao	0.079681	Fiji	0.005852
Vietnam	0.07908	Sri Lanka	0.001407
Malaysia	0.06915		
New Caledonia	0.053143	ESCAP-region	1.06
Kyrgyz Republic	0.026442	APTA	0.46
Kazakhstan	0.02531	ASEAN	0.17
Pakistan	0.012831	SAARC	0.0004
Philippines	0.007161		
Azerbaijan	0.006369		
French Polynesia	0.002202		
Sri Lanka	0.001177		
ESCAP-region	0.61		
APTA	0.49		
SAARC	0.29		
ASEAN	0.13		

Source: Authors calculations

Table XXII shows that Japan, Philippines, China, Hong Kong and South Korea have a comparative advantage in production of 'other codes' in 2008 while Japan and Hong

Kong got values greater than one in 2002. None of the groups have RCA advantage in 2008 and 2002.

Table XXII: RCA in Other Codes in 2008 and 2002 for Member Nations and Regional Groupings

Member Nation/Regional Groups	RCA in Other Codes in 2008	RCA in Other Codes in 2002	
Japan	1.99122	Japan	1.577975
Philippines	1.106746	Hong Kong, China	1.15635
China	1.078173	Korea, Rep.	0.992621
Hong Kong, China	1.066263	China	0.962042
Korea, Rep.	1.058006	Singapore	0.714065
India	0.751783	Thailand	0.669042
Thailand	0.648416	New Zealand	0.520617
Turkey	0.613037	Malaysia	0.493818

Singapore	0.587918	Turkey	0.475211
Malaysia	0.56929	Sri Lanka	0.299544
New Zealand	0.391502	Russian Federation	0.268078
Vietnam	0.353121	Australia	0.217533
Macao	0.331598	Fiji	0.192113
Sri Lanka	0.271254	Macao	0.111856
Kyrgyz Republic	0.22134	Papua New Guinea	0.077616
Armenia	0.21164	Bangladesh	0.036246
Australia	0.160318	Mongolia	0.002307
Georgia	0.148085	ESCAP-region	0.90
Russian Federation	0.108499	APTA	0.97
Pakistan	0.09035	ASEAN	0.55
Cambodia	0.047764	SAARC	0.15
New Caledonia	0.0386		
French Polynesia	0.01461		
Kazakhstan	0.009263		
Azerbaijan	0.003481		
Bhutan	0.000133		
APTA	1.02		
ESCAP-region	0.88		
SAARC	0.70		
ASEAN	0.75		

Source: Authors calculations

3. Competitiveness Index for Trade in CSG Categories of Member Nations and Regional Groups in ESCAP Region in 2002 and 2008

Competitiveness index shows the share of exports of one product by a country in World Exports of the same product. The higher value indicates an improvement in its competitiveness in relation to other countries. The values vary from zero to 100 % indicating an ideal situation of hundred percent competitiveness. The ratio shows the countries international profile with respect to a product traded internationally.

Table XXIII gives the index for member nations and Regional Groupings in ESCAP region for EFL. China, Hong Kong and Thailand are ranked one, two and three for 2008 while China, Japan and Thailand are ranked in the same serial in 2002. What is notable is the big gap between the figures of China and the second ranked nation in 2008 and in 2002. China got figure of 57.84% in 2008 while the second ranked nation got figure of 2.28 %. In 2002 China got the figure of 30.96 while it was only 4.25 for second ranked Japan. ESCAP and APTA as regions perform better than other regional groups as far as competitiveness is concerned.

Table XXIII: Competitiveness Index for Trade in EFL of Member Nations and Regional Groups, in 2002 and 2008

Country/ Regional Groupings	Competitiveness Index 2008(%)	Ranking 2008	Country/ Regional Grouping	Competitiveness Index 2002(%)	Ranking 2002
China	57.84337	1	China	30.96962	1
Hong Kong, China	2.28381	2	Japan	4.250752	2
Thailand	1.15673	3	Thailand	3.502819	3
Japan	0.745585	4	Korea, Rep.	1.560611	4
India	0.58616	5	Hong Kong, China	1.080672	5
Korea, Rep.	0.402719	6	Solomon Islands	0.847097	6
Solomon Islands	0.207602	7	Russian Federation	0.219168	7
Russian Federation	0.145334	8	Turkey	0.135747	8
Malaysia	0.116156	9	Sri Lanka	0.064675	9

Turkey	0.111662	10	Malaysia	0.060851	10
Sri Lanka	0.105587	11	Australia	0.052432	11
Vietnam	0.092366	12	Bangladesh	0.019058	12
Australia	0.027785	13	New Zealand	0.010042	13
Macao	0.016969	14	Macao	0.006615	14
Philippines	0.003854	15	Fiji	0.000806	15
New Zealand	0.003174	16	ESCAP-region	23.45	1
Kyrgyz Republic	2.35E-05	17	APTA	7.59	2
Pakistan	2.09E-05	18	ASEAN	3	3
New Caledonia	1.31E-05	19	SAARC	0.023	4
Armenia	1.17E-05	20			
ESCAP-region	45.20	1			
APTA	12.10	2			
ASEAN	1.16	3			
SAARC	0.49	4			

Source: Authors calculations

Table XXIV shows the competitiveness index in SPS for member states and regional groups. China, Japan, Malaysia are ranked one, two and three in 2008 while the ranking

for 2002 is Japan, Malaysia and Hong Kong. ESCAP and APTA are ranked one and two in 2008 while it was ESCAP and ASEAN in 2002.

Table XXIV: Competitiveness Index for Trade in SPS of Member Nations and Regional Groups in 2002 and 2008

Country/ Regional Groupings	Competitiveness Index 2008(%)	Ranking 2008	Country/ Regional Grouping	Competitiveness Index 2002(%)	Ranking 2002
China	19.85061	1	Japan	20.32663	1
Japan	11.54909	2	Malaysia	5.779524	2
Malaysia	2.571678	3	Hong Kong, China	4.147351	3
Hong Kong, China	2.436869	4	China	3.056793	4
Singapore	1.827482	5	Thailand	2.338886	5
Korea, Rep.	1.448175	6	Singapore	1.716312	6
Thailand	1.105532	7	Korea, Rep.	1.193694	7
India	0.887031	8	New Zealand	0.317932	8
Australia	0.361543	9	Russian Federation	0.293673	9
Russian Federation	0.271969	10	Australia	0.231004	10
Turkey	0.229722	11	Turkey	0.119955	11
Vietnam	0.167393	12	Sri Lanka	0.004649	12
Philippines	0.055571	13	Macao	0.001357	13
New Zealand	0.043848	14	Bangladesh	0.001283	14
Macao	0.017236	15	Fiji	0.000118	15
Sri Lanka	0.014849	16	Papua New Guinea	4.03E-05	16
Kazakhstan	0.006027	17			
Pakistan	0.001659	18	ESCAP-region	17.70	1
Armenia	0.000842	19	ASEAN	8.04	2
Kyrgyz Republic	0.000624	20	APTA	3.89	3
New Caledonia	0.000137	21	SAARC	0.004	4
Azerbaijan	0.000116	22			
French Polynesia	3.07E-05	23			
Georgia	1.73E-05	24			
Cambodia	1.53E-05	25			
ESCAP-region	26.26	1			
APTA	20.49	2			

ASEAN	4.74	3			
SAARC	0.87	4			

Source: Authors calculations

Table XXV shows the competitiveness index in trade in CCT of member nations and regional groups. Japan, Singapore and India are ranked one, two and three in 2008. The

ranking was Japan, China and Singapore in 2002. ESCAP and ASEAN are ranked one and two in 2008 and 2002.

Table XXV: Competitiveness Index for Trade in CCT of Member Nations and Regional Groups in 2002 and 2008

Country/ Regional Groupings	Competitiveness Index 2008(%)	Ranking 2008	Country/ Regional Grouping	Competitiveness Index 2002(%)	Ranking 2002
Japan	4.351247	1	Japan	6.218897	1
Singapore	2.537614	2	China	0.510907	2
India	1.034292	3	Singapore	0.436673	3
Russian Federation	0.661826	4	Russian Federation	0.324708	4
China	0.450592	5	Turkey	0.295172	5
Australia	0.22092	6	Malaysia	0.138935	6
Turkey	0.207257	7	Hong Kong, China	0.133096	7
Thailand	0.185825	8	Australia	0.123189	8
Pakistan	0.18246	9	Korea, Rep.	0.07551	9
Hong Kong, China	0.170713	10	Thailand	0.032921	10
Korea, Rep.	0.134618	11	New Zealand	0.012272	11
New Zealand	0.100231	12	Sri Lanka	8.75E-05	12
Malaysia	0.076264	13	Papua New Guinea	4.87E-06	13
Kazakhstan	0.00645	14	ESCAP-region	7.03	1
Azerbaijan	0.000932	15	ASEAN	0.608528	2
Georgia	0.000177	16	APTA	0.27	3
Vietnam	0.000113	17	SAARC	8.75E-05	4
Kyrgyz Republic	2.18E-05	18			
Macao	9.07E-06	19			
Philippines	5.67E-06	20			
New Caledonia	1.18E-07	21			
ESCAP-region	3.89	1			
ASEAN	2.799822	2			
APTA	0.81	4			
SAARC	0.92	3			

Source: Authors calculations

Table XXVI gives the Competitiveness Index in Trade in WE of Member Nations and Regional Groups in 2002 and 2008. Japan, China and South Korea are ranked one,

two and three respectively. The ranking are Japan, China and Singapore in 2002. ESCAP and APTA are ranked one and two in 2008 and 2002.

Table XXVI: Competitiveness Index for Trade in WE of Member Nations and Regional Groups in 2002 and 2008

Country/ Regional Groupings	Competitiveness Index 2008(%)	Ranking 2008	Country/ Regional Grouping	Competitiveness Index 2002(%)	Ranking 2002
Japan	10.72607	1	Japan	18.29296	1
China	4.496298	2	China	3.279049	2
Korea, Rep.	1.30954	3	Singapore	0.856677	3

Singapore	0.740346	4	Korea, Rep.	0.690523	4
Turkey	0.502712	5	Hong Kong, China	0.616059	5
India	0.465848	6	Russian Federation	0.337419	6
Hong Kong, China	0.381892	7	Turkey	0.211897	7
Russian Federation	0.349311	8	Thailand	0.167547	8
Thailand	0.258801	9	Australia	0.149295	9
Australia	0.249915	10	Malaysia	0.053601	10
Malaysia	0.092367	11	New Zealand	0.038625	11
New Zealand	0.039847	12	Papua New Guinea	0.001344	12
Vietnam	0.033301	13	Macao	0.000315	13
Kazakhstan	0.012101	14	Sri Lanka	0.000113	14
Philippines	0.002361	15	Fiji	5.2E-05	15
Azerbaijan	0.002043	16	ESCAP-region	15.84	1
Pakistan	0.001748	17	APTA	3.82	2
Macao	0.00107	18	ASEAN	0.63	3
Georgia	0.000914	19	SAARC	.00008	4
Armenia	0.00061	20			
New Caledonia	0.000583	21			
Kyrgyz Republic	0.000287	22			
Sri Lanka	6.46E-05	23			
French Polynesia	3.06E-06	24			
ESCAP-region	10.37	1			
APTA	5.53	2			
ASEAN	.54	3			
SAARC	0.46	4			

Source: Authors calculations

Table XXVII give the Competitiveness Index in Trade in OC of Member Nations and Regional Groups in 2002 and 2008. Japan, China and Hong Kong are ranked one, two

and three in 2008 while it was Japan, China and Hong Kong in 2002. Again ESCAP and APTA perform better than other groups.

Table XXVII: Competitiveness Index for Trade in OC of Member Nations and Regional Groups in 2002 and 2008

Country/ Regional Groupings	Competitiveness Index 2008(%)	Ranking 2008	Country/ Regional Grouping	Competitiveness Index 2002(%)	Ranking 2002
Japan	10.45306	1	Japan	11.31205	1
China	10.36194	2	China	5.388513	2
Korea, Rep.	2.999344	3	Hong Kong, China	4.016862	3
Hong Kong, China	2.652116	4	Korea, Rep.	2.774258	4
Singapore	1.335692	5	Singapore	1.537673	5
India	0.918498	6	Malaysia	0.799034	6
Thailand	0.766201	7	Thailand	0.783878	7
Malaysia	0.76047	8	Russian Federation	0.492033	8
Turkey	0.543346	9	Turkey	0.292287	9
Philippines	0.364903	10	Australia	0.243264	10
Russian Federation	0.34106	11	New Zealand	0.128409	11
Australia	0.19956	12	Sri Lanka	0.024338	12
Vietnam	0.148708	13	Macao	0.004535	13
New Zealand	0.079869	14	Bangladesh	0.003378	14

Sri Lanka	0.0149	15	Papua New Guinea	0.00217	15
Pakistan	0.012309	16	Fiji	0.001727	16
Macao	0.004451	17	Mongolia	1.91E-05	17
Kazakhstan	0.004429	18	ESCAP-region	13.41	1
Kyrgyz Republic	0.002405	19	APTA	7.59	2
Armenia	0.0015	20	ASEAN	2.03	3
Georgia	0.00149	21	SAARC	0.02	4
Cambodia	0.001398	22			
Azerbaijan	0.001117	23			
New Caledonia	0.000423	24			
French Polynesia	2.03E-05	25			
Bhutan	4.67E-07	26			
ESCAP-region	14.89	1			
APTA	12.10	2			
ASEAN	2.26	3			
SAARC	0.90	4			

Source: Authors calculations

4. Regional Orientation of CSG Subcategories

Table XXVIII give the Regional Orientation Index for selected member states of ESCAP and some regional groups for sub categories of EGS in 2002 and 2008. A value greater than unity implies a regional bias in exports. The results indicate that Malaysia has regional bias for export of CCT, WE and OC in ASEAN in 2002 and 2008. Philippines also has regional bias for export of WE and OC in 2007 and 2008 and in EFL in 2008. Singapore has regional bias (in ASEAN) for all codes in 2002 and 2008 except SPS in 2008. Thailand has regional bias (in ASEAN) for exports of CCT, WE and OC in 2002 and

2008. ASEAN as a group has regional bias towards its own region for all codes except SPS in 2002 and 2008.

India has regional bias for EFL in SAARC for both years and in CCT in 2008. Sri-Lanka has a regional bias for export of SPS and EFL in 2002 and 2008. SAARC as a group has regional bias for EFL in both years and CCT in 2008.

India has regional bias for clean coal technologies in APTA in 2008. South Korea has regional bias (in APTA) for OC and SPS in 2002 and 2008. APTA as a group has regional bias for OC and CCT in 2008. ESCAP as a group as regional bias for OC in both the years and CCT in 2008.

Table XXVIII: Regional Orientation Index of Export of Sub Categories of CGS for Selected Members and Regional Groups, 2002 and 2008

Country(in Regional Grouping)	CCT		WE		SPS		EFL		OC	
	2002	2008	2002	2008	2002	2008	2002	2008	2002	2008
Malaysia(ASEAN)	1.86	6.15	6.64	7.17	0.32	0.28	0.14	0.13	1.58	1.45
Philippines (ASEAN)			1.44**	10.4	.01**	0.003	0.27**	1.81	1.01**	0.64
Singapore (ASEAN)	3.50	20.1	1.36	2.63	2.22	0.72	5.14	5.47	2.08	1.88
Thailand(ASEAN)	54.56	2.66	9.37	2.06	0.89	0.88	1.27	0.91	1.17	1.63
China(APTA)	0.01	5.53	0.44	0.85	0.77	0.75	1.36	0.65	0.73	1.60
India(SAARC)	0.71*	6.64	0.37*	0.11	0.51*	0.56	11.74*	17.9	1.22*	0.47
Pakistan(SAARC)			0.09*	0.03		2.66			9.57*	1.66
Sri-Lanka(SAARC)			6.83	.0003	7.11	2.17	233.64	1.61	0.85	0.46
India(APTA)	.07*	3.11	0.26*	0.94	0.33*	0.33	6.10*	0.39	0.91*	0.30
South Korea(APTA)	1.09	0.22	0.46	1.63	1.14	1.84	0.07	0.41	1.33	1.75
APTA(APTA)	0.23	2.85	0.38	1.01	0.91	0.63	0.84	0.44	1.07	1.39
ASEAN(ASEAN)	3.61	18.5	2.09	2.97	0.67	0.58	1.40	1.01	1.71	1.53

SAARC(SAARC)		4.41	12.01	.09	9.08	0.52	78.35	1.36	1.35	0.44
ESCAP(ESCAP)	0.20	1.75	0.63	0.95	1.39	0.67	0.93	0.44	1.24	1.23

Source: Authors calculations *2003 figures ** 2007 figures

5. Conclusions

The study works out some trade indices like Competitiveness index, RCA, Michelaye and Regional Orientation index for ESCAP member nations and some regional groups for trade of CSG subcategories for years 2002 through 2008. The objective is to map the trade performance of ESCAP region in trade of cleaner technologies.

Revealed Comparative advantage index for Energy Efficient Lighting is greater than one for China, Sri- Lanka and Macao in 2008 while it was greater than one for China and Thailand in 2002. This indicates that the share of EFL exports in the total exports of each of these countries is greater than the World share of EFL in Worlds total exports. The greater than one RCA figure for China in 2008 are also reflected in the alternative Michelaye index for China which is positive. This reconfirms that China is performing better than other in EFL. Japan, China, Malaysia and Macao show greater than one RCA values in 2008 for SPS while Malaysia, Japan, Thailand, New Zealand and Hong Kong had greater than one figures in 2002. Table XXVI above gives the figures for RCA for clean coal technologies. It is to be noted that Pakistan and Singapore are the only countries in 2008 who have secured more than one figure in RCA. India is close at third

6. References

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with value of 0.85. It seems that SAARC countries have developed expertise in the production of CCT. Japan has a comparative advantage in the production of Wind technology both in 2002 and 2008. Japan, Philippines, China, Hong Kong and South Korea have a comparative advantage in production of 'other codes' in 2008 while Japan and Hong Kong got values greater than one in 2002. None of the groups have RCA advantage in 2008 and 2002.

ASEAN as a group has regional bias towards its own region for all codes except SPS in 2002 and 2008. SAARC as a group has regional bias for EFL in both years and CCT in 2008. APTA as a group has regional bias for OC and CCT in 2008. ESCAP as a group as regional bias for OC in both the years and CCT in 2008.

The above analysis based on trade indices indicates the factual position of each member nation with respect to trade of CSG and its sub categories. Gravity analysis will help us answer why do we see trends like the above? Do tariffs(both with and without preferential rates), economic size, endowments, policy, transparency, regulations or infrastructure matter, dummies for regional trade agreements, among others matter more for trade of such clean technologies for the ESCAP region.

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Specific Features of the Current Economic Recession in Japan and Ways of Managing It

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Abstract

In almost every area of human activity there are concerns regarding malfunctions that may occur within it. Therefore, there are studies about the causes, the mode of occurrence, manifestations and consequences of these deviations which act as the economic crises.

The current crisis differs from other crises in its proportions, now affecting a large number of countries. If until now there were mainly affected countries in progress, in this crisis there have been involved most developed countries. In this category it is also included Japan.

The National Bank of Japan tries continuously to carefully examine the outlook for economic activity, and, if necessary, take policy actions in an appropriate manner.

Since the Tohoku Pacific Earthquake occurred, the Bank of Japan has been trying to manage its effects on financial markets and financial institutions' business operations. In addition, the Bank has been providing funds flexibly through appropriate money market operations.

Key words: crisis, Bank of Japan, policy measures, financial market, earthquake

J.E.L. classification: E52, E58, G01

1. Introduction

Economic crises have always invited to reflection and sometimes introspection, putting everyone in the position of wondering where it went wrong, who was wrong, what went wrong and last but not least, what should be done so that these mistakes do not

happen again. Today's financial crisis has its roots in corporate irresponsibility around the subprime mortgage market in the US. If "responsible lending" which presumes providing credit, based on background checks and professional judgment, to people who can accommodate regular repayments without getting into financial difficulty had been observed (or if tighter regulatory oversight had been imposed), we might not all be in this position right now. This crisis is a financial crisis of liquidity slump in global credit markets and banking systems, caused by the collapse of companies that have invested in high-risk mortgages. Its causes are foreseen since the end of last century, but the peak was reached in 2007 and 2008.

The baseline was when Japan and U.S. decided to reduce their interest rates in order to avoid recession. National Bank of Japan has tried by all available levers to limit the adverse effects of the recession through decisions on the reference interest rate, measures to ensure stability of financial markets and corporate support facilities to customers.

2. Monetary policy measures – evolution of the reference rate

The reference rate is the starting point of all monetary policies implemented by each central bank. A higher reference rate is attracting more money into bank accounts and limits the possibility of getting a credit contract, so a smaller amount of money on the market. In the opposite situation, a lower rate, is generating more loans and money saving - so a larger amount of money on the market. In terms of reference interest rate, Bank of Japan decided a dramatic reduction since December 2008.

Table 1: The development of loan interest rate and reference interest rate at the National Bank of Japan in 2007-2008

Date	Loan Interest Rate	Reference Interest Rate
February 2007	0,75	0,5
October 2008	0,5	0,1
December 2008	0,3	0,1
December 2010	0,3	0-0,1

* *Source:* Own processing of the information available at <http://www.boj.or.jp>.

Moreover, in October 2010, the Bank of Japan surprised the economic world by announcing a reference interest rate fluctuating between 0 and 0.1. Together with this decision, it adopted an expansion plan to combat unjustified strengthening Yen and stop persistent deflationary process. Japanese government tried to equilibrate economic problems of the economy through excessive public spending. [1]

Government loans took a great extent. Japan is a highly indebted country: the IMF said in 2010 that the net public debt amounted to the equivalent of 121.7% of GDP, double compared with 2000. Regarding the total public debt, it reached almost 200% of GDP. Most of this debt is not external, but internal, thus making the country less dependent on foreign creditors. Japan would have had inflation only if the growth of public debt had been so great as to require foreign loans. [2]

3. Measures to ensure the stability of financial markets

The Bank of Japan has taken several measures in order to balance the situation on financial markets.

A. The need to expand operations generating additional funds in U.S. dollars

In the third quarter of 2008, an important number of central banks decide to approach simultaneously the problem of increased

pressure on the dollar in international financial markets. Thus, the National Bank of Canada, Bank of England, European Central Bank, the Federal Reserve and Swiss National Bank take certain measures, together with other actions conducted by the individual central banks in order to improve liquidity conditions in global financial markets.

Bank of Japan joins the central banks taking such measures, through an agreement with the Federal Reserve providing funds meant to provide entering transactions in dollars, seeking to provide dollar-denominated funds for the Japanese market participants, in collaboration with the Federal Reserve. The Bank will provide funds in accordance with the market conditions.

In the first quarter of 2010, in coordination with the other central banks, Bank of Japan confirmed the expiration term of temporary swap lines with the Federal Reserve liquidity. These lines are not necessary, taking into account the functional improvements in the financial market.

Consequently, supply funds for operations in dollars run by the Bank of Japan will no longer be in operation. Similar announcements are made at the beginning of 2010 at the Bank of England, European Central Bank and Swiss National Bank. Central banks will continue to cooperate in order to sustain global economy.

However, in May 2010 the Bank's Monetary Policy Council of Japan has decided to temporarily restore the U.S. dollar swap agreement with the Federal Reserve, for the same purpose with which he did so in 2008: funds needed to restore market operations dollars. The Bank will continue their efforts in order to maintain financial market stability by implementing proper market operations.

B. Introduction additional storage facility

In the third quarter of 2008, Bank of Japan revised the bank's reserve system, in order to make another step to improve the functioning of open market operations to ensure stability on the financial markets. Global financial markets continued to be influenced by both internal and external pressures and their influences began to be felt in the Japanese financial markets. In these circumstances, the Bank has provided sufficient liquidity until the end of the calendar year, but also by the

end of the fiscal year in order to ensure financial stability in the markets.

Additional storage facility is a temporary measure, through which the bank pays interest on additional reserve balances - correspondent account balances held with the Bank in addition to the required reserves. Introducing this facility had the consequence of giving additional flexibility in managing money market operations by allowing sufficient liquidity, while maintaining the policy rate around the target level.

4. Supporting facilities provided for corporate customers

The Yen reached the highest levels in 13 years against the U.S. dollar after the decisions of FED in December 2008, which has reduced its reference rate to 0%, and the decision of the Bank of Japan, which lowered the interest of reference to 0,1%. Yen appreciation leads to a decrease in the earnings repatriated by Japanese companies and also undermines the competitiveness of Japanese exports.

Government forecasts show a slowdown in economic growth of 1.5% due to currency appreciation. Domestic producers, which include Panasonic Corporation, the largest plasma TV maker in the world, complain that the Yen appreciation affects competitiveness against foreign companies.

To support both the national economy and the corporate sector, Bank of Japan has invested in 2009, 11 billion dollars to buy shares of Japanese commercial banks in an attempt to undermine the economic crisis and credit crunch. Japan agreed in October 2010 a new package worthing 61.3 billion dollars to stimulate the Japanese economy, hard hit by deflation and strong appreciation of the currency. This massive package included programs for creating or saving 500.000 jobs, in addition to the measures taken in support for small and medium enterprises.

Figure 1: The evolution in the exchange rate Yen/Dollar during the period 2006-2011



*Source: Retrieving information available at <http://www.forexpros.com/currencies/jpy-usd-chart>.

Another program designed to reinvigorate the situation of Japanese enterprises, was the program to purchase treasury bills and bonds from firms. The program intended to provide an alternative financing option for companies unable to obtain loans from banks, while the credit market began to stagnate, affected by the bankruptcy of U.S. bank Lehman Brothers in September 2008. The success of this program has lately begun to fade after the operating conditions in financial markets began to show signs of recovery. Therefore, in December 2009 the bank's monetary policy committee decided to close the program.

5. Economic situation short after March 11, 2011

The events on March 11, 2011 have already had an apocalyptic dimension for Japan and will definitely have adverse economic effects worldwide. An earthquake measuring 8.9 on the Richter scale and tsunami waves devastated the Tohoku region in northeastern Japan, which has an 8% contribution to GDP.

What the Japanese government failed to make, was managed, unfortunately, by the earthquake: depreciation of the yen.

Depreciation discourages Japanese exports from other countries to Japan and favours exports for Japanese companies.

Table 2: External interchange situation Romania - Japan in the first three quarters of 2010

	Percent change	Absolut change	Share in total exports/ imports
Exports to Japan	+83%	102,6 mil euro	0,38%
Imports from Japan	+7,7%	161,4 mil euro	0,48%

*Source: Own processing of the information available at <http://www.imes.boj.or.jp/research>.

The major impact on the global economy is that this earthquake has brought a lot of nervousness. Moreover, the effects of the earthquake in Japan (rolling disaster, human losses, imminent nuclear issue), and the conflicts in the Middle East, bring into question the global recession, intensifying it.[3]

The Bank of Japan has acted very quickly and has doubled the maximum size of its current asset purchase program to 10 trillion yen (approx. 123 billion US dollars). It further has increased the liquidity supply for the economy. These steps are turning the already supportive monetary policy in Japan more expansive, which should support the ability to recover from the earthquake shock. Direct and immediate consequence of this natural disaster was that the Japanese financial market's main stock index Nikkei, was diminished with over 10%.

The earthquake damage was very extensive in terms of geography. Thus, for the moment, there is likely to decrease production and to increase the situation of concern that businesses and households will be affected by the feeling of uncertainty. [4]

6. Concluding remarks

The present financial crisis is much more than a financial one. It is a crisis of ethics and it was facilitated by the moral hazard. Banks no longer trust other lenders. Investors no longer trust banks. Lenders no longer trust borrowers.

National Bank of Japan tried to diminish the adverse effects of the current economic crises through decisions on both monetary issues, but also on financial markets. Bank of Japan also tried to mitigate the effects of the earthquake in Tohoku on the operations of the capital market and of the financial institutions.

Japanese economy has undergone a state of development during the deceleration phase once faced with the global economic crisis beginning. Consumption Index continued its downward trend. The Banks baseline scenario regards Japan's economy as expected to return to a state of moderate recovery. It is also expected that future growth rate of the consumer index to become slightly positive.

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Regional Development in the Creative Age

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Abstract

This article brings into question the increasing importance of creativity as a factor for regional development. For this purpose, it is briefly discussed the fine connection between culture, creativity and regional development and how creativity can increase the development of a region and ensure sustainable competitive advantages.

In the final part, it is underlined the importance of the creative economy quantification and there are identified the main obstacles for such a step.

Key words: culture, creativity, cultural industries, creative economy index, regional development.

J.E.L. classification: F15, O31, L80, O34

1. From culture to creativity

The European Union is more than just a simply economic market: it represents a much broader project including political, social and cultural aspects. For this reason, the integration process is a multifaceted one, including not just economic, social and political aspects but cultural ones, too.

In order to underline the importance of culture in the European construction, J. B. Duroselle (1965: 25) sustained that "Europe is a construction of the human spirit" [1].

This paper presents a different face of culture, not only as a source of social inclusion, as a factor for fostering the sense of belonging to a certain social group, but as an important factor to competitiveness, by its use in the complex process of *creativity*.

From this perspective, culture becomes a powerful tool to transmit values and promote public interest objectives that transcend

wealth creation, continually redefining it. Adam Smith argued in his "Wealth of Nations" published in 1776, that the economy's only purpose is to ensure the attainment of wealth of nations [2]. However valences of this concept are in constant change, closely related to human society. History has proven that the nations' prosperity cannot depend any more just on the possession of certain natural resources or the endowment with production factors but on the use, development and share of knowledge, as a main attribute of the *Knowledge society*[3].

Though, more and more theorists say that because of the greater imitation capacities [4],[5], possession, use and share of knowledge is not enough. For ensuring the sustainability of competitive advantages, at microeconomic or macroeconomic level, it is required the networking of knowledge which may lead to technical innovation to a more complex one, drawn from the unique cultural and social context. This can be achieved through *creativity*, described as the ultimate economic resource "human creativity is the ultimate economic resource," (Florida 2002, p. xiii) that outlines a new era: *the creativity age* [7].

In his book, *The Free Market Innovation Machine: Analyzing the Growth Miracle of Capitalism*, William Baumol (2002) rejects the conventional view where competitiveness lies in the dimension of prices. Baumol argues that the importance of systematic innovation within companies is vital and can ensure the sustainability of competitive advantage as a continuous concern [8].

Introspection on this issue, by discussing intellectual property rights and the creative economy size, is continued by J. Howkins (Howkins, 2001: 288) which highlights the importance of income generated by intellectual rights in the composition of U.S.

earnings. Howkins argues that it is imperative to think at the crystallization of a new economy, with the pivotal "*creative industries*" - defined as sectors that are governed by copyright laws [9].

In *The Information Revolution* (A. Porter, R. William and Walter, 1998) the American economists capture the knowledge economy changes and its transfiguration into a new form: *the creative economy*. The authors underline the importance of redefining: work, management and strategic policies in the new context [10].

The militant approach to innovation and creativity is continued by R. Reich (R. Reich, 2001) who demonstrates that continuous innovation is required in competition. Moreover, innovators themselves must become broad and creative in an economy in which ideas are the fundamental standard [11].

A series of studies of Harvard University (R. Caves, 2000, T. Cowen, 1998) analyzes specific elements of the cultural products market, arguing that market entrepreneurship, producing wealth and culture are interdependent and their connection is amplifying [12, 13].

B. Frey brings into question the issue of institutionalization and characterization of the report state-creativity. He concludes [B. Frey, 2000] that one can speak of creativity economy but that this is profoundly shaped by institutions [14].

The dual nature of creative work is handled by the Russian author V. Inozemtsev in "*Work, Creativity and the Economy*." (1999). He argues that economies are directly dependent on the existence of creative employees, and therefore boost their priority [15]. A significant effort to integrate the concept of "creative industries" in the analysis of economics is S. Lash and J Urry's study: *Economics of Signs and Space*, 1994 [16]. The authors examine social inequality, dynamics and interrelationships between culture, economy, environment, entrepreneurship and globalization. They argue that present economies are increasingly economies of symbols and culture.

2. Measuring culture and creativity

Although European construction has not only an economic dimension, the EU has been built through market forces and market economy. Thus were laid the foundations for economic solidarity between European nations, the basis of EU economic development. From this point of view, the priority in order to reveal the culture and creativity's role in the regional development is to measure their influence in the European economy.

This demarche represents a considerable challenge due to the rarity of research studies in this field and the disparity between the different approaches.

The main obstacles that stand out are [17: 31]:

- From the statistical perspective, the only pan-European source - *Eurostat*, is based on the data and reports supplied by national states. Beyond the fact that many of them have developed specific mechanisms to monitor the relevant cultural sector and to collect comprehensive data and systems they use different statistical approaches, resulting in a lack of comparability of data in this area. As a result, it is much easier to determine the amount of EU spending on science and innovation, than the measuring of the economic value of culture and creativity;

- Cultural organizations are sometimes reluctant to participate in an exercise designed to give economic value to the world of art and culture. For these entities the invaluable investment in the arts do not need economic justification. A cultural activity should be disconnected from the reality of the market to avoid the economic pollution on the artistic minds;

- Some commercial companies avoid being considered as part of the cultural sector, preferring to give them the term "*industries*". This assumption is created by fear of not being taken seriously by policy makers and to be excluded from European programs unfocused on culture;

- So far, interest in the Lisbon strategy focused on developing Information and Communication Technologies (ICT), creation of networks and investing in technological research. Technology has been accorded primacy over the factors that stimulate economic growth and social development in

Europe. On the other hand, culture and creativity suffers from an image problem, their role in the economy needed to be more highlight in the front of decision makers;

- Culture has often been regarded by the authorities (national or local) sector as a generator of expenses rather than investment opportunity, located in a well-defined business plan.

3. Creative industries

Although there are many obstacles, is felt internationally a new vision of culture and creativity, their marginalized situation being change.

Thus, the contribution of culture to the economy was gradually realized, particularly by the development of *creative industries*.

The term refers to a wide range of economic activities which aim the generation and exploitation of knowledge. The concept is also known by the name of *cultural industries* in Europe (Hesmondhalgh 2002: 14) or the creative economy (Howkins 2001).

The Howkins' perspective on creative industries is the broader one, including advertising, architecture, art, crafts, design, fashion, film, music, performing arts, publishing, research and development, software, toys and games, TV and radio, and video-games.

Other definitions are provided by Hesmondhalgh, Howkins, Florida or International organizations like UNCTAD, UNESCO or WTO.

Even there are very different approaches in defining creativity; Lash and Urry [16] find a common denominator among them: each of the creative industries has an "irreducible core", which implies "the exchange of finance for rights in intellectual property".

The most accepted description of creative industries is the DCMS (Department for Culture, Media and Sport, UK) one. According to this, creative industries are "those industries which have their origins in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property" [19]

Considering these, *creativity*, by using the unique cultural resource as inputs, contributes directly to regional development,

providing products for consumption in the form of cultural goods and services (books, films, recorded music, cultural events, concerts, etc.) or in the form of technologic goods or other goods and services which have also a creative component (computer and software industry, car production, architecture, etc.). In other words, *creativity* helps the developed and developing regions to capitalize their distinct cultural characteristics and to develop new patterns of sustainable growth, which permit the preservation of cultural identity.

From this perspective, creativity is a complex process of innovation, shaped like a mix of several dimensions: science, management, culture and technology.

Responding to the question "What is more important: culture or science?" José Manuel Barroso, President of the European Commission said, "*Certainly both are important, and particularly since the Renaissance, Europe has excelled at both. Constant innovation in art and science has helped Europe to enjoy rapid development and unparalleled cultural wealth (...)*

For Europe it must never be a question of art or science, but (...) art and science are the legs on which Europe stands" [21].

5. Conclusions

Even there isn't a generally accepted perspective on creative economy, the awareness of its positive effects on the economic development is increasingly shared over the world. As Cunningham and other stated in the *Financing Creative Industries in developing Countries* [20], "*The harnessing of creativity brings with it the potential of new wealth creation, the cultivation of local talent and the generation of creative capital, the development of new exports market, significant multiplier effects throughout the broader economy the utilization of information communication technologies and enhanced competitiveness in an increasingly global economy*".

The main lesson that should be learned by developing countries is that creativity has its roots in the individual creativity, their abundant resource, through whose revaluation can be developed new types of economic entities, new markets and a

new way of wealth creation, which can provide sustainability.

6. Acknowledgment

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Entrepreneurship - Requirement and Necessity of the Current Economic Context

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Abstract

At the beginning of the 21st century, entrepreneurial leadership is as necessary as water and air for survival. The knowledge of entrepreneurial practices and methods is useful for the companies facing a complex and changing environment, but also in society's interest, to ensure development and progress.

Key words: entrepreneur, entrepreneurship, innovation, business.

J.E.L. classification: M1, M13

1. Introduction

Entrepreneurship and entrepreneurial activities have been the subject of much writing in the field. Joseph Schumpeter, Max Weber, Howard Stevenson, Arnold Shapero are some of the classics cited in nearly all papers referring to entrepreneurs and entrepreneurial activities. Offering a contemporary perspective on entrepreneurship, Vesper (1982) states: "the general area of entrepreneurship is defined in a superficial way as new business creation by individuals or small groups of individuals." [1] As the term "contractor" began to be used more and more often in the context of the economic development, its meaning and its characteristics have received increasingly higher attention.

The concept of entrepreneurship, by its complex content and large number of meanings, did not allow the expression of a concise definition accepted by all economists. Throughout entrepreneurship history, researchers from different branches

of social sciences have brought multiple interpretations and definitions to conceptualize this idea [2].

Kent suggests that the word entrepreneur can be used interchangeably with the expression "successful entrepreneur." To Peter Drucker (1970) entrepreneurship is associated with risk taking.

The entrepreneur is the person willing to put his/her career at stake, his/her time and financial security, to take risks on behalf of an idea, the person who "seeks change, who is responsive to change and exploits it as an opportunity." [3]

2. Content and importance of entrepreneurship

Entrepreneurial activity is one that allows individuals to keep pace with the ongoing changes of the market conditions. Entrepreneurship is not an abstract concept. By entrepreneurship we mean a practical activity of creating a new organization or of rehabilitation, modernization, recovery and/or restructuring of an existing organization, especially in business. Entrepreneurial activities can take various forms, ranging from projects undertaken by individuals or legal entities, to the creation of large national and even international companies.

There is greater and greater demand and interest for placing "entrepreneurship" (creation of new businesses) as a key element in the process of development and revitalization of the less developed areas in Europe. As the globalization factor affects increasingly stronger world economy and technological progress, generating growing uncertainty in economy and society, the

dynamism of entrepreneurship is considered a factor able to increasingly contribute to strengthening the new economy based on knowledge, to address the environmental, economic and social challenges.

More and more experts believe that entrepreneurship and innovation represent the key to national economic competitiveness. Entrepreneurship policies are more closely related to the innovational ones, the common characteristics and features of both types of policies being focused on creating new assets, processes and services in terms of boosting the economy. [4]

3. Characteristics of the entrepreneurial activity nationally and internationally

The early-stage entrepreneurial activity rate in Romania is of 3.89%. In Romania 2.5% of the adult population aged between 18-64 years is an entrepreneur-to-be (meaning 2.5 in 100 adults are involved in running a business).

These rates are lower than those recorded in most countries of Central and Eastern Europe (e.g. Croatia, Latvia, Hungary, Serbia). Only 25.57% of the adult population perceives favourable conditions for starting a business in the next six months, this rate being higher than that measured in Hungary and Latvia, but lower than in Croatia and Serbia and one of the lowest of the participating countries GEM. (Global Entrepreneurship Monitor, 2008). [5]

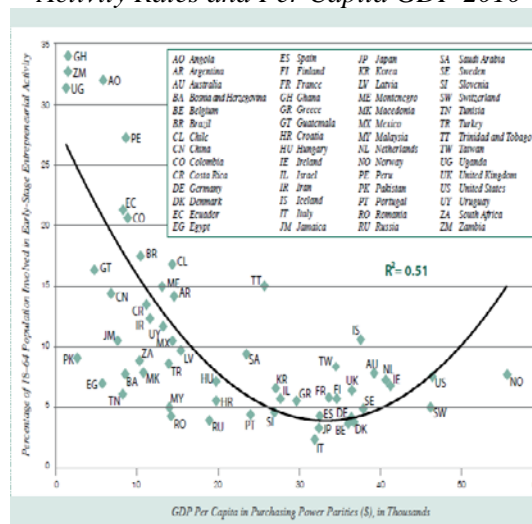
The rate of the early-stage entrepreneurial activity in Romania has decreased slightly from 4.02% in 2007 to 3,98% in 2008. The early-stage entrepreneurial activity rate for women fell from 3.1% to 2.1% and the rate of entrepreneurial activity motivated by the opportunity fell 2.7% to 2.12% in 2008 as compared to 2007.

These low rates of Romania can be explained by the lack of tradition, of the entrepreneurial activity and education before the '90s, by the unfavourable business environment during the transition period of the '90s, as well as by the acceptance of the population of jobs that involve a lower degree of risk than, offered by the big firms during the period of economic growth after 2000.

The most important change in entrepreneurial motivations is the increase of the rates of those who start a new business to maintain their current income or of those who are motivated by necessity from 17.2% in 2007 to 44.52% in 2008.

The contribution of entrepreneurship to economic development is a fact universally accepted in the specialized literature. Graph no. 1 illustrates the U-shaped relationship between GDP/per capita and the level of entrepreneurial activity in early stage internationally.

Figure 1: Total Early-stage Entrepreneurial Activity Rates and Per Capita GDP 2010



¹ India and Vietnam is not shown in this figure, because their TEA rates are outliers

Source: Gem Adult Population Survey (APS) and IVF World Economic Outlook Database, 2010

As this figure shows, TEA rates are highest for the poorest countries, declining rapidly and then leveling out in the efficiency stage, with low levels continuing into the innovation stage until they turn upward at increasing levels of wealth.

Further inspection reveals that the dispersion of TEA estimates around the line of best fit in Figure 1 is not just a function of differences in economic development (or welfare) but also other factors. For example, Eastern European countries have been experiencing falling populations and a low stock of business owner-managers as a legacy of communism.

Their TEA point estimates are clustered below the trend line. In contrast, Latin American countries, with healthy population growth rates and a larger stock of business

owners, tend to appear above the trend line. [6]

4. The need for support and development of SMEs

The welfare of small and medium enterprises is essential for future employment and prosperity in the EU. For this reason, in June 2008, the European Commission has launched an ambitious new policy initiative called the "Small Business Act for Europe" (SBA), which situates SMEs at the forefront of the decision-making process in order to strengthen their capacity to create jobs in the EU and to boost their competitiveness both on the single market and on the global markets. As key element, SMEs aim at implementing the "Think Small First" principle in policy and in the decision making process at all levels in the EU.

The economic and financial crisis has highlighted even more the need to adopt comprehensive and complete policy measures in favour of SMEs. When adopting the SBA initiative, the "Competitiveness" Council has also approved, in December 2008, an action plan which regroups measures to be implemented with priority to better meet the needs of SMEs in the context of the global crisis, focused on improving the access to financing, the access to markets and the regulatory framework. [7]

Between 2008 and 2010, the Commission and the EU Member States have taken several measures to ease the administrative burden, facilitating the access of SME to financing and their access to new markets. [8]

The measures proposed by the European Commission refer to increasing the access of SME to local and international financing, use of the single market, but also strategies for doing business with non-EU countries.

- SMEs should have access to loan guarantees through enhanced mechanisms to guarantee them;
- Each Member State must have an action plan to improve the access of SME to financing, including the access to venture capital markets;

- "Single windows" in the Member States to facilitate administrative procedures;
- Reduction of "over-legislating," practice of national authorities through which the terms of the EU directives are exceeded while transposing them into the national legislation;
- Measures to facilitate the cross-border debt recovery;
- Proposal for supporting SMEs on the markets outside the EU.

Examples of supporting entrepreneurship in various countries:

- FRANCE: The status "Self-entrepreneur" (launched in 2009) allows any citizen (unemployed, clerk, employee, retiree) to easily open a business and enjoy some tax relief for the first three years. More than 500,000 self-entrepreneurs "have benefited from the French program in January 2009 - June 2010.
- ROMANIA: The "Start" program meant to encourage the entrepreneurial qualities of young people (18-35 years) and to support start-ups. (Budget: 21.2 million EUR in 2009, including 19 million euro for grants and 2.1 for funding the implementing agency).
- SWEDEN: The national program to promote female entrepreneurship (2007-2010) provides support for start-ups run by women.
- GERMANY: 23 bureaucratic procedures were simplified in 2009 as part of the third act to reduce the bureaucratic barriers for SMEs.
- HUNGARY: Single windows for simplified and electronic registration of companies (since 2008, electronic procedures are mandatory and the time required to set up a business was reduced to one hour).
- PORTUGAL: "Simplex," the program aims to simplify the administrative processes, procedures and practices. Since 2009, public consultations are also made via a public blog.

Both the Commission and the Member States have taken substantial measures to improve the access of SME to financing and

to facilitate their access to the EU and third-party countries markets, as well as to improve the framework conditions for SMEs, in particular by removing unnecessary administrative burdens.

5. Conclusions

Promoting small and medium enterprises, in terms of improvement of the decision-making process, of quality management and entrepreneurial skills, in order to rapidly adapt to the rising demands of the environment, is a necessity, but also a requirement of competitiveness.

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How Globalized is Romania? New Challenges in Measuring Economic Globalization

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Abstract

Romania's transformation in the last 20 years raised a lot of questions about the causes and consequences of the good and bad things that happened in our economy. European integration and globalization were the two key words of our evolution. Romania became more opened and integrated in the world economy but we don't know the best way to measure the importance of globalization in our life.

This paper examines different measures of globalization, presenting the sets of indicators and indexes used to evaluate this complex process. The purpose is to find some answers to a difficult question: what is the best way to measure economic globalization of a country? The paper starts with an overview of the challenges related to the evaluation of globalization, continues with a synthetic presentation of the most used indicators and presents the scores and rankings of Romania in the recent years.

Key words: globalization indicators, international trade, foreign direct investment, Romania

J.E.L. classification: F01, O19, O52

1. Introduction

The literature on the causes and consequences of the recent recession is leading often to globalization. Given the rapid spreading of the crisis, there are a lot of questions about the role of globalization and is no doubt that the synchronization of downturns was possible because of the links between countries and firms.

Romania is hardly recovering from the crisis and the GDP forecasts for 2011 are about + 1,5% growth after a period of strong negative values. Romania was in the top 5

most affected developing countries by the crisis [1]. The main economic globalization drivers - trade flows, foreign direct investments and remittances - registered important negative growth rates, as effect of global crisis.

Is it Romania through most affected countries because of the high connection with global markets or the lent recovery is caused by a low degree of globalization? Is it too integrated or not integrated enough in European and world economy comparing other countries?

To answer this questions the first step is to find how globalized is Romania and how can we measure globalization in order to make the right policy choices and stimulate economic recovery.

2. Measuring globalization – challenges

Measuring globalization is a complex process requiring a relevant set of indicators, a consistent database and a lot of hard work.

Measuring globalization is a complex issue from two points of view: *there is not a single, general accepted definition of globalization*, therefore the wide range of indicators tries to reflect the complexity of the process - economic, social, political, technological, cultural dimensions of globalization are reflected separately or aggregated through indexes; *globalization impact scale* (individual, local, global) requires not only measures for the openness of countries but also for the individual and firm level international interaction.

Another challenge in measuring such a complex process is the *changing character of the globalization*. One of the crisis effects was a dramatic collapse of international trade and foreign direct investment, the two main drivers of globalization. While the magnitude of the current trade crisis can be comparable with previous drops of flows for individual

countries, the remarkable degree of synchronization explains the collapse in international trade and is directly related to globalization. As Araujo and Martins [2] shows, in OECD countries after more than six years of positive trade growth, trade divided in October 2008, reaching a record negative growth of -37% in April 2009.

Globalization is the explanation for the fact that trade flows during the global crisis have fallen much more sharply than they did during the Great Depression [3]. The new thing about globalization is the scale, the high level of integration and synchronization of national economies.

Another new aspect of globalization is *the complexity of the linkages* between the countries due to the global production networks, to the global value chains that have increased foreign direct investment flows and intra-firm trade, and have made them increasingly interdependent [4]

But globalization is much more than growing trade and foreign direct investments. The internationalization of technology and the growing flows of services are parts of the globalization changes. Globalization is also deeper and wider, with a growing number of countries actively participating at the process.

These changes are not regarding only economic globalization, but also cultural, social, political, components of the process. New facts and trends need appropriate indicators to measure the changes.

3. Measuring globalization – literature review

Globalization is not a new phenomenon. The first wave of globalization was between 1880 and 1913, the second wave was after the Second World War and there are voices talking about 3rd wave of globalization after this crisis. It is possible that such a deep crisis generates structural effects on the global system.

In this context seems appropriate to look at the current tools used to measure globalization and to find what is good enough to keep and what indicators are not relevant at this point. This analysis doesn't use statistical tools, being just a critical review, a state of art presentation for the

wide field of globalization measures literature.

Integration is the key word for the global economy. International economic integration indicators can be classified into two categories: price – based and quantity based indicators. The most commonly used integration measure based on quantities is the degree of openness defined as exports plus imports divided by GDP. [5]. This measure provides a synthetic approach from economic globalization point of view and one of the main advantages is data availability for long time series and a large number of countries. It disregards the architecture of trade flows and the geographic patterns of trade connections for every country.

In order to provide a synthesis of the existing literature on globalization indicators we classify them into two categories: (a) indicators measuring one particular aspect of globalization (b) indexes constructed on different variables, used to rank and compare globalization in different countries.

OECD, European Union, World Bank, International Monetary Fund, UNCTAD's databases and reports are important resources for the first type of indicators. Indexes are proposed by independent researcher, by universities research centers, by NGO's and are generally constructed on the available information provided by the actors from the first category.

Because of European Union's particularities we can't find a unique resource regarding globalization on EU site. There are several EU policies related to the different dimensions of globalization: External trade, Development and Aid, External relations, Environment, Information society, etc.

Moreover, European Union developed through Eurostat a list of Globalization Indicators that includes the main levels of globalization: **persons** (non-national among residents, non-nationals in the labor force, nights spent by non-EU residents inside EU, number of tourism nights spent abroad by residents, international air transport of passengers); **technology** (high tech exports, high tech imports, Gross Domestic expenditures on R&D); **goods and services** (export of goods, import of goods, export of services, import of services, intra EU trade in goods, energy dependency, growth of maritime transport, growth of air freight

transport; **global responsibility** (CO2 emissions per habitant in the EU and developing countries, official development assistance); **business and capital** (inward Foreign Direct Investment from the rest of the world, Outward Foreign Direct Investment, Market integration, Foreign controlled enterprises, Employment of foreign controlled enterprises, Outsources employment). The list is very comprehensive but in general Eurostat provides only information on member states and candidate countries.

The same kind of problem appears related to OECD databases and reports. OECD is a leading actor in issues of economic globalization indicators, but the countries covered are the 31 members of OECD.

In 2010, OECD second edition book on economic globalization indicators [4] provides a comprehensive selection of the main dimensions of economic globalization measures. The book covers indicators that can measure the magnitude and intensity of globalization:

- globalization of trade and investment: international trade of goods and services; foreign direct investment; portfolio investment;
- globalization of technology and knowledge;
- multinational enterprises;
- global value chains.

UNCTAD research and reports (*Trade and Development Report, World Investment Report*) offers a wider selection of countries.

Indexes are the expression of the globalization complexity, in terms of globalization dimensions covered, number of countries and number of years. We choose to present three relevant indexes: KOF Index of Globalization, Maastricht Globalization Index and AT Kearney Globalization Index.

KOF Index of Globalization is a composite index introduced in 2002 by Dreher as an instrument to measure the impact of globalization on economic growth [6]. Using panel data for 123 countries, for 30 years Dreher determined the values for this index and analyzed empirically whether the globalization affect economic growth. The conclusion of Dreher's study was that "contrary to the beliefs of its critics, globalization indeed promotes growth". But the most valuable outcome of the article was

the index of globalization, used as a base for future research.

Later, the index was updated and described in detail in Dreher, Gaston and Martens book *Measuring Globalization – Gauging Its Consequences* [7]. KOF Globalization Index covers the economic, social and political dimension of globalization. Looking at globalization as a "process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence" authors focus on the three most important dimensions of globalization.

Economic globalization is measured by two dimensions: actual economic flows (trade, FDI and portfolio investments as a percent of GDP) and restrictions on trade and capital.

The KOF Index is available for the period 2002 – 2010, and the update version of the original index for 2010 determines the Index values for 208 countries [8].

Maastricht Globalization Index (MGI) is proposed by Pim Martens from Maastricht University, "to be in position to evaluate the consequences of globalization in a rational and scientific manner" [9]. Thinking that economic globalization is not the only aspect that counts, the MGI is determined for five dimensions of globalization: political, economic, social & cultural, technological and ecological. Economic globalization is evaluated based on the following variables: trade (Imports + Exports of goods and services as a share of GDP); FDI (Gross foreign direct stocks as a share of GDP); capital (Gross private capital flows as a share of GDP).

ATK Globalization Index (ATK-GI) is another interesting index of globalization, last updated in 2007 by AT Kearney and Foreign Policy. ATK - GI covers four dimensions of globalization process [10]: political engagement, personal contacts, technological connectivity and economic integration. The indicators used for evaluating these four dimensions are:

- political engagement: foreign aid, treaties, organizations and peacekeeping;
- personal contact: telephone calls, travel and remittances;
- technological connectivity: number of internet users, hosts, secure servers;

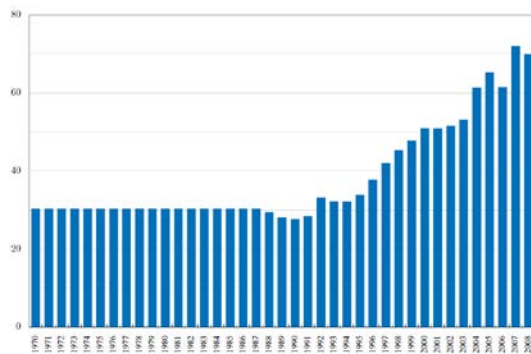
- economic integration: international trade and foreign direct investment.

4. Romania's globalization: values, scores and rankings

Romania's globalization level could be analyzed in a global or European context. Because of EU integration, we consider that our challenges should be judged first at European level, using the instruments mentioned above.

Since 1970 there has been a progressive upward trend in Romania's globalization measured by **KOF index**. In terms of economic globalization the take-off was at the beginning of 1990s, with an important improvement in 2004 (Figure 1).

Figure 1. KOF Economic Globalization Index in Romania



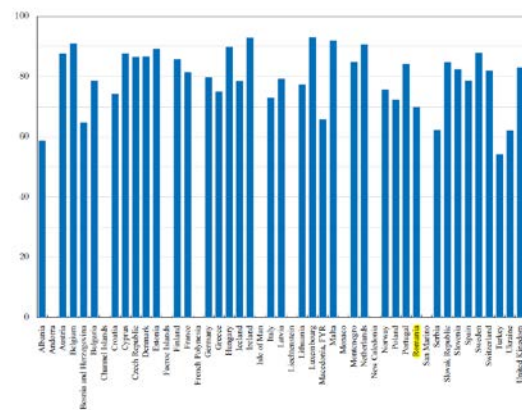
Source: <http://globalization.kof.ethz.ch/>

The last economic and financial crisis is visible in the results of KOF Economic Globalization Index for Romania, as for the world. Romania's position in *KOF Index of Globalization overall rankings for 2011* is 39 (the same as previous year), with a value of 71,25. It is important to emphasize that KOF Globalization Index 2011 is based on 2008 information, so there are the first results that include a year of crisis. Sub-indexes shows some differences, a 92,89 maximum score for political globalization (20th place), a 69,91 score for economic globalization (53rd place) and a minimum 57,83 score (69th place) for social globalization [11].

Using EU as a benchmark for the level of globalization (Figure 2) we find that Romania has the almost lowest score and position (39th) on overall index (26th place from 27 EU countries). Latvia finds itself on 41st place this year. In terms of economic

globalization Romania has moved down 9 places, mainly because of the 7,3% lost in actual flows sub-index comparing to the previous year. The top 10 positions in EU27 based on KOF Index are Belgium, Austria, Netherlands, Sweden, Denmark, France, Hungary, Portugal, Ireland, and Finland. These are holding 10 from 11 places on overall rankings, the only country outside of EU making the global top 10 is Switzerland (5th place). Political globalization sub-index is determined based on number of embassies (counting 25%), membership in international organizations (28%), participation in UN Security missions (22%) and international treaties. Romania's 20th place (13th place In EU 27) is a one place improvement (previous year: 21st place)

Figure 2. KOF Globalization Index in Europe



Source: <http://globalization.kof.ethz.ch/>

In **Maastricht Globalization Index** last rankings (2008) Romania is on 35th place from 117 countries. EU 27 countries are not all in MGI database (Cyprus, Luxembourg and Malta are missing). With a 33,4 score and a 7 places improvement since 2000, Romania is ahead of Lithuania and Latvia. There are not enough details about economic globalization, the scores and rankings based on this aspect of globalization.

Foreign Policy and **AT Kearney Globalization Index** places Romania on 36 position from 72 countries [10]. The index is determined based on 12 variables, included in four "baskets": economic, personal, political and technological. Economic globalization indicators include FDI and Trade expressed as percent of GDP. From this point of view Romania is placed on 29th

place, ahead two European Union countries: Poland and Greece.

From the 25 indicators used in European statistics on globalization we considered *Market integration* (average value of inward and outward FDI flows divided by GDP - %) the most relevant available indicator. From this point of view, Romania has a 1,5% score in 2009, under the average EU27 level which is 2,1%. Romania shares 11th place with Germany in 2009, behind countries like Bulgaria, Ireland, Estonia, etc. Data on trade are not available for Romania in Eurostat database.

Finally, we can show the scores and rankings of Romania in Table 1.

Table 1. Romania's rankings

Index	Year	Ranking	Relative position in UE 27
KOF Index of Globalization			
	2011	39/208	26/27
<i>Economic Globalization</i>		53	27/27
<i>Social Globalization</i>		69	27/27
<i>Political Globalization</i>		20	13/27
Maastricht Globalization Index			
	2008	35/117	22/24*
ATK Globalization Index			
	2007	36/72	20/22**
<i>Economic Globalization</i>		29/72	
EU Globalization Indicators			
<i>Market Integration FDI Intensity</i>	2009	17/27	17/27

* Without Cyprus, Luxembourg and Malta

** Without Cyprus, Latvia, Lithuania, Luxembourg and Malta

Source: Author's synthesis

5. Conclusions

In this paper we presented five reliable sources for measuring globalization: UE and Eurostat set of globalization indicators, OECD view on best way to measure globalization and three indexes – KOF Index of Globalization, Maastricht Globalization Index and AT Kearney Globalization Index.

Any good set of globalization indicators or any index has to meet simultaneously the need for broad coverage and data availability. From this point of view we consider KOF Index of Globalization the best way to evaluate the level and dynamic of globalization in Romania. The number of countries covered and the number of years are wide enough to offer an image on key developments of globalization. KOF index offers a good evaluation for economic globalization and the data are comparable.

As a European Union member, Romania has to improve its position relative to other EU countries. The increasing complexity of globalization makes clear the necessity to choose the right policies for catching up, even in economic globalization.

6. Acknowledgement

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Models of the 21st Century Learner

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Abstract

Millenials or Generation Y are terms referring to the generation born between 1977-1980 and 2001, that is the generation of youth and adolescents exposed to the new technologies of communication, a generation that starts to be in obvious but unexpected ways different from the previous generation. It is a very numerous and diverse generation including very well-prepared youngmen with a high education, education which has the continuous tendency of becoming an open education. It is built on the belief that each should have the freedom of using, improving and redistributing the educational resources without constraints. The teachers, the students and other people sharing the same convictions, gather together as part of the global effort of making education more accessible and efficient altogether.

Key words: second language, learning system, learner, learning technologies.

J.E.L classification: Z00

1. Introduction

Modern communication and information technologies are having an increasing impact on learning - how we learn, where we learn, when we learn, what we learn, what learning resources we have, and why we learn. It is important that our learning systems are guided by a vision of learners and of the communities to which the learners belong and which they are helping to create.

2. Characteristics of the SL Learners

- The process of learning a second language is lifelong. Experiences in childhood and youth lay the foundation for lifelong learning.
- People of all ages have a capacity to learn and this capacity is affected by various social, economic and physical conditions and situations.
- People have a variety of learning needs related to their personal interests, their families, their communities and their work. These needs include personal development, social and civic responsibility, cultural enjoyment, and continuing learning related to work and careers.
- People learn a language at different rates and in different styles, in different situations and at different times.

3. Characteristics of Second Language Learning Systems

- An effective learning system presents learners with a variety of patterns of (a) institutional affiliation, (b) service by teachers and resource persons, and (c) access to technologies. These patterns vary according to the context, the kind of learning and the needs and style of the learner.
- Teachers will have new roles and responsibilities as institutional patterns and learning technologies evolve.
- Communications and information technologies are transformational technologies with powerful impacts on society and profound implications for Second language learning and learning systems.

- The quality of the SL learning systems and processes is enriched and improved by using the knowledge and skills gained by experience, innovation and research.

4. Four Models of the 21st Century Learner

This era of radical and rapid change places demands on learners to increase their capacity for learning. This capacity is not necessarily about learning more, but, as Alberti has reminded us, about expanding and enhancing the ways in which learning takes place. There is the growing expectation that students will become more flexible, more self-reliant and autonomous, learners who can 'select personal pathways ... and who will develop the skills of life-long learning' [1]. What are the models of the learner for this brave new world? What are the approaches and processes by which our new-century learners will learn?

The Collaborator

The first model is that of 'The Collaborator'. For this learner networks of people, knowledge, skills and ideas are the sources of learning. For this learner new brain research which stresses the importance of social interaction [2] is a significant rationale.

The Collaborator-learner:

- seeks out and maintains links and networks
- negotiates and exchanges ideas
- uses new technology to support collaborative work
- contributes and adds value to cooperative learning processes
- also exploits and derives value from them
- is a team player, able to reach 'win-win' agreements.

What sort of learning environment does the Collaborator require? This learner needs access to knowledge and ideas, especially those of practitioners. This learner needs partnerships and networks from which to profit. This learner needs support for development of people skills and a sense of personal value within collaborative ventures with others.

The Free Agent

The second model is the 'Free Agent'. This learner makes full use of continuous, open-ended and life-long styles and systems of learning. This is a learner who is:

- flexible, able to keep pace with change, to take advantage of it
- able too to cope with changing requirements of an unstable job market and of employers who 'are by no means certain and often ambiguous about the necessary qualifications of graduates' [3]
- more concerned with personal transferable skills than with those relating to particular occupations - this learner is not bound to an occupation
- conversant with new technology and therefore not constrained by place and the accessibility of instructors
- independent, self-reliant, using new combined courses of study, rather than those which are profession-related
- able to take advantage of modularity, credit transfer, and arrangements for accumulated learning.

This Free-Agent learner requires opportunity to engage in practical work, to integrate performance and learning. This learner needs opportunity to plan flexibly, to seek out a wide range of sources and use these creatively and effectively.

The Wise Analyser

Model number three is the 'Wise Analyser'. This learner gathers evidence of effective activity, scrutinises it and applies its conclusions to new problems and new contexts.

The Wise Analyser is:

- reflective and critical
- skilled at the processes of research, testing of validity and the application of findings
- close to the world of work and opportunities for action research
- able to argue judgements securely
- able to apply and adapt arguments to new contexts and to use them in the management of change.

This learner requires opportunity to analyse and manage processes and to apply analysis to new situations. This learner seeks to pursue initiatives through circular processes of identification, analysis, result, impact and evaluation.

The Creative Synthesiser

The final model is the 'Creative Synthesiser'. This learner connects across themes and disciplines, cross-fertilises ideas, integrates separate concepts and creates new vision and new practice.

For this learner knowledge does not rest on particular ways of seeing the world. This learner:

- has 'new ways of seeing' [4]
- puts aside ideas that learning is linear and confirms to us that everything is inter-related and complex
- is able to create, investigate and to seize opportunities for development and change.

The Creative Synthesiser requires complex and stimulating learning environments, with access to disparate disciplines. This learner needs opportunities to negotiate across boundaries, together with the framework for creating radical visions and seeing them become real.

5. All Models

We can be sure that these four models are not separate. We are unlikely to see one learner uniquely adopting a single model. There will be considerable overlap, mixing, with elements present and elements missing, some well-developed, others less so. Our learners of the future are more likely to embody aspects of several, perhaps even all, models, in their approaches to learning.

Nevertheless the needs of these learners may have some common elements. In their higher education all of them need:

- keen perception of new social trends and change
- skills of self-reliance, the ability to take, survive and profit from risks
- ability to develop and maintain value of their 'portfolio', to adapt goals in the face of changing circumstances, and to seek out and manage ... and not to fear - career transitions
- underlying confidence and sense of self-worth
- support towards responsibility in learning, because as Ball points out: 'The key principle governing provision for and pursuit of learning in the future must be the primacy of personal responsibility for learning,

encouraged and enabled by the support of the whole community [5]'.

These models cannot claim either to be fully new or a complete surprise. They are an enhancement of many current ideas, such as those of Sinclair (1999): 'A sharper focus on being able to use knowledge, and to use communication skills, collaboration and teamwork skills, and thinking and decision-making skills in both creating and using that knowledge is needed in preparing graduates for professional lives in the decades ahead' [6].

These imaginations for the 21st Century learner suggest however rather more than lists of personal skills, core skills, transferable skills which have been advocated and analysed in many reports [7]. They are wider too than the personal qualities and attributes of learners which have also been considered [8]. They seem to be as much about choosing and using learning strategies as about taking on skills or developing qualities. They are about what actions learners can take when faced with the challenges of investigation and acquiring understanding.

In this outlook education becomes closely linked to what strategies learners bring to the learning process themselves, derived from social experience, from pressures and opportunities they see and feel, from challenges they already experience in everyday life. As time progresses we may, I suggest, focus less on the skills which a learner can be taught, and more on the strategies a person needs to nurture and possess in their learning armoury. The key skill will be learners' ability to develop and expand their own learning strategies, to be more imaginative in working them out and using them, to make them more useful and effective.

6. Higher Education

In the changing world many things are different for higher education itself. In the UK there is Government-engineered expansion, broadening of the student population, with responsibility for funding increasingly passed to learners themselves. There are more mature students, more women, more part-time students, modularisation, greater flexibility of choice.

There is renewed focus on higher education's contribution to society's skill-base [9]. Institutions themselves are subject to greater accountability, competition for funding and a consumerist view of learning. They need to respond to larger, more diverse learner groups, to learners who have new and different expectations, to a changing world and changing expectations.

How might higher education need to reflect the learning models of the future and support the learners who aspire to them? In a survey by The Association of Graduate Recruiters (1995) 160 unemployed graduates described how higher education had not provided them a range of experiences, skills, qualities and areas of knowledge which they needed for their work. It had not given them:

- self-confidence
- ability to uncover hidden opportunities
- decision-making abilities
- networking skills
- relevant experience
- knowledge of changes in the labour market.

The list relates well to some characteristics of our imagined 21st century learners. Currently learners may gain such skills and experiences more from their informal social activity travel, internet and mobile-phone communication than from their formal learning within higher education institutions. Higher education may have to respond to the opportunistic, flexible, pro-active approaches to learning which modern social activity and life-styles represent. It may need to do much more to:

- identify the individual styles and experiences which learners bring to the learning process and the learning strategies which are at their disposal
- design and develop responses to these styles and strategies - new materials, new delivery, new environments
- develop and respond to new concepts of competency and job-relatedness
- combine imagination and specificity in refinement of formative and summative assessment
- handle the huge tensions between such complex flexibility and the safeguarding of standards.

7. Conclusion

As we move from teaching to learning-centred provision, the learner is more central to the higher education process, indeed to education as a whole [10]. The emphasis is shifting 'from the activities of the teacher or trainer towards development of the student' [11]. This paper has looked at four models of that learner for the new century. There may of course be more.

Higher education must both respond to and lead learning trends and aspirations. The future is difficult to foresee, especially as development becomes ever more rapid. Our predictions of models of the learner, and our ability to adapt systems to meet needs for support, will determine how successful higher education can be in meeting 21st century challenges for learning.

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The Development of Mixed Portfolios Using Risk Covering Strategies

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Abstract

The transactions on the future markets represent a form of investment with a high degree of amplification of the effects, in which the movements of the prices can be fast and extensive. For these reasons the future markets represent an extremely attractive environment for the people who have a minimum capital and the required temper to make this kind of operations. The initial investments for the access on the futures markets represent a very small part from the total transacted value (usually a few percents), which means that sometimes we can obtain substantial profits.

Key words : strategy, risk, profit, trading

J.E.L. classification : G 11

1. Introduction

The assumed risk in such a transaction, of course, exists and cannot be ignored. The higher the risk, the greater the winning chances on the one hand, and the greater the losing chances on the other hand. But the true diversity of these derivative products (they are called like this because they are always based upon a support asset – shares, indices, interest rates, etc), and especially their flexibility allow the investors not only the substantial reduction of the risk that comes with transacting such a product, but also in some cases avoiding the risk, of course within some well -developed strategies in theory and correctly applied in practice (Codruța Maria Făt, *Futures Contracts and options*, Casa Cărții de Știință Ed., Cluj Napoca, 2005, page 16)

The main reason for which the economic agents use the futures contracts is the risk management (Teodor Ancuța, Darius

Cipariu, Ioan Aleman, Mirela Cozgară, *op. cit.*, page 18). The futures contracts help the economic agents to transfer the risk to which they are exposed upon the people who want to obtain profits by assuming risks. In other words, the futures contracts can be used to cover the risk (hedging) as well as an investment possibility. Using these instruments, the market participants have the possibility to cover their risk and to protect the value of the assets they have against the risk for price fluctuations to appear at a certain product (foreign currency, shares or interest rate) by taking up a position on the market opposite to the position they have on the actual market.

Using the futures contracts for a protection purpose the market participants practically block the price of the respective asset for a limited amount of time, and any profits or losses that appear from their futures position will compensate any profits and losses from the actual market.

The second reason for which the futures contracts are used is the one of the **speculation**, in which, unlike the hedging operations the physical goods or the financial companies are not owned and the operators do not seek to reduce their risk but they are transacting to obtain profits only from the fluctuation of the prices.

2. Risk covering strategies: hedging, arbitration, spread transactions

I am going to use in this paper an investor, MCAE, which can be an individual or a company, having an available amount of 100.000 RON, which he invests on the capital market in shares and share derivatives on Oltenia Financial Investments Company Co. (SIF5), due to the fact that the shares of this company have the most liquidity on the Sibex and BVB markets. The transaction

commissions are excluded for calculation simplification reasons. Generally on the spot market the commissions have the value of 1% from the value of the transaction, and on the futures market the commission is 1,5 lei/contract (0,6 lei/contract perceived by CNVM, BMFM SIBIU and CRC plus the commission of SSIF).

he Hedging (risk covering) means the compensation of a position by assuming an equal and opposite position on a different but parallel market. The effect of the compensating position is the reduction or the elimination of the effects of the value changes of both positions. The markets are parallel enough if the correlation coefficient is of 0.70 or higher (Teodor Ancuța, Darius Cipariu, Ioan Aleman, Mirela Cozgarea, *op. cit.*, page).

According to the **asset** at the basis of the risk covering operation we can consider goods hedging, foreign currency hedging and portfolio hedging.

In this specific case, the portfolio hedging, the investor as a company has this sum of money of 100.000 RON, only until the date of 19 June 2010 when this amount must be used again to buy raw materials for the unfolding of the basic activity until the end of the year 2010. Thus, he decides to buy on the 24th of September 2009, 50.000 SIF5 Oltenia shares at the price of 1,3300lei/share. The intention of the investor is to maintain these shares in its portfolio until June 2010 (the goal is represented by the benefits afferent to the rights of the shareholder). In order to protect his shares portfolio, the investor decides to sell in the same day on the Sibex market, 50 futures contracts DESIF5 IUN10 (the equivalent of 50.000 SIF5 shares) at the price of 1,4100 lei/share (table 1). In order to make these two operations, the investor must have at his disposal the following financial resources:

➤ On the spot market he must pay the value of the 50.000 shares he bought:

$$50.000 \times 1,3300 = 66.500 \text{ lei}$$

➤ On the futures market he must deposit the necessary margin for the acquisition of the 50 futures contracts DESIF5 IUN10:

$$50 \times 0,1920 \times 1.000 = 9.600 \text{ lei}$$

Per total in order to make these two operations the investor must deposit the sum of 76.100 lei.

Table 1. Futures SIBEX/spot BVB SIF5 DEC10 quotations in the time interval 22 – 28 of September 2009

data	open	high	low	close	var (%)	pret spot	numar tranz.	contracte tranz.	pozitii deschise
28.09.2009	1,4000	1,4050	1,3711	1,4000	-0,22% ↓	1,2900	40	82	1.000
25.09.2009	1,4000	1,4147	1,3854	1,4045	-0,39% ↓	1,2900	36	66	1.006
24.09.2009	1,4010	1,4360	1,3900	1,4100	0,77% ↑	1,3300	45	90	1.020
23.09.2009	1,4200	1,4500	1,4000	1,4209	0,77% ↑	1,3200	69	133	1.052
22.09.2009	1,3340	1,4100	1,3340	1,4100	6,16% ↑	1,3100	65	117	1.132

Source: www.ktd.ro

Table 2. The result of the operations on 19th of June 2010

Spot market	Futures market
24th of September 2009	
BVB SIF5 quotation: 1,3300 lei/share Buying 50.000 shares The required amount: 66.500 lei	Selling 50 futures contracts DESIF5 DEC10 at the price of 1,4100 lei/share The required amount: 9.600 lei
19th of June 2010	
The sale of shares: BVB closing quotations: 1,3200 lei/share Loss: 500	The closing price of the futures contracts DESIF5 DEC10 at the deadline is of 1,3200 lei/share. Profit: 4.500 Amounts in account: 14.100 lei

On the 19th of June when the investor sells the shares on the spot market and closes the positions he had on the futures market, the profit made of the futures market covers the loss on the spot market (table 2.).

We can notice that the sale made on the futures market of an equivalent quantity of shares held on the spot market preserved the profit of the investor.

In the case of the portfolio hedging we can conclude the following: after an accelerated growth of the price of a share, the investor on the spot market can anticipate a correction or even a comeback of the trend (figure 1.). In order to score a profit on the spot market he is not forced to liquidate his portfolio but he can sell the equivalent amount of shares from the futures market for a closer or farther maturity. By doing so, he keeps his shares and he makes some profit, all of these having more than reasonable costs.

Figure 1. The evolution of spot BVB/futures SIBEX SIF5 IUN10 in the time interval June 2009 – 2010



Source: www.ktd.ro

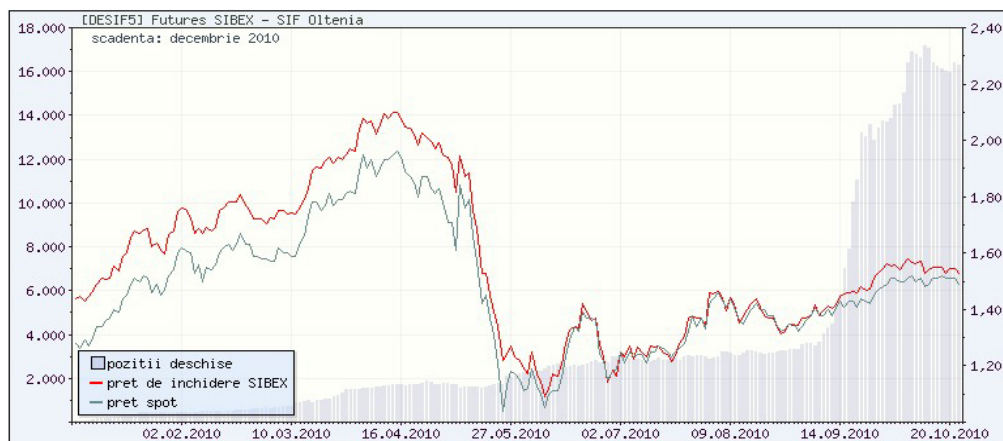
The arbitration operations rely upon the exploitation of the price “anomalies” for a certain financial instrument transacted simultaneous on two markets of the same type (either spot or futures) or of the differences in the spot and futures quotation for the respective instrument.

I will present, as an example, the MCAE investor making arbitration between the spot market (in the limelight) and the futures market.

On the 8th of March 2010 the investor buys from the spot market 45.000 SIF5 shares at the price of 1,6000 lei/share and simultaneously sells from the futures market

Sibiu 45 DESIF5 futures contracts (the equivalent of 45.000 SIF5 shares) at the price of 1,7500 lei/share. In order to make these operations it is necessary for the investor to have and to deposit on the limelight market the sum of 72.000 lei, and on the futures market he must deposit the margin of 270lei/contract. In total, in order to make these two operations the investor must have the sum of 84.150 lei (72.000lei + 12.150lei). The account of the investor on these two markets will record the maximum profit, meaning the difference between the two prices (figure 2.).

Figure 2. Basis spot BVB/futures SIBEX SIF5 DEC10 in the time interval December 2009 – October 2010



Source: www.ktd.ro

The situation of the account of the investor on the two markets during the unfolding of the arbitration is briefly presented in the following lines:

Step 1:

We can notice the difference between the prices from the two markets for the same asset.

➤ SIF5 – Regular BVB market – 1,6000 lei/share

➤ DESIF5 – the deadline December 2010, derivative market Sibiu – 1,7500 lei/share (the margin of a contract is of 270 lei/contract)

Step 2:

➤ He buys from the market at a smaller price (45.000 shares at 1,6000 lei = 72.000 lei)

➤ He sells on the futures market the equivalent quantity 45 contracts at the price of 1,7500 lei/share. One contract is the

equivalent of 1.000 shares. He deposits the margin for the 45 contracts, which is 12.150 lei.

The invested amount 84.150 lei.

Now the arbiter only waits for the market to balance itself.

During the time interval in which the opened positions are maintained, the arbiter can be put in the situation to bring more money, because the opened positions on the futures market are profit or losses generators by marking them at the market in accordance with the quotation price.

Thus I will exemplify the two situations:

a) **"appeal in margin"** on the date of 23rd of March 2010 when the spot price rose to the value of 1,8100 lei/share, and the futures price had a quotation of 1,9400 lei/share (table 3.), a loss of 0,1900 lei/share brought the arbiter a minus in his account of 8.550 lei.

Table 3. Futures SIBEX/spot BVB SIF5 DEC10 quotation in the time interval 19 – 25 March 2010

data	open	high	low	close	var (%)	pret spot	numar tranz.	contracte tranz.	pozitii deschise
25.03.2010	1,9111	1,9400	1,9107	1,9400	1,05% ↑	1,7900	39	47	1.192
24.03.2010	1,9500	1,9650	1,9022	1,9199	-1,04% ↓	1,7700	42	71	1.132
23.03.2010	1,9399	1,9415	1,9101	1,9400	0,66% ↑	1,8100	21	37	1.036
22.03.2010	1,8605	1,9275	1,8605	1,9273	1,44% ↑	1,7700	65	74	1.024
19.03.2010	1,9297	1,9400	1,9000	1,9000	-0,26% ↓	1,7500	68	201	1.012

Source: www.ktd.ro

b) **"profit"** on the date of 16th of July 2010, when the arbiter enjoys a decrease of the price from the futures market more than the price on the

spot market, meaning 1,2600lei/share, and the futures contract is of 1,2450 lei/share (table 4.).

Table 4. Futures SIBEX/spot BVB SIF5 DEC10 quotations in the time interval 14 – 20 of July 2010

data	open	high	low	close	var (%)	pret spot	numar tranz.	contracte tranz.	pozitii deschise
20.07.2010	1,2451	1,2451	1,2065	1,2160	-2,00% ↓	1,2300	108	329	2.930
19.07.2010	1,2301	1,2620	1,2200	1,2408	-0,34% ↓	1,2500	64	129	2.840
16.07.2010	1,2837	1,2900	1,2450	1,2450	-1,97% ↓	1,2600	105	161	2.822
15.07.2010	1,2510	1,2948	1,2510	1,2700	0,40% ↑	1,2700	106	194	2.906
14.07.2010	1,2750	1,2909	1,2550	1,2650	-0,30% ↓	1,2500	114	251	2.830

Source: www.ktd.ro

The arbiter liquidates both his positions:

- He sells on the spot market at the price of 1,2600 lei the 45.000 shares.
- He buys on the futures market at the price of 1,2450 lei the 45 contracts at the derivative DESIF5 DEC10.

The result of the operation is the following one:

The initial investment: 72.000 lei (spot) + 12.150 lei (futures) = 84.150 lei

The final amount: 56.700 lei (the sale of shares on the spot market) + 34.875 lei (futures market) = 91.575 lei

34.875 lei from the futures market represents: 16th of July 2010: (sale of 45 contracts at the price of 1,7500 lei) – (buying 45 contracts at the price of 1,2450) = $0,505 \times 45 \times 1.000 = 22.725$ lei profit

Margin: 12.150 lei

Profit: 7.425 lei

When closing the positions held on the two markets (spot and futures) the investor obtains the amount of 91.575 lei, which represents a return of 9% from the invested amount of 84.150 lei, a return obtain over a time interval of 4 months. The losses from the spot market are compensated by the profit made on the futures market.

The adequate use of these tools can effectively help an investor to control many of the risks he exposes himself to in a continuously developing business environment. This thing is especially valid in the cases of the futures contracts. The non-involvement in the futures market can have as a result the loss of the opportunities to close deals at the most convenient prices.

On the stock exchange market there are many types of investor profiles. The monotonous ones have remained on the classical transactions (the spot market), while others, willing for something new, for the last discoveries in the field of stock exchange and have successfully entered on the derivatives market. A small percentage from the persons that participate on both segments of the market making arbitration or spread transactions, the respective combinations bringing safety regarding the obtained profit,

at a smaller scale compared to the persons which favour speculations.

In the situation in which there is an attractively enough price difference between the spot market and the futures market the well known arbitration strategy will be applied, with an acquisition on the market where the goods have low quotations (spot) and in the same quantity, on the same goods a sale on the stock exchange where the product is more expensive (derivatives). The price difference between the two markets will be gained by the investor at the due date of the futures contract the latest.

Under the same scenario we can also initiate **spread transactions**. These types of transactions are preferred by all the customers also due to the fact that in order to accomplish such transactions the technical or fundamental analysis is not necessary (Teodor Ancuța, Darius Cipariu, Ioan Aleman, Mirela Cozgară, *op. cit.*, page 85).

With the help of the spread transactions:

- We can take advantage of the price differences of the same product with different deadlines (intra-market-spread), for example the DESIF5 – December 2010 / DESIF5 – march 2011 contracts;

- We can make spread between two different types of goods (inter-commodity spread), for example DESIF2/DESIF5 or SIBEX9/SIBEX18;

- We can make spread between goods that derive one from another (crush spread), for example soy and soy flour or soy oil or even dollar-gold.

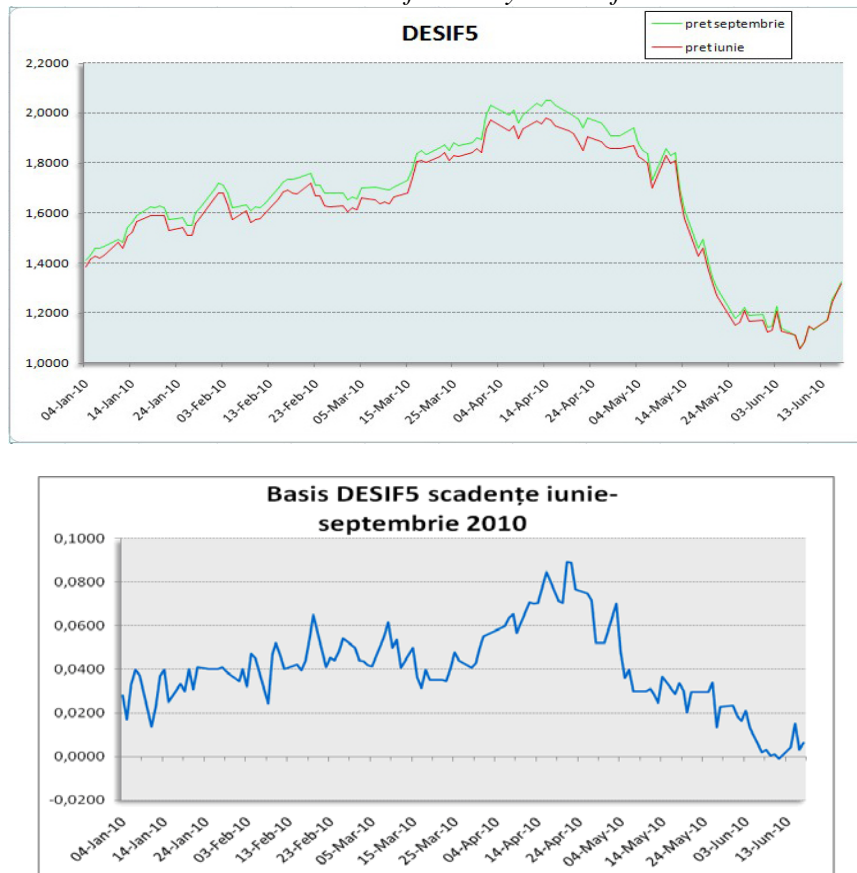
For instance, the MCAE investor, due to the increased spread on 16th of April 2010, buys 50 contracts with the due date in June 2010 at the price of 1,9471 lei/share and sells 50 contracts with the due date September 2010 at the price of 2,032 lei/share, the strategy involving a starting difference of 0,0849 lei/share (figure 3.3.). The necessary amount to make these two operations is of: 270 lei/contract (representing the margin) $\times 100$ contracts = 27.000 lei.

As the time passes the difference between the two markets has tightened, on the date of 11th of June 2010 this registered a negative difference of - 0,0011 lei/share, the respective tendency offering the possibility for the closing of this strategy.

The liquidation prices were of 1,1336 lei/share for the June 2010 due date and of

1,1325 lei/share for the due date September 2010 (figure 4.).

Figure 3. The evolution of DESIF5 June 2010/September 2010 in the time interval 1st of January – 19th of June 2010



The gross profit recorded is of:

June 2010: $(1,1336 - 1,9471) \times 50 \times 1.000 = -40.675$ lei

September 2010: $(2,0320 - 1,1325) \times 50 \times 1.000 = 44.975$ lei

Gross profit = 4.300 lei

The efficiency of the immobilised amount is of 16%.

The fear of the unknown, including the one in the business field can only be controlled by education and by perfecting some behaviour mechanisms that would allow the investor to be able to take knowledgably and reasonable decisions, to anticipate and especially to assume his risk.

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The Elaboration of the Mixed Portfolios by Using Complex Strategies of Options Trading

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Abstract

In this research paper I am going to use some of the complex strategies of options trading, with the help of an MCAE investor, namely: Spread Invers Balanced Call, Spread Invers Balanced Put, Bull Spread, Bear Spread, Long Futures Synthetic, Short Futures Synthetic.

Key words : strategy, risk, profit, trading

J.E.L. classification : G 11

1. Introduction

The use of the options, due to their versatility, can bring enormous advantages to those who trade them, offering superior yield or efficiency to the investments in classical financial instruments. In the situation in which a participant has clear beliefs or convictions regarding the market evolution or the price volatility of the underlying asset can appeal to trading strategies.

2. Spread Invers Balanced Call

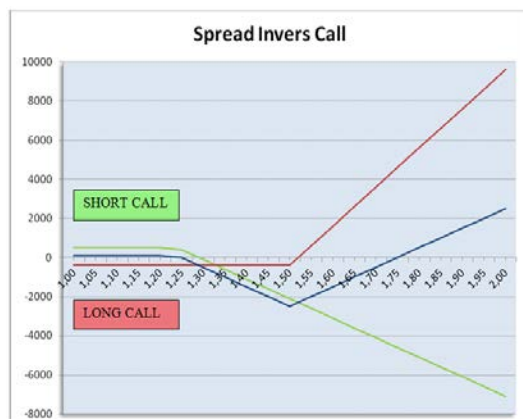


Figure 1. Spread Invers Balanced Call

The strategy premises: the investor anticipates that the market will register a high volatility, on an ascendant trend (figure 1.).

The strategy implementation: a Call option is sold with an exercise price **a**, and at the same time the two Call are purchased or bought with a higher exercise price, **b**.

The position is usually established by selling an option at money or nearby this level and by buying two Call options outside the money, thus obtaining an initial credit (although in a quite reduced value). Depending upon the selected exercise prices there is the possibility of registering an initial deficit.

The MCAE Investor, at the date of 09.07.2010, sells 10 Call DESIF5 options with the due date June 2011 at an exercise price of 1, 2400 lei/ share with a premium of 0,0500 lei/ share and buys 20 Call options having the same underlying asset with a higher exercise price 1,5000 lei/ share, paying a premium in value of 0,0200 lei/ share.

The break-even point: is achieved in two points, the inferior one is given by the more reduced exercise price to which it is added the initial collected credit (if the position has an initial debit , then there is not going to be an inferior break-even point) and the other is obtained when the intrinsic value of the option with an exercise price **a**, is equal to the intrinsic value of the two options with a higher exercise price out of which it is subtracted (it is added) the initial credit (debit) .

The break-even point:

$$P_{M1} = 1,2400 + 0,0500 - 2 \times 0,0200 = 1,2500 \text{ lei/ share}$$

$$P_{M2} = 2 \times 1,5000 - 1,2400 - 0,0100 = 1,7500 \text{ lei/share}$$

The potential profit: is unlimited if the market registers a positive ample variation. If the futures price is situated at the level of the lower or smaller exercise price **a**, or below

this level the profit will be limited to the value of the net credit, in this case 0,0100 lei/ share.

Decrease risk: the maximum loss can be produced when the market price is at the same level with the higher exercise price, being equal to the difference between the two exercise prices, out of which it is subtracted (to which it is added) the initial credit (debit).

The maximum loss: $1,5000 - 1,2400 - 0,0100 = 0,2500$ lei/ share

Table 1. Scenarios for the evolution or development of the futures DESIF5 IUN11 price subsequent to the strategy application

Futures DESIF5 IUN11 price	Net result Long 2 CALL	Net result Short CALL	Net result *
1,1000 lei/share	-0,0400 lei/ share	0,0500 lei/ share	0,0100 lei/ share
1,2500 lei/ share	-0,0400 lei/ share	0,0400 lei/ share	0,0000 lei/ share
1,5000 lei/ share	-0,0400 lei/ share	-0,2100 lei/ share	-0,2500 lei/ share
1,7500 lei/ share	0,4600 lei/ share	-0,4600 lei/ share	0,0000 lei/ share
1,9000 lei/ share	0,7600 lei/ share	-0,6100 lei/ share	0,1500 lei/ share

* A futures DESIF5 contract represents the equivalent of 1.000 shares, so that the total result will be obtained by multiplying the net result expressed in lei/ share with 1.000 and with 10 representing the number of sold contracts.

3. Spread Invers Balanced Put

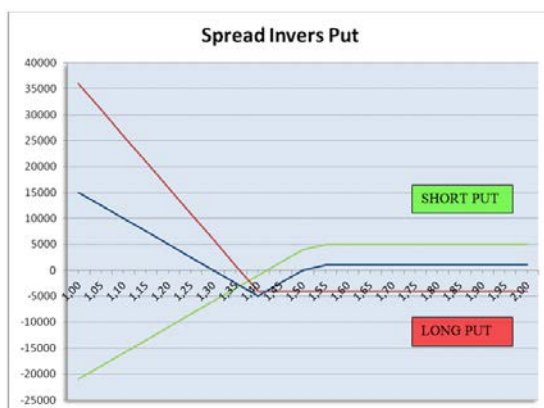


Figure 2. Spread Invers Balanced Put

The strategy premises: the investor anticipates that the market will register a descendant trend of the market, amid a high volatility (figure 2.).

The strategy implementation: an option Put is sold at an exercise price **b**, and there are purchased or bought two Put options, with an exercise price **a**, smaller or lower,

having the same underlying asset. Usually there is sold a Put option at money, and the two bought options are outside money, so that the position is established with an initial credit. Depending upon the selected exercise prices, the strategy can also be achieved with an initial debit.

At the date of 06.08.2010 the MCAE investor sells 50 Put DESIF5 IUN11 options at an exercise price of 1,5200 lei/ share for a premium of 0,1000 lei/share and buys 100 Put options at a lower or smaller exercise price, of 1,4000 lei/share with a premium of 0,0400 lei/ share, so that an initial credit is registered.

The break-even point: is achieved in two points, the inferior one is obtained when the value of the sold option is equal to the sum (difference) between the intrinsic value of the two bought or purchased options and the initial credit (debit). The superior one is reached when the intrinsic value of the sold option is equal to the initial credit. If the strategy is achieved with an initial debit, then there is no superior break-even point.

$P_{M1} = 2 \times (1,4000 - 0,0400) - (1,5200 - 0,1000) = 1,3000$ lei/share

$P_{M2} = 1,5200 - 0,1000 + 2 \times 0,0400 = 1,5000$ lei/share

The potential profit: unlimited, if the market decreases under the level of the inferior break-even point, and in the case in which it is situated above the exercise price **b**, it is limited to the net credit, in this case 0,0200 lei/ share.

Decrease risk: the maximum loss appears when the market price is identical to the exercise price **a** and is equal to the difference between the two exercise prices, **b - a**, out of which it is subtracted (to which it is added) the initial credit (debit).

The maximum loss: $1,5200 - 1,4000 - 0,0200 = 0,1000$ lei/ share

Table 2. Scenarios for the evolution or development of the futures DESIF5 IUN11 price subsequent to the strategy application

Futures DESIF5 IUN11 price	Net result Long 2 PUT	Net result Short PUT	Net result*
1,2000 lei/ share	0,3200 lei/ share	-0,2200 lei/ share	0,1000 lei/ share
1,3000 lei/ share	0,1200 lei/ share	-0,1200 lei/ share	0,0000 lei/ share
1,4000 lei/ share	-0,0800 lei/ share	-0,0200 lei/ share	-0,1000 lei/ share
1,5000 lei/ share	-0,0800 lei/ share	0,0800 lei/ share	0,0000 lei/ share
1,6000 lei/ share	-0,0800 lei/ share	0,1000 lei/ share	0,0200 lei/ share

* A futures DESIF5 contract represents the equivalent of 1.000 shares, so that the total result will be obtained by multiplying the net result expressed in lei/ share with 1.000 and with 50 representing the number of sold contracts.

4. Bull Spread

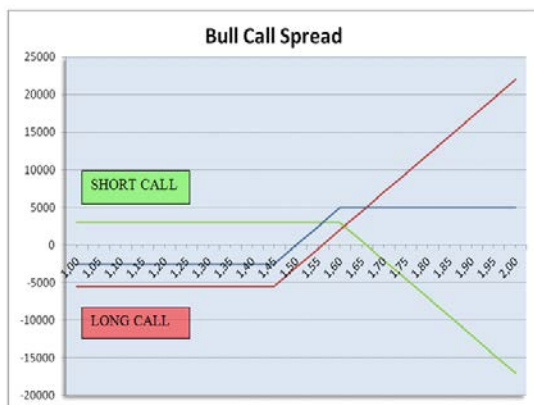


Figure 3. Bull Call Spread

The strategy premises: the investor has the belief that the market is not going to decrease but, however, he wants to prevent this risk. It might be considered a conservative strategy for those who anticipate that the market will register a moderate increase (figure 3.).

The strategy implementation: A CALL option is purchased or bought with an exercise price **a**, and it is sold simultaneously another CALL option with an exercise price **b**, higher, by registering an initial deficit (debit) equal to the difference between the premiums. In a similar way the strategy can also be built with the help of the PUT options, thus it is purchased or bought a PUT option at an exercise price **a** and another one is sold at an exercise price **b**, higher, having

an initial redundancy (credit) from the difference between the premiums.

At the date of 11.10.2010 the MCAE investor sells 50 CALL DESIF5 IUN11 options at an exercise price of 1,6000 lei/share for which it receives a premium of 0,0600 lei/share and at the same time it buys 50 CALL options having the same underlying asset at a lower or smaller exercise price, of 1,4500 lei/share for which it pays a premium of 0,1100 lei/ share.

The potential profit: is limited in both cases:

- In the case of buying and selling CALL the net profit is given by the difference between the exercise prices out of which it is subtracted the initial net debit;
- In the case of buying and selling PUT the profit is equal to the net initial credit.

The maximum gain is achieved for both variants in the moment in which the futures price, at maturity it is higher or equal to the exercise price of the sold option.

The potential profit: $(1,6000 - 1,4500 - (0,1100 - 0,0600)) \times 50 \times 1.000 = 5.000$ lei

The break-even point:

- For the CALL options: the exercise price of the purchased option to which it is added the initial debit;
- For the PUT options: the exercise price of the sold option out of which it is subtracted the initial credit.

The break-even point: $1,4500 + (0,1100 - 0,0600) = 1,5000$ lei

The potential loss: is limited in both cases:

- For CALL options it is equal to the initial paid debit;
- For PUT options the loss is equal to the difference between the exercise prices and the initial credit.

The maximum loss, in both cases is produced if the futures price, at maturity, is situated at, or under the exercise price of the purchased option.

The potential loss: $(0,1100 - 0,0600) \times 50 \times 1.000 = 2.500$ lei

Table 3. Scenarios for the evolution or development of the futures DESIF5 IUN11 price subsequent to the strategy application

Futures DESIF5 IUN11 price	Net result Long CALL	Net result Short CALL	Net result*
1,1500 lei/share	-0,1100 lei/share	0,0600 lei/share	-0,0500 lei/share
1,4000 lei/share	-0,1100 lei/share	0,0600 lei/share	-0,0500 lei/share
1,5000 lei/share	-0,0600 lei/share	0,0600 lei/share	0,0000 lei/share
1,5500 lei/share	-0,0100 lei/share	0,0600 lei/share	0,0500 lei/share
1,7500 lei/share	0,1900 lei/share	-0,0900 lei/share	0,1000 lei/share

* A futures DESIF5 contract represents the equivalent of 1.000 shares, so that the total result will be obtained by multiplying the net result expressed in lei/ share with 1.000 and with 50 representing the number of sold contracts.

5. Bear Spread

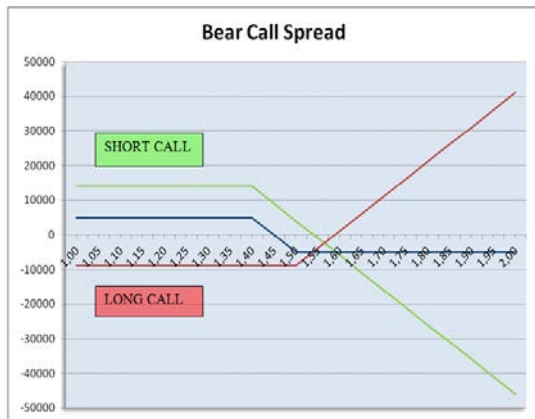


Figure 4. Bear Call Spread

The strategy premises: the investor has the belief that the market is not going to increase but, however, he wants to prevent against this risk. It is a conservative strategy for those who anticipate that the market will register a moderate decrease (figure 4.).

The strategy implementation: A CALL option is purchased or bought with an exercise price **a**, and it is purchased or bought a CALL option with an exercise price **b**, higher, thus obtaining an initial credit, or, in a similar way, it is sold a PUT option with an exercise price **a** and another one is purchased at an exercise price **b**, higher.

At the date of 05.11.2010 the MCAE investor sells 100 CALL DESIF5 IUN11 options at an exercise price of 1,4000 lei /share for which it receives a premium of 0,1400 lei /share and at the same time it buys 100 CALL options having the same underlying asset at a higher exercise price, of

1,5000 lei /share for which it pays a premium of 0,0900 lei / share.

The potential profit: is limited in both cases:

- In the case of buying and selling CALL options the net profit is given by the initial credit;

- In the case of buying and selling PUT options the gain is given by the difference between the exercise prices out of which the initial debit is subtracted.

The maximum gain is achieved if at maturity the futures price is under the exercise price of the sold option.

The potential profit: $(0,1400 - 0,0900) \times 1000 \times 1.000 = 5.000$ lei

The break-even point:

- For the CALL type options: the exercise price of the sold option to which it is added the net received credit;

- For the PUT type options: the exercise price of the purchased option out of which it is subtracted the initial debit.

The break-even point: $1,4000 + (0,1400 - 0,0900) = 1,4500$ lei

Risk of loss: is limited in both cases:

- In the case of CALL options the net loss is equal to the difference between the exercise prices and the initial credit;

- In the case of PUT options the loss is given by the initial debit.

The maximum loss is marked if the futures price, at maturity, is higher or equal to the exercise price of the purchased options.

The potential loss: $(1,5000 - 1,4000 - (0,1400 - 0,0900)) \times 100 \times 1.000 = 5.000$ lei

Table 4. Scenarios for the evolution or development of the futures DESIF5 IUN11 price subsequent to the strategy application

Futures DESIF5 IUN11 price	Net result Long CALL	Net result Short CALL	Net result*
1,2500 lei/share	-0,0900 lei/share	0,1400 lei/share	0,0500 lei/share
1,4000 lei/share	-0,0900 lei/share	0,1400 lei/share	0,0500 lei/share
1,4500 lei/share	-0,0900 lei/share	0,0900 lei/share	0,0000 lei/share
1,5000 lei/share	-0,0900 lei/share	0,0400 lei/share	-0,0500 lei/share
1,6500 lei/share	0,0600 lei/share	-0,0110 lei/share	-0,0500 lei/share

* A futures DESIF5 contract represents the equivalent of 1.000 shares, so that the total result will be obtained by multiplying the net result expressed in lei/ share with 1.000 and with 100 representing the number of sold contracts.

6. Long Futures Synthetic

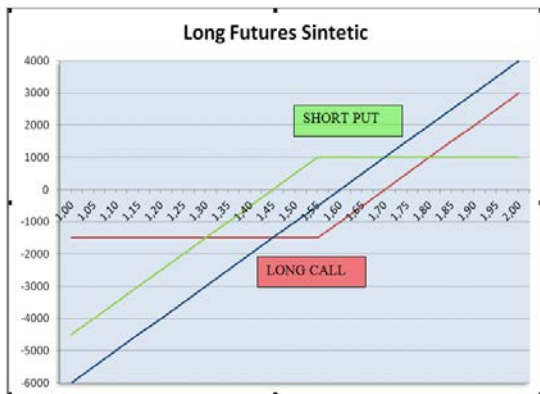


Figure 5. Long Futures Synthetic

The strategy premises: the investor has the belief that the market is going to be on an ascendant trend (figure 5.).

The strategy implementation: there are different ways in which there can be combined the futures contracts and/ or the options in order to generate profit. For example if it is noted that the Long Futures Synthetic position can be achieved at a lower price than the futures underlying position, the following strategy can be made: a CALL option is bought or purchased with an exercise price *a* and a PUT option is simultaneously sold with an identical exercise price (the strategy is often used for options with different exercise prices).

The MCAE investor, at the date of 08.10.2010, buys 10 Call DESIF5 IUN11 options at an exercise price of 1,5500 lei/ share, with a premium of 0,1500 lei/share and sells simultaneously 10 Put DESIF5 IUN11 options at an exercise price of 1,5500 lei/ share, with a premium of 0,1000 lei/ share.

The break-even point: if the position is established with an initial debit, then the break-even point is going to be reached in the moment in which the futures price of the underlying active will overcome the level of the exercise price of the options with a net value of the paid premiums. If the position registers an initial credit, the break-even point is going to be equal to the difference between the exercise price of the option and the value of the net cashed premium.

$P_M = 1,5500 + 0,1500 - 0,1000 = 1,6000$ lei/share

The potential profit: is unlimited and is increasing as the futures price increases, above the level of the break-even point.

Risk of loss: unlimited, if the futures price is situated under the level of the break-even point.

Table 5. Scenarios for the evolution or development of the futures DESIF5 IUN11 price subsequent to the strategy application

Futures Price DESIF5 IUN11	Net Result Long CALL	Net Result Short PUT	Net Result*
1,2500 lei/share	-0,1500 lei/ share	-0,2000 lei/ share	-0,3500 lei/ share
1,4500 lei/ share	-0,1500 lei/ share	0,0000 lei/ share	-0,1500 lei/ share
1,6000 lei/ share	-0,1000 lei/ share	0,1000 lei/ share	0,0000 lei/ share
1,7500 lei/ share	0,0500 lei/ share	0,1000 lei/ share	0,1500 lei/ share
1,9500 lei/ share	0,2500 lei/ share	0,1000 lei/ share	0,3500 lei/ share

* A futures DESIF5 contract represents the equivalent of 1.000 shares, so that the total result will be obtained by multiplying the net result expressed in lei/ share with 1.000 and with 10 representing the number of sold contracts.

Mentions: the initiation of a synthetic position, in this case, was more advantageous than the initiation of a simple position of buying futures, due to the fact that the obtained purchase price was lower (1,6000 lei/ share as compared to 1,6143 lei/ share as it was the minimum quotation price DESIF5 IUN11).

7. Short Futures Synthetic

The strategy premises: are generally initiated when a participant holds a short position (sale) with options and the market develops and evolves in its favour. He decides that the cashed premium is not enough, wanting a higher profit and will buy opposite options (figure 6.).

The strategy implementation: is sold with a Call option at an exercise price *a* and bought or purchased a Put option with an identical exercise price (the strategy is often used for options with different exercise prices, too).

At the date of 18.11.2010, the MCAE investor sells 50 Call DESIF5 IUN11 options at an exercise price of 1,4500 lei/share, with a premium of 0,2000 lei/share and it buys simultaneously 50 Put DESIF5 IUN11

options at an exercise price of 1,4500 lei/share, with a premium of 0,1500 lei/share.



Figure 6. Short Futures Synthetic

The break-even point: if the position is established with an initial debit, then the break-even point is going to be reached in the moment in which the futures price will decrease under the level of the exercise price of the options with a net value of the paid premiums. If the position is established with an initial credit, the break-even point is going to be equal to the exercise price to which it is added the value of the net cashed premium.

$P_M = 1,4500 + 0,2000 - 0,1500 = 1,5000$ lei/share

The potential profit: the potential gain is unlimited and increases as the futures price decreases under the level of the break-even point

The potential loss: is unlimited if the futures price increases above the level of the break-even point.

Table 6. Scenarios for the evolution or development of the futures DESIF5 IUN11 price subsequent to the strategy application

Futures price DESIF5 IUN11	Net result Short CALL	Net result Long PUT	Net result*
1,2500 lei/share	0,2000 lei/share	0,0500 lei/share	0,2500 lei/share
1,4000 lei/share	0,2000 lei/share	-0,1000 lei/share	0,1000 lei/share
1,5000 lei/share	0,1500 lei/share	-0,1500 lei/share	0,0000 lei/share
1,6500 lei/share	0,0000 lei/share	-0,1500 lei/share	-0,1500 lei/share
1,8500 lei/share	-0,2000 lei/share	-0,1500 lei/share	-0,3500 lei/share

* A futures DESIF5 contract represents the equivalent of 1.000 shares, so that the total result will be obtained by multiplying the net result expressed in lei/ share with 1.000 and with 50 representing the number of sold contracts.

All the transactions on derivative financial instruments imply a risk and there is no trading or transaction strategy that can

completely eliminate it. This is the reason for which the transaction of the derivative financial instruments implies the knowledge of the market derivatives as well as of the underlying or underlying market.

8. References

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Innovation Typologies in the Financial Services Sector: Limits and Implications

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Abstract

The management of innovation since the early 90s is more and more present in the business discourse, whatever the field of activity. However, the academic literature is often limited to technological innovations carried out in the industry and leaves the service sector which is a major source of innovative capacity. By nature, services are very heterogeneous and therefore they can't be study as a whole ensemble.

The present research focuses on the case of retail banking because, despite the growing appetite of banks for innovation, the academic literature in strategic management pays little attention to this sector [1]. This paper aims to review different typologies of innovation and their application to the retail banking sector, thus leading to a clarification of the concept and its implications for these companies. It also tries to capture the specificities of innovation in the banking sector and discuss future avenues of research

Key words: – Innovation Needs, Services Industry, Banking,

J.E.L. classification: G21, M31

1. Introduction

The Romanian banking sector has undergone profound changes in the last 20 years, in the post-revolution period and especially in the last two years in the context of the current economic and financial crisis that affected the local banks and also the Romanian banking market as a whole. After the accession in the European Union and the liberalization of the current account we have seen a significant enhancement of

competitive intensity. In this difficult environment, banks must find solutions to remain competitive; either by reducing their costs or by trying to differentiate themselves from their competitors and therefore innovation becomes a strategic necessity.

The innovation process makes it possible to launch new products on the market that can provide a bank with a competitive advantage relative to its competitors (even if it's only temporary). The often upstream integration of new technologies also permitted banks to reduce operating costs in the last years.

However, despite the growing number of innovations introduced in the banking sector, the literature rarely focuses on this sector. More generally, the services remain the "poor relative" of innovation management literature [2]. The majority of research in innovation management is more interested in technological innovations, particularly those developed in the biotechnology, semiconductor, etc fields [3],[4],[5]. However, the results of these investigations are difficult to transfer to the services setting [6]. For example, the main criteria for measuring technologic innovation, such as the number of patents or research and development budgets, do not appear to be valid measures in services. Similarly, innovation in services is often less tangible, more human-related than technological and relational [7]. Finally, within services, there may be specific forms of innovation (often called "tailored" that exist in many sectors of business to business services, but not necessarily apply to retail banking), which encourage researchers to focus on the study of a single sector: insurance[8], hospitals [9], consulting [10], etc. The few researchers who were interested in banking innovations have either focused solely on the

development of new products[11], either they concluded that banks could not innovate more besides the integration of new technologies [12].

The mechanisms of innovation are complex and extensive literature seeks to explore the subject. The services companies' management is also a complex topic and equally abundant literature was devoted to it. But the intersection of these two issues, innovation and services, forms a narrow niche where little research was done [13],[14]. Therefore a framework for identifying all the innovations in banking is lacking. Innovation is the creation of new value, customer-oriented but can also involve other stakeholders such as the organization itself [15]. Innovation can take various forms: the service concept, the process (computer system or work process), organization (hierarchy, structure, etc.) and type of external relationship (new interface types, implementation of a mediator, etc.) We can talk about innovation when it comes to actions having the deliberate aim of profiting from the changes made [16]. Based on this definition, this article aims to better understand what is meant by innovation in the banking sector, show that there are several categories of innovation in retail banking

2. Constant changes in the financial services sector and the need for innovation

After explaining why innovation is an issue which particularly concerns the banks over the past years, presenting an overview of the literature on innovation in the banking sector is a normal research approach. This reveals two limitations: (a) focusing research on development of new products (innovations visible to customers) and (b) technological progress as the only source of innovation.

Over the past twenty years, the Romanian banking sector has undergone profound changes which forced banks to evolve from both a structural and policy perspective, leading them to seek to develop their innovation practices.

At the regulatory level, global deregulation and the accession in the EU have put an end to a period during which Romanian banks

have been somewhat "protected". Especially the 2007 accession to the EU started a major change in the competitive landscape by changing the positions of traditional banks and facilitating the arrival of new entrants in the banking market. Competition has thus increased greatly, and especially since the market for banking services described as critical (checking accounts, credit cards ...) will reach saturation this competition will continue to increase. Along with this increased competition, banks are facing greater demand from their clients, including transparency of billing and investment returns. Better educated, they want to optimize their financial resources and do not hesitate to seize their consumer advantages in case of disputes.

Finally, technological advances in IT have revolutionized the operation of banks. They have to cope with new types of competitors (the "virtual" banks, which have very limited physical infrastructure), leading them to seek solutions to reduce operating costs, they also benefited from the Internet opportunities: to communicate differently with their customers and to offer new services. The costs of integrating these new technologies are particularly high and the banks had to make tradeoffs in allocating both financial and human resources.

All of these regulatory changes, sociological and technological resulted eventually in a renewed conception of the banking profession and changing management practices. The banks had to think about how to create a sustainable competitive advantage. Two generic strategies are now used in a complementary way: the cost leadership and differentiation. Cost reduction is primarily concerned with "production" of the service or what is called the "back office. Thanks to computers, banks seek more and more to reduce the costs of current operations. Differentiation addresses several aspects. Thus, despite numerous regulatory hurdles facing the banks (including supervision by regulators, which severely limits the possibilities of creating new products), they regularly try to launch new offerings.

Then, as they can not play on the price issue (there are few references to money in commercial messages, the impact of this factor being somewhat important), or rates

offered (very similar from one bank to another), they try to find other ways of differentiation, through the offering of a better quality of service, customization to suit the customer, implementation of new distribution channels (ex. Internet) that allow for greater customer intimacy or improved service availability and speed of transactions.

We can see here, implicitly, what are the challenges of innovation: whether to reduce their costs or to differentiate themselves, banks must innovate to remain competitive in the market [17], [18],[19]. Available statistics illustrate this need. Some authors [20] note that financial services (comprising banking) innovate strongly, with a rate of introduction of new products or processes higher than those found in industrial enterprises (nearly 62% against 42% for chemistry or 54% for the oil industry). Similarly, other surveys [21], finds that nearly 60% of banks claim to be engaged in innovative activities (36% permanently and 23% occasionally).

However, despite the challenge and the reality of these practices, little research has been made about the topic of banking innovation ([22],[23];[24];[25]). In addition, the latter, take a fragmented view of innovation and focus either on developing new services, either on the impact of technological change on business operations.

3. Limitations of current research regarding innovation in the services sector

Early research on innovation in banking has raised the question of whether or not such practices of innovation exist and their strategic impact. According to some authors [26], [27], banks do not always consider innovation as a mean of development. However, those who implement programs and encourage the development of new products are more successful than others and disregarding their size. Näslund [28], in his comparison between financial innovations and those from traditional industry shows that banks innovate but these innovations are easier to imitate than in the industry setting (because they are easier to implement). A bank that does innovative is able to make use of her lead position in the market for a very short time since its competitors will

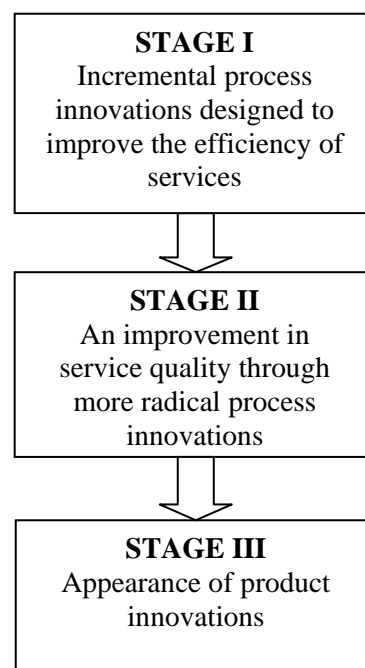
quickly copy the new product, which can not be patented.

Initial researches, are only interested in NSD (New Services Development), meaning the development of new services. The additional research also ignores other types of innovation, such as those that may affect the service delivery process. However, technological progress has affected many facets of the operation of the bank, especially the back office. For example, the automation of many administrative tasks has enabled officers to spend more time with customers and evolve toward a more commercial and consulting missions. The banking business is also often regarded as one of the most vulnerable to computer mutations [29]

It is on this influence of technological and computer that Barras [30],[31] has constructed a theory of diffusion of technological innovation in services.

The adoption by a bank of new computer equipment causes in fact a succession of innovations that takes place in three stages (Figure 1).

Figure 1. A possible diffusion process of technological innovation in a service firm (Barras)



Learning the new software causes first incremental process innovations, designed to improve the efficiency of services (in the

case of automating the back office of banks by the introduction of mainframe computers);

In a second stage, there is an improvement in service quality through more radical process innovations (automated teller machine which can cut costs and improve quality of service); Finally, at the third stage, product innovations may emerge (home banking). For Barras, innovation does not exist outside of technological possibilities. In line with its work, several authors have looked at the role of technology in the banking practices of innovation ([12], [14]. Ding et al. [14] focused on the development of self-service activities (consultation of account balances, account statements printing, etc.) and consider that technology is an essential skill to master for all banks. However, if the impact of technology on innovation practices in banking is undeniable, it seems that the banks can develop innovations beyond technology. The technology is, in fact, just one component of the supply system.

Other factors may be the cause of innovation: deregulation allowing the introduction of new services previously prohibited, changing in consumers behaviors producing new requirements, the increasing competitive intensity pushing banks to differentiate themselves and to develop the skills of their human resources). In addition, the banking innovations are not always very tangible.

The human dimension is often forgotten by the researchers. Finally, Barras model indicates implicitly that banks tend to have reactive behaviors in relation to innovation. They seem content to adopt innovations developed by the industry. This seems to be a simplistic view of reality [32]. In sum, neither approaches focused on IT nor those based on the impact of technology appear to consider the heterogeneous set of innovations in banking sector.

Few authors have attempted to draw a typology of innovations in banking. In addition, existing research rather belongs to the current NSD area already mentioned and is thus incomplete. Thus Karmarkar [12] focuses only on services associated with new information technology and communication (Internet, telephone, kiosks, etc..) and proposes a typology with two axes: the access mode service (centralized: the client

must move, or decentralized: the client access to the service without movement) and the cost of technology access (from weak to strong).

Most of the literature on innovation in services is unidimensionally constructed:

- The element affected by the innovation (product, process or organization)
- The degree of novelty of innovation, which can also be discussed along with the risk level of innovation
- The method of production of innovation (with the participation or not of the client)

These criteria, although relevant, are used too isolated and did not seem to be able to fully understand the variety of innovations in banking. The combined use of two criteria would probably refine existing typologies. There are a few classifications apparently built on several criteria, but they are not always really clarified [33]. Therefore, none of the existing typologies seems sufficiently effective to correctly identify different types of innovation that could appear in banking.

4. Conclusions

The analysis of innovation practice in banking services brings out three major issues.

First, banks do not innovate only incrementally. They tend to have leaps in innovation and bring out new products or improve processes on a whole basis.

Secondly, whereas the literature has often focused on technology as the only source of innovation, these sources can be quite numerous: reduced regulation, new customer needs and competitors' innovations.

Third, innovation in the banking sector often takes the form of process innovation which, unlike many product innovations (patenting is difficult in the banking sector and thus the innovations are easily copied), are indeed difficult (or no) visible to customers (and competitors), but helps instead the banks in obtaining a sustainable competitive advantage.

Finally, innovation actions must always take into account their impact on banking services quality and the specific cultural and social context in which the financial institution is operating [34].

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E-Government Portal. Main Instrument for Electronic Services Delivery

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Abstract

The introduction of e-Government services and applications leads to significant changes in the structure and organization of Public Administrations. In this paper we analyze a solution provided by a set of technological processes that can change the interaction between citizens and government

Key words: e-Government, electronic public services, electronic services delivery.

J.E.L. classification: H11, M15

1. Introduction

Over the last decade, the concepts related to how governments operate and perform the act of governance have changed dramatically. These changes were due in the first place to expectations in which the act of government is regulated so that it should reflect modern methods of efficiency and effectiveness (that governments should do more with less government spending), but meanwhile, governments should become more open to a democratic society where all citizens are involved in the act of governance. Many researchers argue that migration to an electronic governance allows to achieve both the efficiency of the governance act and a democracy with a much reduced effort and cost.

Using information and communication technologies in the government act begins to redefine the governmental environment through the modification of power and responsibility relations established between government and citizen, between private and public sectors or between service providers and industry. Thus new forms of governance are emerging, these reflecting, among others,

the organizational and economic structures change, with profound consequences in how we understand and exercise our citizenship. It is clear that eGovernance is not just about providing online government services or to improve their supply, but also it is a set of technological processes that can change the interaction between citizens and government.

2. The provision of electronic public services

Electronic Governance enables multiple services to be delivered 24 hours of 24 throughout the year, regardless of the location in space of the recipient. This favors those who are familiar with the use of information technology, and how today they are not few, the whole purpose, structure and modus operandi of electronic governance begins to reflect more than ever, the needs of an increasingly bigger part of citizens.

Many European administrations and agencies reorganize the access to services taking into account of the information and communication technologies. These new methods of access to services, placed face to face with the traditional methods of access, it is desirable to complement existing ones and not replace them entirely. Among the modern channels of access to these services we can mention the phone, fax, Internet, television, info kiosk, wireless access points etc. Relying on information and communication technologies contributes not only to the proliferation of services access channels but also to the organization change in the providing service itself. An example is given by Internet portals that, in this sense, offer services:

- for citizens (those services that relate to matters of everyday life) - births marriages, deaths, employment,

unemployment, education, sport and leisure, etc.

- for companies (services relating to business environment) – the start of a business, financing, regulatory, legal, legislative, business operations and trade, environmental tax, innovation, business development, reimbursement and other state obligations etc.

Such an approach, centered on events that may occur either in citizens life or in the life of companies, combined with the principles of one-stop shop concept, shows us how the government can be reorganized to reflect mainly the needs of citizens or companies rather than the concern about its internal structure. One of the fundamental perceptions of e-governance is the shift from the services that relate in particular the internal needs of public administration to those services that are more pro active in meeting the needs of citizens, regardless of their social status or their financial situation, quoting As. Wimmer "IT has played an important role in changing and migration of the bureaucratic and traditional government patterns towards the current electronic governance model, where services are provided according to the needs of citizens" [5]. The approach centered on the life events shapes the functioning of the government in terms of daily life. This approach is a metaphor used to highlight a specific situation or an event that occurs in the citizens' or a company life, event that involves the satisfaction of a public service [4]. The approach in itself should help users to identify more easily a set of public services that they need in a moment of their life and adapt these services under the circumstances or the needs of the moment.

3. World Wide Web and electronic public services

Electronic Services Delivery (ESD), which appeared originally in the private sector, has been characterized by focusing on the specific needs of a company [1]. Recent studies have shown that the use of new technology World Wide Web generation did not represent a guarantee of successful implementation of **electronic public services (EPS)**. Both B2B and B2C sectors revealed that apart from compliance with complex

web pages design rules, so they are as user-friendly, certain economic and market rules in using the web also should be applied, so that the providing services to be effective. According to these studies, unfriendly and inefficient web-based processes, including transactional processes, do not attract such a large number of users, as was optimistically predicted several years ago.

Organizations that had success in using web-based services had to learn from experience that the recorded success is due more to the specific of the services offered via the web. Services offered by these organizations refer more to disseminate information than the use of the Web as a means of providing personalized services. The following developments occurred in the provision of electronic services have focused on the reorientation of providing these services to meet the multiple needs of citizens, needs that are constantly changing [2].

This customer-oriented vision has been also adopted in the implementation initiatives of electronic governance, promoting the change in the form of governments' organization from the traditional functional structure of the administration to a flexible model that provides services focused on the needs of citizens [3].

"One Stop Government" is the most promising concept of public service delivery by the public administration. Specifically, "One Stop Government" means a physical location (for example one stop shop) in which users (for example citizens or business environment) can solve their administrative problems in one place and preferably through a single contact. In terms of electronic governance, this concept is represented by a virtual location (for example a web portal) that, through information and communication technologies, improves the possibilities and functionalities of the concept "one stop shop".

Whether the concept of "One Stop Government" is represented by a physical or virtual location, we can say that it characterizes, in terms of users, an integration of public services offer. The term "One Stop Government" refers to the interoperability and integration of public services in one single place, providing more opportunities of access at a time, whether it is

a contact "face to face" at the institution headquarters, or that this contact is made through ICT, such as telephone, fax, etc., although the typical communication channel used is the Internet. In the latter case, the concept of "One Stop Government" is done through a web portal that presents a technological and organizational infrastructure (for example a physical platform) that allows a single point of access for users of electronic public services, regardless of internal fragmentation or of accessed public administration responsibilities.

4. Types of web portals in the perspective of electronic governance

A web portal serves to the presentation and access to data, information and applications in a structured manner. In terms of physical architecture (front office and back office) we can differentiate portals for the final user and intermediary portals. Intermediary portals are those that promote electronic access (via Internet) for the public institution employees or facilitate access for the online intermediaries to resources through online extranet. These online intermediaries are usually private actors that are positioned as an interface between the public administration and citizens, these intermediaries providing administrative services to customers (for example firms of architects that submit applications for construction permits on behalf of the clients). Also, in exceptional circumstances, may be made extranet portals, for those customers who regularly come into contact with the public administrations. Making intermediary portals is a precondition for achieving a more efficient multi channel access.

In terms of final users we can differentiate the following types:

- Portals belonging to the regional authorities - their informational content refers either to the national administrations or to the regional or local administrations;

- Portals containing groups of portals - offers services that are provided by the public administration and also by the private agencies;
- Specialized Portals – these provide special services that are subject to a specific area (for example portals for payment of fees, portals for job offers, etc.).

5. Conclusion

In conclusion we can say that only a combination of the three concepts can grant the realization of true one-stop government as an effective way to deliver public services. Web services represent that technology that can be used in order to improve public sector activity, with the hope of obtaining the same results as in the private sector. Promoting widely public administration services via Web allows private companies to work easier and conveniently with government agencies.

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E-Governance and New Communication Instruments

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Abstract

The appearance in the 60s - 70s of information technologies has helped to automate the processing of large amounts of data in the productive companies having a positive impact on management. The appearance of the Internet in the 90s has eliminated from the companies' business model the restrictions of geographical order. E-business solutions include a variety of applications that allow these companies to operate more time online. Fierce competition and especially the implementation of new information technologies and communication have made these companies to reinvent systems and new processes.

Key words: e-governance, public administration, information technologies, communication

J.E.L. classification: H11, M15

1. Introduction

Ten years after the explosion of Internet, the information society is on a steady growth path. The benefits of providing online services are increasingly recognized by government worldwide at national, regional and local levels. A decade of investments in information and communication technology (ICT) is bearing fruits, fuelling innovation in ICT various areas and transforming the EU into a knowledge-based economy [2]. In this context, the public sector is not lagging behind. Online public services at European level are getting more mature and producing visible efficiency gains: more services have been put online, the available services have become more sophisticated and increasingly more people deal with the public sector online [3]. In this regard, public administration services are leading the way

and health and education are closing in.

In the context of modernizing public administration, information society is an essential component of the reform process, a way to contribute strongly to ensuring citizens' access to public information, increase transparency and efficiency in administration activities offered by the public services. As an essential feature, we can say that the information society is characterized by the democratization of information, communication, understanding and cooperation.

Governments' use of Internet, as the main tool to provide public services, has revolutionized the speed and efficiency of government services delivery. The benefits of an online presence of governments in providing administrative services are reflected in their faster delivery, more efficient in terms of cost, highly personalized, targeted to citizens and private business.

2. E-Governance and communication

Due to globalization, markets have developed in an accelerated pace without giving the possibility of political, social and economic institutions to develop at the same pace, to ensure sustainability of this growth [5]. In many cases, this has led to the rethinking of priorities and interactions between groups, urging the public sector to respond rapidly and effectively to the growing needs of society. The growing concern of the interest groups in society can be sustained only with information and communications technology, the only one capable to allow public access to knowledge and information that were previously inaccessible to most people. This new knowledge has led to greater demand from citizens to participate in political decisions, causing the civil servants and the decision factors to take urgent action to improve

service delivery.

Seeing the impact of using new information technologies at the level of economic units, one can certainly say that they are defined as engines of innovation. Through government-wide use of information technologies, they become instruments for transformation of governance models and thus improve the quality of life. Taking the e-business development model from the private companies which operate more time online and implementing it at government level, allows us to use the word **e-governance** in order to recognize that, within government, there is a continuous process of transformation of both its internal relations and its external relations by using new information and communication technologies.

The online presence of the public administration involves, as in the case of private companies, both remodelling the organizational structure and the processes that govern the daily activities, in line with the needs of citizens and businesses. Traditionally, government organizations are highly "compartmentalized" in terms of organization. This phenomenon occurs not only within the same institution (ministries which have a multitude of subordinate agencies), having rather a vertical organizational development, but according to the specifics of governance, public administration organizations have a territorial spread, across a country and beyond its borders by the presence of consulates and embassies in other countries.

The need for communication between people is the essence of human society. People have always used communication to inform, learn, define concepts, discuss and reach consensus in public and private life [4]. If we add to this timeless communication process the characteristics of modern information technology in the context of public administration it is supposed to have an impact in creating public value. Indeed, e-governance can be seen as a process of creating public value through the use of information technology and communications. By using information and communication technologies, government communication channels gain speed, accuracy, mobility and simplicity. All these can be converted into cost reductions and efficiency gains, the

aimed objectives in all government activities, especially in delivering public services. Achieving these characteristics requires on the one hand interconnect different local agencies, and secondly the integration of services offered by various government agencies in an effort to simplify the interaction both intra-government and extra-government, while reducing the overall structure costs and improve public service delivery.

3. Intra-governmental communication

Civil sector, private sector and public administration sector are considered to be the three constituents operating and interacting in different ways to build and sustain a nation.

The implementation of a good e-governance solution implies an interaction at all levels and between all actors involved in e-governance. Electronic Government defines interactions between the main actors: citizens, private organizations and public institutions, as follows:

- G2G – on-line relation system of Government – Government
- G2C – on-line relation system of Government – Citizen
- G2B – on-line relation system of Government – Business

Some of the theories in the field only focus on the technical aspect of intergovernmental cooperation, others instead seek to address a vision focused on solving problems such as organizational and cultural ones.

Communication between interconnected agencies generates intra-governmental information flows. Depending on the expression of these information flows, we can vertically integrate intra-governmental processes if information flows between different agencies located on different hierarchical levels or/and they can be integrated horizontally if there is an information exchange generated by cooperation between government agencies located on the same hierarchical level [3]. In reality, because of the scale and complexity of the state apparatus, this distinction between external and internal interactions can not be surely and clearly identified. Those relations occurring in the same government agency are defined as internal

government relations (G2I). Using the same logic, we can say that the relations arisen between public institutions and the employees working for government and public administrations are government-employee relations (G2E).

Public sector employees are essential for the successful implementation of e-governance policies. Taking into account two factors that characterize the state institution, bureaucracy and resistance to change, the question is whether these institutions are prepared for changes in the recruiting policy and to change the remuneration system in order to attract those employees who have the skills and competencies necessary to manage the entire process of implementing e-governance policies. Unfortunately, these skills and competencies are the same as those required by the private sector companies, companies that desire, implement or have already implemented e-business applications or e-commerce. These organizations manage to appeal "true professional" from the labour market by offering benefits far better than what government institutions can offer.

The selection, recruitment and retention skills needed within government involves the ability to stop certain subjective practices frequently used in the public sector and to innovate this process by means of competitive benefits that will put the government in an preferred position. Governments that have started this pathway have already felt the need to improve their internal conventional systems of public sector compensation and work practices.

The introducing of new information technologies in governance involves focusing also on employees' training and continuous learning system. G2E focuses on increasing the skills of public sector employees. By using information and communication technology, they gain new skills, improve their careers, being constrain to be always active and to keep the pace with developments in information technology.

4. E-Governance for citizens.

The relationship between government and citizens has constantly evolved as the society evolved. The public services provided by government have varied, depending on the needs and requests of citizens, hence the

government changed its role and purpose. Amid these evolutions, governments began to provide customer-oriented public services, with multiple options from which to choose and personalized services. Meanwhile, due to the access to education of and increased number of people and due to the influence that media has on these people, the capacity of citizens has developed and improved. Now, as citizens, people participate more actively in public life, having access to various methods to express their views to the government.

The initial purpose of e-governance was to bring efficiency in the governing process. With the development of information technologies and increasing citizens' participation in public life, the concept of e-governance focuses on efficiency and democracy. In fact, if we look at the countries that started the implementation of electronic governance, we see the emergence of democratic processes and civil society development, as new trends of political participation by using information and communication technologies.

In terms of e-governance, G2C relation system has made possible the transition from passive information of the people towards an active participation of citizens by informing the citizens, representing and consulting them, encouraging their participation and their active involvement in the voting process.

Electronic governance is strongly influenced by the expectations of citizens to see public services provided in the same way or at the same level as certain services are provided by many private sector entities. Of course, given the scale and complexity associated with the establishment of G2C relationships, the implementation of online public services can not be achieved at once. In most cases, governments begin by providing information about their on-line activity. Handling a large volume of information, the need for efficiency and the more and more increasing demand coming from the citizens lead to increasingly more complex services. These changes are gradually introduced, some services being offered on-line much sooner than others. In some cases, the demand coming from the citizens is the engine that contributes to the development and implementation of online

services, in other cases we see that the costs logic, related to reducing operating costs of the government, contribute to the introduction of these online services.

The existence of these online services provide their use by citizens of 24 hours a day, 7 days a week, fact that contributes to an increase in citizens responsibilities and to the insurance of a certain transparency of government. The benefits of providing these services is that the citizens can enjoy a safe and rapid service, and on the other hand, the government not only gets more integrated within communities, but also can focus its resources where they are more needed. Moreover, "self service" culture taken from the banks' e-business model, enables the citizens to "help themselves" whenever possible, hence saving time and money.

5. Communication between Government and businesses

In terms of relations between government and business, the traditional way of governance has focused mainly on regulations and interventions. Government's behaviour was intended more "to lead" rather than "to serve" the companies and businesses [1]. However, the development of private sector has become more important when referring to citizens' welfare. The relations between government and business have changed. Now, the government's role is to provide better public services to business in order to help companies to make businesses in a harmonious and comfortable way.

G2B relation system was the first to be developed. In this type of applications, the government seeks to meet the requests of the business community via Internet. By offering on-line services to business, government seeks to establish and regulate a wide variety of activities, such as electronic registration of companies, on-line purchase of goods and services (e-procurement) or on-line payment of taxes.

In terms of G2B, the main objective of good governance is the best use of limited resources (money and labour) to deliver maximum business advantage, according to its ever-changing needs. In a modern economy, the government has a double role in maximizing this benefit. The first role is to

facilitate and maintain active the private initiative. This role involves the provision and development of the relevant infrastructure, development of entrepreneurship, the provision with favourable policies (laws and regulations, taxes, etc.). Beyond this role, the government becomes an active contributor to private initiative. For example, government institutions are using on-line procurement system for purchasing goods and services.

6. Conclusions

The challenge of electronic governance is to develop a partnership between the main actors of public life, in order to control the changes that occur in the management of public sector, changes that are essential in introducing e-governance applications and services. The innovations in ICT, the proliferation of wireless networks and broadband "require" that the organizations, either public or private, offer new electronic services. The implementation of such services requires a change in the role of the government.

From this point of view, the government must move from the role of information and services controller to the role of a link, so that informations and services to respond to the citizens needs, for achieving social harmony. The development of social policies must necessarily involve people and communities' access to ICT, all for the population to participate actively in the economic and knowledge society

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Utilisation of Cost Type Information in Decision Making Process Approaches on Public Establishments

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Abstract

Managerial decisions and decision making process stand for the key issues of each entity around which all activities of financial information collection, processing, review, construing, summarizing, and not only, gravitate within every organisation.

Moreover, costs (calculation, review and optimization of such) are important as the whole activity of an organisation reflects itself in costs, respectively based on information concerning costs based on which managers may decide on purchasing, producing or abandoning production of a given product. The whole decision making process may be directed on several stages such as: define objectives, determine and evaluate alternatives and making of decisions. The question arises: how is information offered by administration accounting used within each of these stages and which of the accounting information has got the most relevance in selecting the optimum solution.

Key words: cost, business administration accounting, decisions, public establishments, decision making process.

J. E. L. classification: M 41, M10

1. Introduction

The set of problems for business administration accounting and calculation of costs shall be a permanent concern for the public manager. Public services supplied by such establishments are closely related to utilisation of public resources namely public

money. Consequently a permanent and primordial concern within a modern economy is to identify the types of expenditure and calculation of cost related to supply of such types of services towards population, namely tax-payers.

The circle of budgetary system in Romania includes activities within the field of culture, education, health, art, justice, religion, national security. According to Law of Public Finances no. 500 / 2002 and Law of Accounting republished, the public accountancy includes also accounting designed to review costs of approved programmes.[1] If up to the present at the level of Romania public establishments the issue has not been raised of developing business administration accounting that should meet cumulatively the above listed functions, that shall no more be neglected in the future, especially given the necessity of elaborating budgets per programmes.

Budgets per programmes are to be prepared depending on objectives proposed under the circumstances of widening of the reference horizon to a larger number of years. From a budget of means having annual finality it will be passed to budget per programme, where expenditure is included related to achievement of some medium and long term objectives. The budget per programme reflects the assembly of expenses for an objective with breakdown of budget credits that are opened annually to the proposed purpose by making use of budgeting technique.

To estimate the opportunity of public expenditure one shall start from the comparison between costs and updated advantages of achieving an objective. This

basic criterion of budget-per-programme preparation is supplemented with the assumption of optimum breakdown of revenues. To such respect structuring is objectively necessary of expenditure pertaining to each public establishment per programmes specific to attributions of such, as well as lay down of denominate criteria of performance to be adapted to particularities of each line of business for assessment of efficiency and economics of budget financing programmes per the assembly of national budget.

Drafting of material criteria of performance in relation with the specific of each public line of activity is an extremely toilsome process, but which once stepped out, allows decision making factors both removal to the highest extend of subjectivism and random in allocating budget resources and genuine assessment of efficiency and economics in using public funds. For efficient follow-up of the level of achievement of each programme apart at the level of each establishment a system of follow-up and reporting shall be developed by the establishment management. To such purpose the business administration accounting becomes a useful instrument that can satisfy to an optimum the domestic users' need of information. [2]

2. Business administration accounting main instrument of management activity

Business Administration Accounting / Management Accounting responds the domestic users' needs concerning planning, control and assessment of programmes and services of the public establishment. Its purpose is to offer information that correspond to the specific needs of various hierarchy levels of management and decision makers, within their range of activity and assure an adequate and responsible utilisation of resources. Management accounting helps achieve both financial predictions concerning costs and performance of future programmes and further evaluation of such programmes.[3] Determining and estimate the costs associated to various programmes, services, activities or work units are essential within a management accounting system well organised. Costs of the kind may afterwards be compared to the ones in previous periods

and to similar programmes and services of other establishments.

In the literature in Romania, the topic of public establishment management accounting did not enjoy too much attention. Although a series of adepts occurred for the new techniques and methods of calculation used by management accounting, they are not used on a wide scale.

Public establishments are at the present into internal and external tensions that emphasize the necessity of an evolution versus other manners of management. Internal tensions put into light the discrepancies between modalities of functioning of public establishments and their necessities – there are some problems as for allotting of responsibilities, marketing, trading, allocation of revenues, budgetary framework. Moreover, external pressure get deepening the significance of redefining the management of public establishments; that is all about the necessity of reporting within a context of economic difficulty regarding utilisation of public funds.

3. Costs and cost significance for public establishments

Knowing the costs stands for a decisive factor in view of making decisions in planning future activities.

Data review and recording concerning costs of past activity is only one side of cost accounting. Managers are concerned also with costs to occur in the future, their level being at the basis of certain decisions on making available to consumers certain categories of products or services.

In the business administration accounting the cost category is used for various purposes. There is a multitude of types of costs, and such costs are grouped, classified depending on management necessities^[3]. Not all costs are at the basis of decision making but only the ones that are relevant. A cost is pertinent (relevant) if it has been elaborated at the right moment, for the right policy maker and with a satisfactory accuracy for such. [4]

Generically, the cost calculation occurred as natural necessity to determine costs of production per total and per unit of product. The cost calculation includes the assembly of mathematical operations used according to

given methodological provisions in order to determine unit costs for a product, a service, a performed work. The scope of calculation requires exact, relevant and operational calculations, while the method and procedures are the role of the cost calculation theory. Management of costs is an attitude, a set of techniques meant to generate more value at lower price. [5]

The manner cost accounting organized is let at the public establishments discretion depending on specific of activity and their own necessity.

The purpose of a calculation being to supply information within the field of costs it results that it should be so organised as to assure on the one hand quantity and quality measurement of the whole process and on the other hand a means of control, guidance by decisions to be proper to the value side of such based on information supplied at the level of the management.

As each organisational level of the structure of public entities needs certain information that are specific to such the cost calculation must supply in the foreground relevant information on costs, namely information referring to major aspects having decisive involvement in the cost field. Thus selective information can be assured on the only aspects involving urgent decision making thus relieving the management from less significant information.

Knowing the significance of the relevant cost results in that its correct setting out shows particular significance in decision making. Depending on the issue which it shall decide on, a cost calculation may supply information on actual costs, standardized costs and planned costs. In case we have to make short term decisions, then variable costs are relevant as capacities of production do not suffer from alterations and consequently neither would be altered fixed costs. Should we have to make long term decisions, then besides variable costs there are fixed costs being relevant as an alteration occur in the capacity of production.

It has been shown in practice that, generally speaking, the highest frequency of issues demanding decision making stand in the issue of the kind of short term decisions. Thus a series of current problems in optimum charge of machines and places of production, accept or reject extra orders, implementing or

removing out of production some product are within such short term decision. Decisions concerning increase or decrease of physical output of production are subtended on variable costs generating such an alteration.

From point of view of the duration how long to run decision making processes the review of costs shall be distinctly conducted. Therefore a review of long term costs assumes the study of cost evolution over some time horizon during which all production factors are variable while a review of short term costs involves studying of costs behaviour over a time horizon during which production factors are fixed. [6]

Against the multitude of problems requiring decision making utilisation is required of those methods in calculation that should assure supply to the shortest possible of the most accurate and relevant information on costs. Making decision becomes in as much complicated as the number of problems to solve and of criteria of treating such is more varied. That is why grouping of problems is recommended upon a certain sequence. Given that the whole activity is pictured in costs the cost calculation shall be regarded as basic informational system of the public establishment management, the role and significance of costs per each organisational level standing in the fact that: [7]

- Cost occurs in all ranges of economic-social life;
- Cost calculation is the only capable to account for the efficiency of activity;
- Information supplied by cost calculation are management information on all places generating costs;
- Liability for the cost level attracts all management hierarchy steps within the establishment;
- Costs are at the basis of adopting the managerial decision and assure transparency of using public money;
- Cost calculation having as main purpose supply of information on costs; in order to be useful information need to be exact, opportune, little costly.

Cost is the basic element of the marketing study and must be regarded in its complexity within both the stage of service rendering and further on. Information of costs is what helps us know and foresee the chronology of the

life for the product made by means of its cost.

Production cost being the synthetic most important cost that features a company's activity results in that by its control the level of the run activity can be followed-up.

Evaluation of this control is based on cost calculation as the single action to be taken for supply of the data necessary to know the level of costs, of deviations versus the planned costs and of the causes having generated such. The assembly of information on costs is gathered, processed and located systematically by means of cost accounting. What features the cost information flow is the emphasis put on concentrating information offering a synthesis insight on both the manner of conducting the production process and the general management of a public establishment.

At the present, in our country no due significance is paid to the business administration accounting. Although a series of adepts of the new techniques and calculation methods used by management accounting have occurred they are not used on a wide scale.

Further on, part of public entities decline putting into practice the business administration accounting for thinking there is extra work not producing anything but only consuming resources and they thus ignore the significance of information that can be made available to manager by its means. Even where business administration accounting is organised it is only briefed to the old method of post-calculation.

4. Conclusions

Many a time, the capacity of an organisation to manage costs depends on its organisational efficiency. It is often not establishing the ways and means of mitigating costs that stands for the solution but rather optimization of such starting ever since in the phase of design and development of products and finishing with the phase of their sale. For just such reasons, we think that the cost management shall have a "honour" place within each organisation and shall be an essential component that cannot miss from management accounting because it supplies the management information with high degree of detailing coming in support of

planning, control and grounding of decisions about products, activities or processes within organisations.

In order to select the best working alternatives, to make the most appropriate decisions at the most appropriate place and time managers can and must make use of decisional models by means of which a prompt and target addressed action can be achieved, creatively and rapidly approaching and settling problems of decisions which have not been scheduled or of those that are run under risk and incertitude circumstances.

The chief conclusion we have come to at the end of this article is that by means of an integrated system of cost management the managers have the possibility to integrate calculation and cost review within the strategic policy of an organisation in view of creating long-lasting competitive advantage, thus contributing to not only substantiation of decisions concerning the product portfolio but also to an assembly of micro-decisions progressively leading to a change in the organisation strategy.

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The Audit of Accounting Information System Infrastructure

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Abstract

The phenomena that mark the economic environment in recent decades are under the sign of globalization, interdependence and interaction. Whatever happens in any corner of the world, affects more or less extensively the local economic environments. In these circumstances, any organization, regardless of its activity profile, size and space in which it operates, must prove its viability, ability to communicate and adapt in order to achieve economic and financial performance to make it increasingly competitive.

This paper aims to address the issue of accounting information system infrastructure audit, in terms of globalization, an activity which involves evaluating all aspects of automated data processing systems, including related manual processing activities. Key concepts relative to what is the audit of accounting information system infrastructure, audit aim, audit methodology (7 steps), audit report, as well as steps to be followed in implementing post audit corrections, are highlighted.

Key words: infrastructure, accounting information system (AIS), audit.

J.E.L. classification: M4, C4, D8, L14, E42, G32, H83, L86, Q56.

1. Introduction

Accounting is the most important subsystem of an organization's information system. Also, accounting is the main source of information in an organization. Economic data provide about 80% of the total circulating information throughout an organization. Of these, about 46-50% are information provided by accounting [1].

This way of seeing the organization makes accounting information system the most important element of an organization's

information system for the following reasons: accounting information system is the only provider, to management and external users, of an overview of the entire organization, accounting information system interlinks other important information related subsystems such as marketing, personnel, research and development, production, etc., in such a way that information in all these subsystems is eventually expressed in financial terms, non-financial information in areas such as social responsibility and human resources are integrated with accounting information to enable decision making, accounting integration with other subsystems leads to higher speed and increased accuracy in providing information to users.

From the perspective of the development of information technology and communications (IT&C), accounting is subject to many challenges: the increasing number and importance of external events for any organization, changing the means of producing economic events, the latter become increasingly means of electronic nature, the existence of information technology capable of automating specific accounting operations: identification, measurement, recording and reporting; globalization and developing information technologies ensure that organizations are no longer monolithic structures, but they tend to become increasingly complex structures, interdependent and interoperable with other agencies and organizations; internal and external users request more and more information, more diverse, more complex and in increasingly shorter intervals of time.

From this perspective, an organisation's accounting information system infrastructure (AISI) includes: equipment (hardware resources) – the hardware of the system, network components – communication network infrastructure; classifications – databases – data infrastructure; software package (the program-products) the system

software infrastructure; processes – the logical infrastructure of the system; employees – the social infrastructure of the system; the implementation strategy.

A principle widely accepted by management says an activity can not be operated and managed if it can not be measured. The IT&C audit provides the measure of using the accounting information system infrastructure in an organization [3].

The audit of accounting information system infrastructure is a thorough analysis of the information system in an organization. It is a very important tool for the organization's management when evaluating the efficiency and effectiveness of using IT&C resources (hardware and software).

IT&C technologies are under steady development, so that both security systems and modes of attack are analyzed and perfected every day. The only way an organization can protect itself by implementing the best practices in the field is an audit of information system infrastructure.

IT&C audit should be conducted by a specialized, independent company and in no case can be made by its service provider in information system implementation.

The audit of information system infrastructure is a kind of "insurance" that things are on track and that any difference will be analyzed and eliminated as the company's accounting information system is in compliance with safety and quality standards stipulated by law and are consistent the direction in which the organization operates.

It is generally accepted that the audit of information system infrastructure is the only and best way for company management to ensure that security technologies and practices used are performing in accordance with specifications set [5].

The audit of accounting information system infrastructure is the collection and evaluation of evidence in order to determine if the computer system is secure, maintains the integrity of data processed and stored, enables the achievement of company's strategic goals and uses information resources effectively.

In an audit of accounting information system infrastructure, the most common procedures are checking, assessing and testing information resources, such as:

identifying and assessing risks in the system, evaluation and testing of system control, physical examination and assessment of information environment, checking and evaluation information system management, checking and evaluation of computer applications, checking and evaluation of computer network security, checking and evaluation of plans and procedures for recovery from hazardous situations and business continuity, and testing data integrity.

The audit of the accounting information system infrastructure AISI is an essential method by which an information system IS is checked as to whether it has achieved the goal for which it was designed. The standards clearly define the scope, tasks, milestones, content auditing and forms completion. The AISI audit of is an area that includes all auditing activities for the following: specification, design, software, databases, processes typical of a program life cycle, of a computer application, of a management information system and the maximum complexity of a portal associated with a virtual organization.

The AISI audit may relate to the risk assessment of physical security information, logic security, management of changes, assistance plan, etc. In general, the information audit refers to a set of computer processes in order to meet the specific customer requirements.

From another point of view, the AISI audit is the mechanism for examining the efficiency of organizations, systems, risk processes and controls. The audit enables management to: discover what actually happened at a given moment in time, detect potential problems before they are too late to remedy, assess the business situation objectively, accept reality and, knowingly, make decisions even if they are difficult, implement corrective actions, changes and improvements where necessary.

The AISI audit is not just about compliance. The audit may include an element of control on the compliance with policy/standards/internal company procedures or laws, rules and external terms of trade, but compliance is a daily activity of management. Experienced auditors control whether management processes to achieve and assess compliance are effective, which

rules are adequate and sufficient for the audited IS. More often, auditors will find out the absence of compliance and are less inclined to look for symptoms of problems in depth.

Accounting information system infrastructure audit is the process of collecting and evaluating evidence to determine if the accounting information system and resources involved are adequately protected, maintains data integrity, provides relevant information and contributes to achieving organizational objectives.

2. Purpose

The AISI audit, used by an economic body in its economic activities, aims: to ensure the precision, completeness and accuracy of data input, as it affects the results of processing performed; ensuring processing accuracy of data input the system, meaning that their results observe management rules specific to that economic organization and current legislation; ensuring accuracy and integrity of the system output, that it is exactly the one required by the managers and financial control bodies of that economic agent; ensuring fairness of control procedures (controls) used for auditing the respective information system

The accounting information system infrastructure audit within the organization requires, as a whole, a high level of analysis; in particular, the integration of applications, systems, infrastructure and how they affect the entire organization's information system will be analysed; identifying and eliminating weaknesses in information system; minimizing the risk to which the organization is exposed; raising awareness of potential risks involving the current computer system in project development and critical points where intervention is necessary to remove these risks; safe use of updated, developed technology by applying security policies that comply with the specific organization.

The AISI audit process helps companies cut costs by finding more efficient ways of protecting hardware and software and provides a better management relative to the application and use of security technologies and of processes.

As a result of this audit, a set of suggestions for changes to be made in the present computer system structure will be provided.

3. Methodology

In order to achieve the AISI audit, the definition of the overall audit plan and audit program is considered. The structure of the plan and program definition are standard, assuming completion of the mandatory steps. The specificity of the software, computer application or computer system and their complexity, entail some breakdowns that differ from one general plan to another, namely from one information audit program to another. The tasks to be included in the plan, the phasing in the program stages, involve elements of variability strictly related with the structure and diversity of software products analysed [5].

The information analyst has available a number of techniques and methods that can be adapted to the context. A statistical calculation or optimization computer program and an application using a database will be analysed in different ways. For a complex information system, there are adequate methods of auditing, while in auditing web applications emphasis is placed on target group satisfaction. The audit for mobile applications is based on ensuring continuity, compatibility, fast access to resources, and especially on the level achieved in securing the data flow in the whole system.

Therefore, in the AISI audit process, planning and defining the audit method is essential. Choosing an inadequate method leads to the use of inadequate tools and the audit results are speculative [9].

The choice of method relies on obtaining information on the context in which processes take place in relation with the software product, the computer system or computer application, as objects of auditing.

The audit report is based on questioning the IT&C staff in order to evaluate and monitor policies and current documents, perform risk analysis that relative to workstations, servers and the whole network and evaluate network services and configuration files. The assessment will highlight potential errors and/or security

holes present in the computer system.

STEP 1 includes the following stages: 1. Meetings, interviews and/or direct observation of staff in the company; 2. Collection, compilation and review of current documentation, checking licenses of installed software. Analysis of all IT policies underlying the whole system operation (policies on the terms of use of IT infrastructure, policy on Internet, e-mail use, backup policy, passwords, access to resources, etc.); 3. The analysis of electronic document flow within the company, as well as outside the network with external partners (customers and suppliers);

STEP 2 includes the following stages: 4. The analysis of IT&C requirements in the company;

5. Evaluation of the human factor in the IT department. Classification of IT staff according to qualifications and professional skills; 6. Evaluating performance in the IT department based on measuring the time in which it responds and resolves any incidents;

STEP 3 includes the following stages: 7. Evaluation and verification of hardware infrastructure (workstations); 8. Evaluation and verification of software infrastructure (installed applications, licenses); 9. Evaluation and verification of the servers in terms of hardware, software and traffic;

STEP 4 includes the following stages: 10. IT&C analysis in terms of security; 11. Analysis of connectivity between locations and with the outside (location, Internet connections, VPN channel, remote access); 12. Analysis of network topology in locations;

STEP 5 includes the following stages: 13. Assessment of IT&C staff based on know-how (knowledge of processes); the possibility of training some of the IT staff; 14. Verification of IT applications used widely within the company;

STEP 6 comprises the following stages: 15. Testing of the backup/restore procedure; 16. Analysis of disaster recovery plan;

STEP 7 comprises the following stages: 17. Analysis of acquisition services; 18. Analysis of IT&C technologies used in business activity;

4. Audit Report

The audit process is completed with a report containing proposals for measures to reduce and keep major AISI risk under control. Audit report is a work of synthesis which is based on a series of checks on interconditioning between modules, programs, i.e., between the subsystems of the information system.

The audit report is an essential element of auditing through which the situation of the audited system is shown as it was evaluated by auditors [3]. The audit report communicates the auditors' findings and conclusions to the audited party. The objectives of the audit report are: restore managers' confidence in the information system, immediately after the auditing has finished; to provide useful advice on improving inspection procedures and efficiency of operational activities; to provide an official record of the audit activity and managers' response.

The audit report is a structured text which includes: the presentation of context; the result of the audit process; final evaluations; records of each stage of the audit process.

The audit report will consist of two parts: the AISI evaluation results at present; the auditor's recommendations following the analysis made in the evaluation stage. Finally, the audit report will result in a set of documents presenting an objective evaluation of the IT system, which enables the implementation of all necessary measures to correct and remove potential errors.

5. Implementing corrections

The most important result of the process of accounting information system infrastructure audit is be the list of weaknesses discovered. Being aware of the specific weaknesses faced by the organization is a good step towards developing a comprehensive program to remove these shortcomings, thus avoiding the occurrence of malfunctions in the day to day activity [8].

The process of implementing corrections (post audit) involves the following stages:

- Establish priorities. Following the audit report, we receive a lot of information with variable degrees of importance. Each of these pieces of information will be assigned a risk level. The most critical points will relate to the most critical systems which can be caused by public access to the network or events that involve the transfer of critical data.
- Assign roles. It is very important to decide who will manage each task. At this stage, we must ensure the necessary resources, such as budget and/or time have been allocated for each employee to perform each project.
- Requesting reports. After roles have been assigned to each individual involved in the correction of weaknesses following the audit, we must ensure that the project will be completed as promised, within a certain deadline. A status report has to be presented regularly, so as to provide for any delays or problems that may arise.
- Individual evaluations. Once the correction of security "holes" or equipment reconfiguration have begun, we can start testing the corrections that were made. Before scheduling and requiring a second audit, we must ensure that the weaknesses detected in the first audit were corrected. This approach will help us develop a plan for continuous improvement in the organization. If status reports can be submitted to the management and with an ongoing dialogue on the status of projects, it can be shown that we are on "top" of any problems and it is justified to ask for continuous support to audit processes and correction making.
- Schedule next IT audit. It is a rare situation for an organization to return to conduct a new audit, the second, even if the first one has failed. However, companies should have regular assessments of the AISI audit. The scope and frequency "will depend on who we are and what we do." Ideally, it is recommended for an organization to conduct an AISI audit every 6 months.

Since the accounting information systems are constantly developing and upgrading, the AISI audit process can be seen as a regular process.

This is because once a problem has been fixed, another problem may occur, but as long as we perform regular audit assessments, we can continuously improve accounting information systems.

Therefore we believe that the analysis of information system should be a continuous one [11].

6. Conclusions

AISI audit represents a distinct branch of the audit. It includes techniques and methods of auditing software, computer applications, traditional information systems, modern computer systems, mobile applications, as well as all applications using Internet resources.

With globalization and integration, as complexity of processes in the information society increases – a society of knowledge, the requirements of information systems impose a very high level of credibility which only information audit is able to support.

The achievement of AISI audit contributes to: the improvement of information systems and process controls; prevention and detection of errors and fraud; reduction of risk and improvement of system security; planning for recovery in case of accidents and disasters; information management and system development; assessment of efficiency in the use of resources.

The information systems auditor must be able to assist the management team in determining the size of the accounting information system infrastructure and the necessary number of staff, the business areas where computer systems are used effectively, the nature of business, potential loss if the computer system crashes, the extension of manual controls and the degree of technical complexity.

In order to achieve an effective auditing process, it is necessary to go through the following steps: defining the object of accounting information system infrastructure audit; building the audit plan; assignment of tasks to each member of the team of auditors; taking the structures of tables for recording the results of auditing; performance, step by step, of the auditing process using established standards, techniques and methods; recording the results of and evaluating each step taken; re-grouping of documents from various

stages of the auditing process and building of the final report.

There are two results for a product subject to AISI audit.

The first case, the negative one, corresponds to the situation where the audit process leads to the conclusion that there are key differences between the actual accounting information system and the accounting information system expected by the user; the system does not perform the established accounting information processing functions fully; reports obtained are only a part of the established ones – the auditors recommend adding new modules to develop planned, but unrealized, processing; variances are caused by incomplete results within the report - we recommend adding modules that bring reports to the level of completeness required; the differences relate to the way indicators are calculated – we recommend changes in program sequences that either contain all the information for processing or change filtering criteria or modify assessment expressions; if cases are identified on the upper levels of the tree associated with accounting information system, the requirements for change stipulated in the audit report have a larger scope. After having made the changes in the hardware infrastructure, software infrastructure or databases, the audit process is resumed and the findings report turns into an audit report, followed by the issue of a certificate by the auditor, which recognizes the qualities of the computer system and users can rely on the computer system audited.

In the second case, the favorable one, the difference between what is expected by the user and what has been achieved is insignificant or is favorable to the increase in product quality.

Corresponding to the two cases above, the auditor's audit opinion will be one of three types: negative audit opinion when, at the end of the audit, there is one or more noncompliances; qualified audit opinion (with reservations) when there is one or more observations at the end of the audit; audit opinion – when, the end of the audit period, there is no persisting comment or noncompliance.

AISI auditing is meant to transfer confidence and trust in the information

system established through a positive result established by a team of auditors, belonging to a consulting firm whose authority has been provided by previous audits.

7. Acknowledgment

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Security of the Accounting Information System Infrastructure

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Abstract

The accounting information system infrastructure is crucial to the carry out successfully most of bookkeeping operations in a modern enterprise. Consequently, the security of the system should be an important issue on the enterprise agenda. A series of factories can be construed as having increased the risk of electronic attack at the accounting information system infrastructure such as unavoidable difficulties of securing such system; the increased globalization; insufficient awareness and training of the accounting systems users, and attitudes or practices that do not observe use procedures; availability of information with concern to unauthorised access to the accounting information system; unclear regulations and certain jurisdictional difficulties. The paper studies the security of the accounting information system infrastructure in modern corporations from the viewpoint of modernising accounting against the background of implementing new information technologies aimed at carrying out the objectives of integration and globalisation construed as phenomena specific to information society and knowledge.

Key words: infrastructure, accounting information system, security, risk analysis.

J.E.L. classification: M4, C4, C8, D8, L14, E42, G32, H83, L86, Q56.

1. Introduction

The phenomena marking the economic environment over the last decades have been under the sign of globalisation, interdependence, and interaction. Whatever happens in any part of the world may have a minor or major impact on the local economic environment. Under these circumstances, any company regardless of its operations, size,

and area of operation, has to prove its viability, capacity of communication, and adjustment with a view to achieving economic and financial performance that would make it increasingly competitive.

The development of the latest information and communication technology has led to building up company-integrated systems that make storage, access to, and transfer of information increasingly easier and more accessible. By implementing such systems, companies are enabled to build up flexible information infrastructures that are easily adaptable to changes in their operational environment, hence revolutionising their way of conducting operations [3].

Accounting is a formal language of business communication, which allows the company to be represented internally and externally. It should also be able to adjust quickly to the new global business environment undergoing continuous change and transformation. This adjustment would be impossible without the assistance of the new information technology and computer infrastructure revolving around the Internet. The use of communication networks and systems may be hazardous as it may encounter unexpected occurrences such as breakdown of communication systems, loss of information, or taking the wrong decisions.

If we consider a corporation from this perspective, the accounting system is regarded as the most important element of the corporate information system due to the following reasons [5]:

- the accounting information system is the only system that allows management and external users to have an overall picture of the company;
- the accounting information system connects other major information subsystems such as marketing, human resources, research and development, production, etc., to such an extent that all

the information provided by these subsystems may be expressed ultimately in financial terms;

- the non-financial information in areas such as social responsibility and human resources are integrated with the accounting information to allow the decision-making process;
- the integration of accounting with the other subsystems leads to offering more accurate information to users at a higher speed.

The phrase information infrastructure refers to information resources, including communication systems, entities and people with expertise in the field. Examples of infrastructures are the corporate information infrastructure, the defence information infrastructure, the national information infrastructure as well as global information infrastructure [1].

2. Attackers

The main sources of risk the accounting information systems may face are the people within a corporation and accidents or natural disasters. Moreover, people outside the company represent an important source of risk, in some cases, as they are more motivated and difficult to detect and investigate than the people inside the company.

The following 'agents' are likely to cause security-related problems to the accounting information system:

- Employees. They are invested with trust and they have access to the information system, which may enable them to develop a better knowledge of the system's weak points, they can conduct operations detrimental to the company, and they may delete digital records as well;
- Consultants / System servicing personnel. These people have frequent access to sensitive areas of the information system, which may enable them to conduct a wide range of operations;
- Suppliers / Customers. Their economic reasons are not always consistent with those of the customer / supplier and, sometimes, they may undertake actions that are likely to pose security-related

risks;

- Competitors. Other individuals or companies likely to gain from losses incurred by the company resulting from such attacks on the information system;
- Crackers / IT mercenaries / Professional criminals. People that illegally penetrate information systems and intentionally cause damage, whose motivation is generally diverse;
- Espionage experts. They are professionals in obtaining information on behalf of other companies. These people have highly technical expertise; they are well trained and can most often pursue their interests without being detected;
- Accidents / Natural disasters can cause loss of important information or they can make them unavailable.

Attackers of information systems usually fall, according to their motivation, into four main categories such as:

- Social motivation. Attackers in this category try to gain a feeling of superiority or control, of acceptance of other attackers or of integration in a certain group.
- Technical motivation. Attackers in this category try to 'beat' the system, as a kind of intellectual challenge.
- Political motivation. Attackers in this category try to obtain political attention in order to promote a certain cause.
- Financial motivation. Attackers in this category try to gain personal benefit (i.e. spies, IT mercenaries, various companies, or even people that deal with confidential information, etc.).

Attacks on accounting information system infrastructure may have various forms. First, attacks can be classified according to the location where the attack is conducted. We can distinguish two kinds of attacks: on-site or remote. A second classification can be made according to the way the attacker interacts with the information following a successful attack. This leads to two categories of attacks, i.e. passive and active ones.

In most cases, one should be able to cope with the following types of attacks: computer viruses, Trojan horses and backdoors, password crackers, scanners, traffic sniffers, and social engineering attacks. Computer

virus is a general term that describes various types of attacks on the infrastructure. As the existence of a malicious code in the computing systems may act differently due to the very design of the code, one should consider the various classes of malicious "programmes" – e.g. viruses, worms, Trojan horses, bombs, trapdoors / backdoors, spoofers, hoaxes, etc. – whenever one refers to such programmes.

A password cracker is a programme that may crack passwords, by-pass or deactivate password protection. Among the techniques used to "guess" the password, attack by "brutal force" and attack by use of dictionaries are commonly used.

The scanner is a utility application used to detect automatically the weak points in the security of a system. By means of a scanner, a user will be able to check, on-site or remotely, the entry points to penetrate a system and, later, to cover such security gaps. If an ill-intended person who masters the required knowledge uses such an instrument, the security of the information system infrastructure will be seriously affected. Initially designed to enhance it, scanners reaching the other side of the barricade may cause severe problems in ensuring security.

A sniffer is a software or hardware component, designed to "eavesdrop on" and "grab" the information transferred via the network. In order to sniff the traffic, certain conditions are required: the network architecture or the configuration of the network board should allow this to happen promiscuously. Placing a sniffer inside a network is possible only if either the attacker finds a gap in the security system or she or he is an employee of the corporation that wishes to collect classified information.

Social engineering attacks use human nature to secure access to classified information. Such attacks most often target credulous people among the organisation personnel.

Attacks on databases display some particular features as compared to the other information in the corporation, namely databases represent the largest amount of information the corporation operates with; databases can reveal personal details by processing public information. The main types of attacks on databases are direct, indirect, and by monitoring.

Countermeasures can be applied to such attacks in order to block them or limit their effects such as antivirus software, firewalls, traffic analysers, patches, fixes, hotfixes, safe operating systems, safe applications, adequate passwords, and user's education.

3. Threats

Threats affecting the infrastructure of the accounting information system represent actions, possible or taken, that might attack the system.

Threats directed against security fall into three categories: natural/physical, accidental, and deliberate. The deliberate ones are the most frequent. They fall into two categories: internal and external. Internal threats come from inside the corporation where its employees can easily access information, because there are fewer barriers they need to overcome. In addition, they are familiar with the corporate security policy. External threats come from many categories such as foreign intelligence agencies, terrorists and terrorist organisations, criminals, raiders, hackers and crackers.

Threats at the infrastructure of the accounting information system can be classified as follows: fundamental threats, facilitating threats, and indirect threats. Fundamental threats represent what an attacker wants to do. Such threats are information leaks, tampering with information, rejection, denial of service, and illegitimate use. Facilitating threats represent those threats that allow access to fundamental threats. Facilitating threats can be classified as masquerade, malicious programmes, security by-pass, and authorisation breach. Indirect threats derive from the basic characteristics of the Internet and of the information infrastructure, e.g. interception, scavenging, indiscretion and administrative error.

4. Vulnerability

Vulnerability can be defined as weakness in terms of system procedures, system architecture, system implementation, internal check, and other causes that may be exploited to penetrate security systems and to have unauthorised access to information. The main

weak points of the infrastructure of the accounting information system are physical, natural, hardware, software, storing environment, radiations, communications, and human.

Universal vulnerability is defined as a state within an information system that:

- allows an attacker to execute commands as if she or he were an authorised user;
- allows an attacker to access information against the access protocols;
- allows an attacker to conduct a denial of service attack.

Exposure is the state of an information system that is not a universal vulnerability but which:

- allows an attacker to carry out activities to collect information about the system;
- allows an attacker to hide her or his illegitimate activities;
- includes a function that may be easily compromised;
- is a port of entry an attacker may use to access the system or the information therein;
- is construed as a problem from the point of view of the information system protocols.

5. Security

Ensuring security of information involves carrying out four objectives: confidentiality, integrity, availability, and non-repudiation. Security is not an aim in itself. Security as an objective may be construed as a state. Security is never perfect, irrespective of the measures taken to this effect. There will always be an unthought-of gate via which the accounting information system may be attacked [10].

Security technologies designed to remove risks and limit loss are access control, firewall, antivirus software, file encryption, digital identification, physical security, etc. They are designed to limit access to information. Besides restricting technologies, infrastructure system security needs to be administered, monitored, and serviced. To this effect, the following operations have to be performed: prevention, detection, and response to intrusions.

Within information systems, encrypting is apparent on several layers, namely hardware, application, data transmission, files and folders.

Antivirus software is a utility that detects the action of a malicious programme and annihilates it. The antivirus software will detect the presence of a malicious code (virus) in the computer by using the signature left behind by such malicious programme (virus). Once the presence of a virus has been detected, the antivirus software will launch a subroutine, the vaccine that will annihilate the action of the virus. When selecting antivirus software, we should consider several criteria such as: workstation, the number of viruses it can detect, the time required to respond to a virus, network scanning options, e-mail scanning options, protection from scripts, compressed files scanning, presence of technical support, the length of time free updating is provided, the name of the software producer, location of the software company and of the dealer, and the price. Corporations or enterprises may face problems when using antivirus software. Virus scan, for example, is difficult to perform from each workstation, updating is difficult from each workstation, monitoring the performance of antivirus software on every workstation is difficult. Therefore, it is necessary to use an antivirus programme that would allow protection and monitoring from a single console, with safe and constant updating and centralised management.

A firewall is a system used to implement policies designed to control access to a corporate system or among corporations. It will protect a computer or a network from unauthorised access. In choosing a firewall, one needs to consider the following criteria: the degree of security, the operation system, and the administration one.

An intrusion detector is a process that detects and responds to abusive use of the accounting information infrastructure components. The use of an intrusion detector will create benefits for the company with respect to detecting, blocking, response to attacks, support in assessing damages incurred as well as evidence admissible in court against people charged with abusive use of infrastructure components. According to the specificity and the size of the company, one can opt for a certain type of

intrusion detector. In small enterprises, such intrusion detectors are embedded in the firewall installed. Analysis of firewall logs or router will signal the intrusive attempts. Moreover, operating systems can facilitate detection of intrusions.

6. Risk analysis

Risk can be defined as a potential threat that may exploit weaknesses of the accounting information systems. Risk is an expected event. To prevent an event likely to affect the security of the information system from occurring, specific measures should be taken. Such measures are called security measures.

Risk analysis involves a process of identifying security risks, of determining the extent of such potential risks, and of identifying the high-risk areas that need to be secured. Risk analysis is part of a comprehensive body of measures called risk management. Risk assessment is a result of risk analysis. Risk management can be defined as the body of methods aiming at identifying, checking, removing or minimising events that may affect the resources of the system. This body includes risk analysis, cost analysis, selection of mechanisms, assessment of security measures implemented, as well as overall assessment of security.

Risk can be approached from many angles from among which some are presented below: quantitative analysis, qualitative analysis, and workstation analysis. These risk analyses are conducted mainly within large corporations and within some medium-sized enterprises. Small enterprises have neither specialised personnel nor the money to pay for such an assessment. Nevertheless, a minimum of security measures must be taken. It is a well-known fact that company managers are reluctant to invest in something that has no direct profit. When they are persuaded by the necessity of allocating the amounts required by ensuring security, such amounts are usually below the limit of the requirements. Under these circumstances, the entity needs to ensure such a security system whose expenses do not exceed the amount allocated. This can be labelled financially constrained security. There are two alternative solutions to this situation, i.e.

covering threats that are most likely to occur, while preserving the initial checking methods or covering all threats and reducing costs as to checking measures.

The former allows for a maximum degree of protection against some threats, but may leave partially or completely uncovered threats. The latter requires reduced expenditure needed to ensure checks for a specific threat so that all possible threats may be covered. This can be reflected by modifying and configuring checking measures. This measure is to be preferred over the former as it does not allow for vulnerabilities to be uncovered by checking measures [8].

Security is difficult to quantify but it can be appreciated as high, medium, low, or missing. Nevertheless, security level can be quantified at least from a financial point of view. Implementing or testing and upgrading a security system will always generate costs related to equipment and human resources.

Setting forth a security programme is the process via which the corporation or enterprise ensures its security. This programme involves five steps, namely appointing the personnel in charge with ensuring security, determining the main stages of implementing security, defining requirements of upgrading security, informing the personnel as to the required security measures, auditing, and monitoring security. There are cases where ensuring security involves hiring specialised organisations. They can conduct both the study and implementation, or only the study, while implementation is to be conducted with the company's own personnel. Specialised services are often hired by small-sized enterprises or when upgrading qualifications of the personnel in charge with ensuring security requires high costs. Outsourcing represents the company's option for security services ensured by a third party. If this is the case, we refer to a Security Service Management Supplier (SSMS). They provide both security services and the management thereof. Security Service Management (SSM) will be conducted not by the company but by the services supplier. Security is not a destination, it is an on-going process.

7. Conclusions

As corporations and enterprises become increasingly dependent on the reliable operation of the accounting information systems, the issue of system security becomes paramount. The infrastructure of the accounting information security in modern corporations relies on communication networks, which are generally open structures to which a large and varied number of components can be connected, hence a twofold potential vulnerability of the infrastructure can occur: tampering with information and unauthorised use thereof. In order to ensure the security of the accounting information system, the implementation of some specific mechanisms is of utmost importance. Such implementation starts from the physical level (physical protection of transfer lines), the procedures blocking access to networks (firewall software), applying data encoding techniques (encryption), i.e. a specific method of protecting communication among applications running on various computers in the network. From among the causes of communication network vulnerability, we mention programming errors in the applications and their poor documentation, unsuitable configuration of the hardware and software elements, lack of support from the manufacturers, poor knowledge of or security issues or ignorance thereof.

The points presented in the paper enable us to consider the digitised environment as generator of new risks. In order to ensure efficient protection of data, it is necessary for any corporation to develop complex risk assessment and analysis.

The reality around us requires a three-fold approach of the risks the accounting information infrastructure faces, i.e. threats regarded as events or activities (generally from outside the system assessed), which may affect the vulnerabilities within any system, causing thus the impact, understood as a loss or a consequence the corporation or enterprise may suffer on a short, medium or long term. Risk within a corporation cannot be removed altogether, it will always be there. What corporation management can do is to reduce it to a manageable degree.

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The Impact of Inflation Rate Upon Interest Rate in Romania

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Abstract

The main objective considered by the monetary authorities in Romania after EU integration is to maintain the inflation target imposed. To achieve this goal, the slowdown in inflation can be maintained by reducing price volatility and minimizing the impact of inflation on new taxes imposed on alcohol and tobacco products. The persistence of inflationary risks associated with the current macroeconomic framework generated by the economic crisis, largely due to increase in some categories of indirect taxes as well as exposure to domestic demand urges monetary authorities to pursue policies that consider these issues. This context makes it necessary to elaborate a model for studying the impact of the inflation rate upon interest rate in Romania.

Key words: inflation, multiple linear model, inflation targeting.

J.E.L. classification: G17

1. Introduction

Inflation is an economic, social and monetary phenomenon originated in the discrepancies that occur in the context of the structural-qualitative mutations specific to an economic environment. These mutations are generated by a complex of connected factors with unbalanced action on monetary processes and being governed by the laws of monetary circulation.

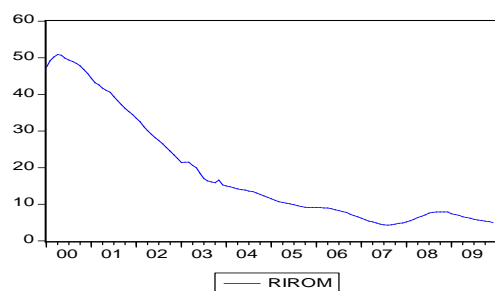
Although the inflationary process is a generalized phenomenon and a particular attention is paid to it by the economists, inflation still remains insufficiently defined as a concept, so that the indication of the exact nature of the inflation remains topical, complex and controversial.

As a macroeconomic process, inflation is generated by several factors which contribute to its appearance and maintenance, albeit with different intensities, or for shorter or longer periods of time. The inflationist mechanisms, stemming from a number of factors, influence in turn the evolution of all the indicators of the real economy. The factors that generate inflationist mechanism are general, individual or specific factors. They can be grouped into the following categories: internal factors (economic, socio-political, monetary, financial and valutory factors) and external factors.

2. Data used

In order to illustrate the relationship between interest rate and inflation rate for Romania we used monthly data. We used a representative sample for the period 2000 M₀₁- 2010 M₀₃. and the source of data for the interest rate and inflation rate evolution was Eurostat.

Figure 1: The interest rate evolution in Romania



Source: Author's calculations based on the statistic data obtained from the Eurostat

As what regards inflation, we have to mention that Romania register on a positive trend. After the disinflation process has registered a slight slowdown in 2005, the evolution of consumer prices in the first

months of the year 2006 certifies the further disinflationary trend.

Thus, consumer prices rose in September to 2,76% compared to December 2005 and the monthly average recorded during 1.01.-30.09.2006 fell 0.3 percentage points below the level of the same period of the previous year.

In the coming period the disinflation will continue in order to fulfill the medium-term objective, namely achieving in 2010 a comparable level of inflation with that of the European Union. Such a development is mainly supported by reducing inflationary expectations, especially by adopting an inflation targeting strategy of monetary policy, by a more moderate growth of the regulated prices compared to the previous periods and by the continued appreciation in real terms of the national currency against the euro, but also by the Government's commitment to a prudent wage policy.

The ADF test on the inflation rate

In order to achieve an econometric model of ADL type must be completed several steps such as: applying the ADF test in order to determine the stationary or nonstationary character of the time series; testing the validity of parameters; calculating the estimators of the model's parameters; testing the validity of parameters; testing normality; testing the hypothesis of the autocorrelation of errors; testing the heteroskedasticity of the residues (D. Lazăr, course notes).

Table 1: The ADF test on the inflation rate

Null Hypothesis: RIROM has a unit root			
Exogenous: Constant			
Lag Length: 6 (Automatic based on SIC, MAXLAG=12)			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.838092	0.0001
Test critical values:	1% level	-3.489117	
	5% level	-2.887190	
	10% level	-2.580525	
*MacKinnon (1996) one-sided p-values.			

Source: Author's calculations based on the statistic data obtained from the Eurostat

From the above figure we can see that the null hypothesis H_0 : the observed values of the inflation rate have a unit root (went random) are accepted. The probability is $0.0001 < 5\%$, which means that the null hypothesis is rejected. The observed values of the inflation rate are stationary. Further the ADF test will apply to the differential values of the inflation rate.

The ADF Test on the differential values of the inflation rate

Table 2: The ADF test on the differential values of the inflation rate

Null Hypothesis: D(RIROM) has a unit root			
Exogenous: Constant			
Lag Length: 5 (Automatic based on SIC, MAXLAG=12)			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.661771	0.4479
Test critical values:	1% level	-3.489117	
	5% level	-2.887190	
	10% level	-2.580525	
*MacKinnon (1996) one-sided p-values.			

Source: Author's calculations based on the statistic data obtained from the Eurostat

From the above figure we can observe that the null hypothesis H_0 : the differential values of the inflation rate having a unit root (went random) is rejected. The probability is $0.4479 < 5\%$, which means that the null hypothesis is accepted. The differential values of the inflation rate are non-stationary.

Upon the completion of the corelograme on the differential values of the inflation rates in Romania we can observe the fact that at a lag = 1 and a lag = 5 could be obtained a better correlation. In building the model we shall start with $p = 1$, so we shall include as explanatory variables DRI (-1) and DRI (-5) .

Also from the analysis of the corelograme of the differential values of the interest rates we can observe that at a lag = 1 and a lag = 10 appears a better correlation. In building the model we shall start with p = 1, so we included as explanatory variables DRI (-1) and DRI (-10)

Modelling results of the inflation rate impact on interest rate

3. Estimation of the model

Table 3: Estimation of econometric model for the case of Romania

Sample(adjusted): 2000:11 2009:12				
Included observations: 110 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RDROM(-1)	0.070049	0.015057	4.6519	0.0000
RDROM(-10)	0.031875	0.011315	2.817104	0.0058
RIROM(-1)	-0.108771	0.064922	-1.675403	0.0968
RIROM(-5)	0.030073	0.052427	0.573620	0.5674
Mean dependent var	1.000000	S.D. dependent var		0.000000
S.E. of regression	0.549332	Akaike info criterion		1.675459
Sum squared resid	31.98718	Schwarz criterion		1.773658
Log likelihood	-88.15025	Durbin-Watson stat		0.058330

Source: Author's calculations based on the statistic data obtained from the Eurostat

In order to obtain better results we will not take into consideration the unimportant variables.

Table 4: ADL model upgraded

Sample(adjusted): 2000:11 2009:12				
Included observations: 110 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RDROM(-1)	0.070049	0.015057	4.6519	0.0000
RDROM(-10)	0.031875	0.011315	2.817104	0.0058
RIROM(-1)	-0.108771	0.064922	-1.675403	0.0968
RIROM(-5)	0.030073	0.052427	0.573620	0.5674
Mean dependent var	1.000000	S.D. dependent var		0.000000
S.E. of regression	0.549332	Akaike info criterion		1.675459
Sum squared resid	31.98718	Schwarz criterion		1.773658
Log likelihood	-88.15025	Durbin-Watson stat		0.058330

Source: Author's calculations based on the statistic data obtained from the Eurostat

We will consider the second model because it has the Akaike value lower than the first model. The ADL model equation can be written as:

$$DRD_t = 0,07 DRD_{t-1} - 0,031 DRD_{t-2} - 0,108DRI_{t-1} + 0,030 DRI_{t-12} + \varepsilon_t$$

Test of coefficients

Further it will be analysed the relevance of the model coefficients.

$$H_0 : \beta_1 = 0$$

$$H_1 : \beta_1 \neq 0$$

The probability of accepting the null hypothesis is $P = 0,0000 < 5 \%$, which means that the null hypothesis is rejected, i.e. we have a significant coefficient. For $\alpha = 5 \%$ the acceptance interval for t_{calc} is $[-1,96; 1,96]$, $t_{calc} = 2,4 \notin [-1,96; 1,96]$, which means that

the null hypothesis is rejected, so the DRD (-1) variable is significant.

$$H_0 : \beta_2 = 0$$

$$H_1 : \beta_2 \neq 0$$

The probability of accepting the null hypothesis is $P = 0,058 > 5 \%$, which means that the null hypothesis is accepted, i.e. we have a nonsignificant coefficient for DRD_{t-2}.

$$H_0 : \alpha_1 = 0$$

$$H_1 : \alpha_1 \neq 0$$

The probability of accepting the null hypothesis is $P = 0,096 > 5 \%$, which means that the null hypothesis is accepted, i.e. we have a nonsignificant coefficient for DRI_{t-1}.

$$H_0 : \alpha_{12} = 0$$

$$H_1 : \alpha_{12} \neq 0$$

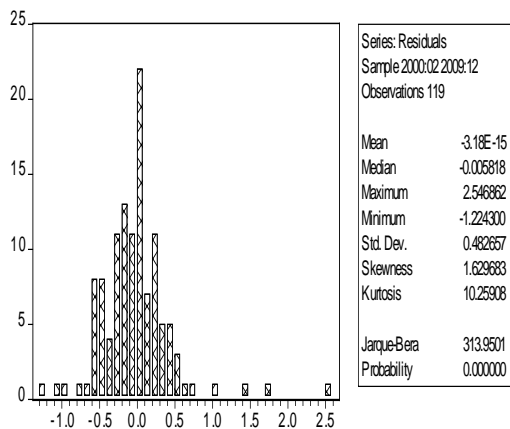
The probability of accepting the null hypothesis is $P = 0,056 > 5 \%$, which means that the null hypothesis is accepted, i.e. we have a nonsignificant coefficient for DRI_{t-12}.

Further, in order to validate the model we will make test on residues.

4. Normality of errors

After applying the Jarque Bera test we can observe that $JB > 0$, and the probability of the acceptance of the test is $P = 0,00000 < 5 \%$, which means that the residues do not follow the normal law.

Figure 2: Normality of errors



Source: Author's calculations based on the statistic data obtained from the Eurostat

Next we shall investigate the heteroscedasticity of the residues. We will apply the test type LM for the heteroscedasticity test ARCH.

Table 5 : ARCH test

ARCH Test			
F-statistic	277.6983	Probability	0.000000
Obs*R-squared	83.23226	Probability	0.000000

Source: Author's calculations based on the statistic data obtained from the Eurostat

The ARCH test is utilised to test the following hypothesis:

$$H_0: \text{the residues have the same variance}$$

$$H_1: \text{the residues have not the same variance}$$

$M = T * R^2 = 83.23$. The probability is $0.05902 > 5 \%$, which means that the null hypothesis is accepted. Errors have the same variance.

Next we shall present a simple econometric model, taking into account the interest rate as a dependent variable and the inflation rate as explanatory variable.

Table 6 : Econometric simple model

Dependent Variable: RDR0M				
Method: Least Squares				
Date: 04/25/10 Time: 08:50				
Sample(adjusted): 2000:01 2009:11				
Included observations: 119 after adjusting endpoints				
Variabl e	Coeffici ent	Std. Error	t- Statisti c	Prob.
C	1.914417	0.747922	2.559646	0.0118
RIROM	0.996839	0.031600	31.54533	0.0000
R-squared	0.894794	Mean dependent var	20.42378	
Adjusted R-squared	0.893895	S.D. dependent var	15.53220	
S.E. of regression	5.059419	Akaike info criterion	6.097044	
Sum squared resid	2994.934	Schwarz criterion	6.143752	
Log likelihood	-360.7741	F-statistic	995.1076	
Durbin-Watson stat	0.337684	Prob(F-statistic)	0.000000	

Source: Author's calculations based on the statistic data obtained from the Eurostat

The equation of the model can be written as: $RD_t = a_0 + a_1 RI_t + \varepsilon_t$

The equation of the model is the follows as: $RD_t = 1,9144 + 0,99RI + \varepsilon_t$

5. Concluding remarks

The reaction the National Bank of Romania has to the potential inflation shocks should be based on a credible monetary policy model. This model is intended to include previous experience with the decisive factors influencing the inflation rate. The accuracy of such a model is only possible if the economy is not affected by one of the following risks:

- Wage rates growth more than expected, uncorrelated with productivity growth;
- Deviation from the parameters set in the budget execution;
- Large discrepancy between savings and investment

The ascension of Romania in the European Union has brought about changes in the price of consumer goods through the adoption of policies specific to the European community as well as the influences resulting from integration into a common market.

The analysis carried out in this work has shown that inflation remains one of the most important macroeconomic indicators reflecting the performance of an economy and the living standards of the population. Because of the importance that inflation decrease and maintenance at a low level have, anti-inflationary measures should be a core objective of all governments, representing an ultimate an indicator of the government grade of efficiency in a given country.

Although recently there has been undeniable progress, Romania remains the country with the highest levels of inflation among countries in transition. Controlling this major macroeconomic imbalance over recent years proved to be a costly and painful treatment for all socio-economic categories,

who paid the price for a continuous erosion of the purchasing power and had to cope with uncertainty and a decline in living standards.

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The Implications of the Bologna Process on the Romanian Higher Education System

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Abstract

At its inception, the Bologna Process was meant to strengthen the competitiveness and attractiveness of the European higher education and to foster student mobility and employability through the introduction of a system based on undergraduate and postgraduate studies with easily readable programmes and degrees. Quality assurance has played an important role from the outset, too.

However, the various ministerial meetings since 1999 have broadened this agenda and have given greater precision to the tools that have been developed. The concept of social dimension of higher education has been introduced and recognition of qualifications is now clearly perceived as central to the European higher education policies. The Bologna Process in Romania is an opportunity for the higher education systems. In brief, the evolution of the main objectives of the Bologna Process can be seen hereby.

Key words: Bologna process, higher education, knowledge society,

J.E.L. classification: I21, F15

In the context of increased European cooperation in education, European dimension of education gain new valences with the achievement of a "knowledge society": „A Europe of Knowledge is now widely recognized as an irreplaceable factor for social and human growth and as an indispensable component to consolidate and enrich the European citizenship, capable of giving its citizens the necessary competences to face the challenges of the new millennium, together with an awareness of shared values

and belonging to a common social and cultural space" (Bologna Declaration, 19 June 1999).

Before the signing of the Bologna declaration, the Magna Charta Universitatum had been issued at a meeting of university rectors celebrating the 900th anniversary of the University of Bologna – and thus of (Western) European universities – in 1988. One year before the Bologna declaration, education ministers Claude Allegre (France), Jürgen Rüttgers (Germany), Luigi Berlinguer (Italy) and the Baroness Blackstone (UK) signed the Sorbonne declaration in Paris 1998, committing themselves to "harmonizing the architecture of the European Higher Education system".

The Bologna process is the product of a series of meetings of Ministers responsible for higher education at which policy decisions have been taken with the goal to establish a European Higher Education Area by 2010. The process also includes the European Commission as a full member. The Council of Europe and UNESCOEPES, along with a range of stakeholder organizations are also involved as consultative members. There is thus full and active partnership with higher education institutions, represented by the European University Association (EUA) and the European Association of Institutions in Higher Education (EURASHE), students represented by the European Students' Union (ESU), academics represented by Education International (EI) as well as the European Association for Quality Assurance in Higher Education (ENQA) and Business Europe representing employer organisations.

The basic precepts of the Bologna process date back to the Sorbonne Joint Declaration on Harmonisation of the Architecture of the

European Higher Education System, signed on 25 May 1998 by the education ministers of four countries: France, Germany, Italy and the United Kingdom.

The Sorbonne Declaration focused on:

- improving the international transparency of programs and the recognition of qualifications by means of gradual convergence towards a common framework of qualifications and cycles of study;
- facilitating the mobility of students and teachers in the European area and their integration into the European labour market;
- designing a common degree level system for undergraduates (bachelor degree) and graduates (master and doctoral degrees).

The Bologna Declaration on the European Higher Education Area, largely inspired by the Sorbonne Declaration, was signed in June 1999 by ministers responsible for higher education in 29 European countries. This Declaration became the primary document used by the signatory countries to establish the general framework for the modernisation and reform of European higher education. The process of reform came to be called the Bologna process.

The Bologna Declaration of 19 June 1999 has been signed by 30 European countries, including the 15 Member States of the EU (Austria, Belgium, Germany, Denmark, Greece, Spain, Finland, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Sweden, the United Kingdom) as well as the 10 countries that joined the EU on 1 May 2004 (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia). Iceland, Norway and the Swiss Confederation are also signatories to the declaration, as are Bulgaria and Romania, who became members of the EU on 1 January 2007. Kazakhstan joined the Bologna process in March 2010. Today, 47 countries participate in the Bologna process after having fulfilled the accession conditions and procedures.

International institutions such as the European Commission, the Council of Europe and associations of universities, rectors and European students also participated in drafting the Declaration.

The Bologna Declaration also formulates the objective of increasing the international competitiveness of the European system of higher education and stresses the need to ensure that this system attracts significant attention from around the world.

In the Bologna Declaration, ministers affirmed their intention to:

- adopt a system of easily readable and comparable degrees;
- implement a system based essentially on two main cycles;
- establish a system of credits (such as ECTS);
- support the mobility of students, teachers, researchers and administrative staff;
- promote European cooperation in quality assurance;
- promote the European dimensions in higher education (in terms of curricular development and inter-institutional cooperation).

The Bologna process is in line with the objectives of *Education and Training 2020* and *Europe 2020*.

Since 1998, seven ministerial conferences devoted to mapping out the Bologna process have been held in different European cities, namely Paris (at the Sorbonne University), Bologna, Prague, Berlin, Bergen, London Leuven/Louvain-la-Neuve and Budapest-Vienna.

In **May 2001**, the meeting in **Prague** was convened to assess the progress accomplished to date (particularly as indicated in the respective national reports) and identify the main priorities that should drive the Bologna process in the years ahead. 33 countries participated, with Croatia, Cyprus and Turkey accepted as new members. Liechtenstein was also included, having committed to the process between the Bologna and Prague conferences, and the European Commission also became a member.

The education ministers also decided to establish a Bologna Follow-up Group (BFUG) responsible for the continuing development of the process. The BFUG is composed of representatives of all signatory countries and the European Commission and is chaired by the rotating EU Presidency. The Council of Europe, the European University Association (EUA), the European

Association of Institutions in Higher Education (EURASHE) and the National Unions of Students in Europe (ESIB), later renamed the European Students Union (ESU), take part as consultative members in the work of the BFUG.

The Prague Communiqué emphasised three elements of the Bologna process:

- development of lifelong learning;
- involvement of higher education institutions and students;
- promotion of the attractiveness of the European Higher Education Area.

Held in **September 2003**, the **Berlin Conference** was an important stage in the follow up to the Bologna process. With the inclusion of seven new signatory countries (Albania, Andorra, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, the Holy See, Montenegro, Russia and Serbia), 40 countries were then involved.

In the Berlin Communiqué, ministers charged the BFUG with preparing detailed reports on the progress and implementation of the intermediate priorities and organising a stocktaking process before the following ministerial conference in 2005. The UNESCO European Centre for Higher Education (UNESCO-CEPES) joined the work of the BFUG as a consultative member.

With the Berlin Communiqué, the Bologna process gained additional momentum by setting certain priorities for the next two years:

- development of quality assurance at institutional, national and European levels;
- implementation of the two-cycle system;
- recognition of degrees and periods of studies, including the provision of the Diploma Supplement automatically and free of charge for all graduates as of 2005;
- elaboration of an overarching framework of qualifications for the European Higher Education Area;
- inclusion of the doctoral level as the third cycle in the process;
- promotion of closer links between the European Higher.

By May 2005, the Bologna process extended to 45 signatory countries with the inclusion of Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The ministers responsible for higher education met in

Bergen to discuss the mid-term achievements of the Bologna process. The commissioned Stocktaking Report was submitted by the BFUG for the occasion. **The Bergen Conference** also marked the adoption of the Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG) and the Framework of Qualifications for the European Higher Education Area (FQ-EHEA).

The European Association for Quality Assurance in Higher Education (ENQA), the Education International Pan-European Structure and the Union of Industrial and Employers' Confederations of Europe (UNICE, later to become Business Europe) joined the BFUG as consultative members.

In the Bergen Communiqué, ministers enlarged their priorities for 2007, which also include:

- reinforcing the social dimension and removing obstacles to mobility;
- implementing the standards and guidelines for quality assurance as proposed in the ENQA report;
- developing national frameworks of qualifications in compatibility with the adopted Framework of Qualifications for the European Higher Education Area;
- creating opportunities for flexible learning paths in higher education, including procedures for recognition of prior learning.

The London Ministerial meeting, held on **17 and 18 May 2007**, provided a landmark in establishing the first legal body to be created through the Bologna process – the European Quality Assurance Register (EQAR). This is to become a register of quality assurance agencies that comply substantially with the standards and guidelines for quality assurance in the European Higher Education Area (ESG) on the basis of external evaluation.

London also saw developments in two key areas – the social dimension, where Ministers agreed to develop national strategy and action plans, and the global dimension, where Ministers agreed on a strategy to develop the global dimension of European higher education.

In the London Communiqué, ministers:

- welcomed the creation of the European Quality Assurance Register (EQAR);

- committed to completing national frameworks of qualifications in compatibility with the adopted Framework of qualifications for the European Higher Education Area by 2010;
- promised to report on national action to remove obstacles to the mobility of students and staff;
- pledged to implement and report on national strategies for the social dimension, including action plans and measures to evaluate their effectiveness;
- adopted a strategy for the European Higher Education Area in global setting.

The **Leuven/Louvain-la-Neuve** Ministerial meeting, held on **28 and 29 April 2009**, took stock of the achievements of the Bologna process and laid out the priorities for the European Higher Education Area for the next decade.

Looking back to ten years of European higher education reform, Ministers emphasized the achievements of the Bologna process, highlighting in particular the increased compatibility and comparability of European education systems through the implementation of structural changes and the use of ECTS and the Diploma Supplement. Acknowledging that the European Higher Education

Area is not yet a reality, the Leuven/Louvain-la-Neuve Communiqué also established the priorities for the decade until 2020.

The organisational structures of the Bologna process were endorsed as being fit for purpose, and ministers decided that in the future the Bologna process would be co-chaired by the country holding the EU presidency and a non-EU country.

In the Leuven/Louvain-la-Neuve Communiqué, ministers agreed that:

- each country should set measurable targets for widening overall participation and increasing the participation of under-represented social groups in higher education by the end of the next decade;
- by 2020 at least 20 % of those graduating in the EHEA should have had a study or training period abroad;
- lifelong learning and employability are important missions of higher education;

- student-centred learning should be the goal of ongoing curriculum reform.

The **Budapest-Vienna Declaration of 12 March 2010** on the European Higher education area marked the end of the first decade of the Bologna Process and officially launched the European Higher Education Area (EHEA), as envisaged in the Bologna Declaration of 1999. With this declaration, the ministers:

➤ underlined the specific nature of the Bologna Process, i.e. a unique partnership between public authorities, higher education institutions, students and staff, together with employers, quality assurance agencies, international organisations and European institutions;

- stressed that the Bologna Process and the resulting European Higher Education Area, being unprecedented examples of regional, cross-border cooperation in higher education, had raised considerable interest in other parts of the world and made European higher education more visible on the global map. The ministers also declared to look forward to intensifying their policy dialogue and cooperation with partners across the world;
- acknowledged the findings of various reports, which indicate that some of the Bologna action lines had been implemented to varying degrees and that recent protests in some countries showed the Bologna aims and reforms had not been properly implemented and explained. The ministers promised to listen to the critical voices raised among staff and students;
- reiterated their commitment to the full and proper implementation of the agreed objectives and the agenda for the next decade set by the Leuven/ Louvain-la-Neuve Communiqué.

The Bologna Declaration is a voluntary undertaking by each signatory country to reform its own education system; this reform is not imposed on the national governments or universities. As for Member States of the European Union (EU), Article 165 of the Treaty on the Functioning of the European Union states that the Union "*shall contribute to the development of quality education by encouraging cooperation between Member*

States and, if necessary, by supporting and supplementing their action".

Contrary to popular belief, the Bologna Process was not based on a European Union initiative. It constitutes an intergovernmental agreement, between both EU and non-EU countries. Therefore, it does not have the status of EU legislation. Also, as the Bologna Declaration is not a treaty or convention, there are no legal obligations for the signatory states. The (extent of) participation and cooperation is completely voluntary. This can be regarded both as a positive and as a negative thing. On the one hand, one could say that this "bottom-up" voluntary convergence does justice to the sovereignty of the states, which is especially important in the field of education. On the other hand, the avoidance of EU structures can be regretted for democratic reasons. The Bologna Declaration can be said to be a deal done behind closed doors by governmental officials without any participation of the European Parliament. Also the involvement of the national parliaments has been limited.

Most countries do not currently fit the framework – instead they have their own time-honoured systems. The Process will have many knock-on effects such as bilateral agreements between countries and institutions which recognise each others' degrees. However, the Process is now moving away from a strict convergence in terms of time spent on qualifications, towards a competency-based system. The system will have an undergraduate and postgraduate division, with the bachelor degree in the former and the master and doctoral in the latter.

Romania is an Eastern European country that, after ten years from the collapse of the communism, in spite of some difficulties, also noticeable in other countries from the region, in spite of the synopes and stagnation periods characterising the transitional process that it is passing through, it presents itself as a democracy with solid institutions and a market economy in an on-going process of consolidation.

Romania made major steps towards the European Higher Education Area by reorganizing the entire education system. The new structure was approved by the National Rectors Council in November 2003 releasing

on 5 November 2003 the Declaration of the National Higher Education Conference.

The new legislation of June 2004 (No. 288/2004) stipulates the reorganization of the university studies, in accordance with Bologna declaration and Prague 2001, Berlin 2003 ministerial meetings, in three main cycles: Bachelor, Master and Doctoral. The implementation began with the 2005-2006 generation of students and consists in a short-term higher education (180 ECTS) after which the student receives a diploma or a long-term higher education (240-360 ECTS) after which one can receive an engineer diploma (300 ECTS), architect diploma (360 ECTS) or bachelor in other fields (240-360 ECTS). The first stage of the higher education can be followed by an advanced studies program (60-90 ECTS) in the same field as the diploma obtained after a long-term higher education, giving the student a diploma for advanced studies. Master studies last for 2 to 4 semesters (60-120 ECTS). The 3rd cycle is the doctoral degree (no ECTS range given).

In most cases, these cycles (Bachelor, Master and Doctoral) will take 3, 2, and 3 years respectively to complete. The actual naming of the degrees may vary from country to country.

One academic year corresponds to 60 ECTS-credits that are equivalent to 1,500-1,800 hours of study. The new model comes closer to the North American and Japanese systems. It gives greater weight to practical training and to intensive research projects. The way credits are measured reflects how hard a student has worked. The new evaluation methods reflect not only a student's performance on exams, but also his or her lab experiments, presentations, hours spent on study, innovation capacities and so forth.

After 1990, Romania has started many projects supervised by countries from the European Union and also in collaboration with the US, obtaining some projects and bursaries. The main goal of the country has been to adapt to the European Higher Education System. Especially notable has been the effort for having their academic diplomas recognized by other European countries and for developing international programs such as: Tempus, CEEPUS, Socrates/Erasmus, Copernicus, Monet, and

eLearn. With the US, Fulbright programs have been developed.

One can appreciate that, in the last decade many progresses have been achieved in Romania in the field of reducing the adults' illiteracy. The recognition of illiteracy as a complex phenomenon was determined by multiple causes associated with the economical difficulties and social and cultural constraints that conducted to the initiation of specific forms of training and more comprehensive programs focused not only on the achievement of the basic competencies, but also on the solution of the problems related to the economic and local community problems.

With the Leuven/Louvain-la-Neuve Communiqué the Ministers decided that in the future, the Bologna Process would be co-chaired by the country holding the EU presidency and a non-EU country. The chairing arrangement up to the next Ministerial Meeting in 2012 is:

Table 1. BFUG chairs and Co-chair

Semester	EU-Presidency	Chair from non-EU country	Vice-chair
1 July – 31 December 2010	Belgium	Albania	R O M A N I A
1 January - 30 June 2011	Hungary	Andorra	
1 July – 31 December 2011	Poland	Armenia	
1 January - 30 June 2012	Denmark	Azerbaijan	

Source:www.ehea.info

Starting from July 1st, 2010, the Secretariat of the Bologna Follow-up Group is held by Romania, as organiser of the 2012 Ministerial Conference.

The team representing the Romanian Bologna Secretariat includes seven permanent members and three consultative experts (from the side of the Romanian Ministry for Education, Research, Youth and Sports), who are committed to the mission of ensuring professional and neutral support to further the consolidation of the European Higher Education Area (EHEA), under the exclusive authority of the Bologna Follow-Up Group (BFUG) and its Co-Chairs and Vice-Chair.

The next milestone of the European Higher Education Area will be marked with the upcoming Ministerial Conference, which will take place in **Bucharest**, Romania, on **26-27 April 2012**. The Third Bologna Policy Forum will be also connected to this ministerial meeting, thus enabling further debate on the progress of the European Higher Education Area on the global scale.

Various steps towards the implementation of the Bologna declaration have been taken by individual universities. However, only in 2004, once a specific legislation has passed, national-wide measures towards the implementation of Bologna were taken by all the Higher Education Institutions in Romania.

As a result of Romania's effort to adapt its national educational framework to the European Union, the educational system has attained many improvements; however, there is still a long way to go.

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Economic Crisis - Implications and Perspective on the European Economy

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Abstract

The current global economic crisis involves shocks felt far and wide in Europe, without precedent in post-war economic history. This crisis was preceded by long period of rapid growth, availability of liquidity. The acute liquidity shortage pushed system to collapse. The financial crisis has had a pervasive impact on the real economy of the EU, and this in turn led to adverse feedback effects on loan books, asset valuations and credit supply. Not only actual economic activity has been affected by the crisis, also potential output is likely to have been affected, and this has major implications for the longer-term growth outlook and the fiscal situation.

Key words: liquidity shortage, systemic collapse, structural unemployment, global crisis

J.E.L. classification: F02

1. Introduction

The financial crisis has had a pervasive impact on the real economy of the EU, and this in turn led to adverse feedback effects on loan books, asset valuations and credit supply. But some EU countries have been more vulnerable than others, reflecting inter alia differences in current account positions, exposure to real estate bubbles or the presence of a large financial centre.

2. Implication of the Economic Crisis on the European Economy

The current global economic crisis has important consequences in terms of relevance of economic theories. This crisis involves giving the paradigms of modernity, obsessed

with immediately return, the immediate financial gain and requires a review of economic theories and processes (Dinu, 2010, p. 267).

The European economy has been affected by the financial crisis in the US, with Germany and Iceland being the hardest hit. This economy produces almost \$13 trillion per year, which is about the size as the US economy. Per capita, gain is much smaller, as it is made up of 710 million people (in the 48 European states) versus almost exactly half of that in the US.

The main currency in Europe is Euro, although some smaller nations still use their own currencies, such as the UK, Denmark, Norway, Poland, and others. Therefore, any financial shocks that affect Euro will have immediate and identical effects on these countries' currencies, although most of them have their own stock exchanges.

The shocks have been felt far and wide in Europe. Germany was hit particularly hard when a proposed bailout there for Hype Real Estate fell through resulting in a colossal bankruptcy (400 billion Euro). This news led to Chancellor Angela Merkel putting a guarantee on all German savings, only one day after criticizing Ireland for enacting similar measures. Greece and Ireland have been forced to nationalize all of their banks, while the Dutch bank Fortis has been nationalized, as has Icelandic bank Landsbanki. In fact, Iceland's banking industry is on the verge of collapse.

Iceland's Prime Minister Geir Haarde, even went so far as to say that the country's citizens will experience a decline in their standard of living. He added that the small nation will have to know rely more on its traditional industry instead of relying too much on financial services.

Island nation of about 320,000 euro enjoys the 4th highest GDP per capita in the world. The US and UK are 11th and 12th.

The European Central bank actually raised rates in July 2008. This reduced demand for money, sucking it out of the system – exactly what Europe didn't need. The European Central Bank could have learned a thing or two from the US Fed's mistakes in the Great Depression. It did the same thing, thinking that would work, but the then-young Fed was inexperienced and had never faced such a crisis before. And so the Great Depression began.

At least the UK and Spain have taken proactive measures. \$87.8 billion of taxpayer money is expected to be injected into some of Britain's largest institutions such as Barclays, the Royal Bank of Scotland, and Lloyds TSB.

The Spanish housing market has recently tanked, affecting the banking industry – Spain has had its own subprime crisis over the past few years.

The financial crisis that hit the global economy since the summer of 2007 is without precedent in post-war economic history. Although its size and extent are exceptional, the crisis has many features in common with similar financial-stress driven recession episodes in the past. The crisis was preceded by long period of rapid credit growth, low risk premiums, abundant availability of liquidity, strong leveraging, soaring asset prices and the development of bubbles in the real estate sector. Overstretched leveraging positions rendered financial institutions extremely vulnerable to corrections in asset markets. Such episodes have happened before (e.g. Japan and the Nordic countries in the early 1990s, the Asian crisis in the late-1990s). However, this time is different, with the crisis being global akin to the events that triggered the Great Depression of the 1930s.

In its early stages, the crisis manifested itself as an acute liquidity shortage among financial institutions as they experienced ever stiffer market conditions for rolling over their (typically shortterm) debt. In this phase, concerns over the solvency of financial institutions were increasing, but a systemic collapse was deemed unlikely. This perception dramatically changed when a major US investment bank (Lehman Brothers) defaulted in September 2008. Confidence collapsed, investors massively liquidated their positions and stock markets went into a tailspin. From then onward, the

EU economy entered the steepest downturn on record since the 1930s. The transmission of financial distress to the real economy evolved at record speed, with credit restraint and sagging confidence hitting business investment and household demand, notably for consumer durables and housing. The cross-border transmission was also extremely rapid, due to the tight connections within the financial system itself and also the strongly integrated supply chains in global product markets. EU real GDP is projected to shrink by some 4% in 2009, the sharpest contraction in its history. And although signs of an incipient recovery abound, this is expected to be rather sluggish as demand will remain depressed due to deleveraging across the economy as well as painful adjustments in the industrial structure. Unless policies change considerably, potential output growth will suffer, as parts of the capital stock are obsolete and increased risk aversion will weigh on capital formation and R&D.

Despite of the prompt response given by the EU, the legacy of the crisis is far reaching. It has resulted in a large loss in economic activity, a substantial increase in unemployment, a steep fall in productivity, and badly weakened public finances. By the end of 2012, eleven Member States are expected still to remain at output levels below those preceding the crisis. In 2010, EU gross government debt rose, on aggregate, to around 85% of GDP in the euro area and to 80% EU-wide. The budgetary impact of the crisis will compound the effect of demographic change, which will add a fiscal burden of some 4.5% of GDP in the long term. Structural weaknesses that were not tackled before the crisis have become more apparent and urgent.

The crisis has taken a heavy toll on Europe's societies, despite the cushioning provided by welfare systems. The rise of unemployment is a central problem. On aggregate, 9.6% of the working population is unemployed. In some countries, youth unemployment can be as high as 40%. Around 80 million people are estimated to live below the poverty line in Europe.

The economic crisis was global, but its impact is very different across the world. While unemployment and public deficits increased more sharply in the US than in the EU, the crisis has aggravated the labour

productivity gap between the EU and the US. Price and cost competitiveness remain problematic. Emerging economies are returning to growth at a faster pace although some of them also face major economic challenges. Therefore, the EU needs to use this crisis to address decisively the issue of its global competitiveness.

The economic recovery in the EU, while still fragile and uneven across Member States, is proceeding at a somewhat faster pace than anticipated in the beginning of 2010. Real GDP has surprised on the upside so far this year and particularly in the second quarter, when it picked up by an exceptional 1% (quarter-on-quarter) in both the EU and the euro area. This strong performance stemmed in large part from the ongoing export-driven industrial rebound, in line with the continued strong dynamics of global growth and trade in the first half of the year, most notably in emerging markets.

Encouragingly, a revival in domestic demand, including private consumption and investment, also became evident, particularly in Germany. The spillover of some of this momentum into the second half of the year implies a significant upward revision to annual growth in 2010 compared to the spring forecast.

Looking ahead, the pace of GDP growth in the EU is set to moderate into mid-2011, as the global economy goes through a temporary soft patch, dampening EU export growth. The pace of economic activity eased already in the third quarter, reflecting also the fading of the temporary factors that kick-started the recovery, such as the exceptional stimulus measures and the positive impulse from inventory adjustments that were particularly important in shaping short-run dynamics in the EU and globally in recent quarters.

Another factor that is set to weigh on growth prospects in the short to medium term is the fiscal consolidation phase that many Member States are embarking on to put the fiscal situation onto a sustainable footing.

On the side of financial markets, conditions in several segments have recovered somewhat from the acute tensions experienced last May. In particular, following decisive policy action, including the creation of the European Financial Stabilisation Mechanism and the European Financial Stability Facility, and continued support provided by the monetary

policy authorities stress in sovereign-bond markets has generally eased, though some tensions have reappeared lately. For the banking sector, the publication of EU-wide stress tests showed that the system as a whole is resilient, despite some pockets of vulnerability. Moreover, lending activity to the private sector appears to have turned positive in line with past patterns. As the economic recovery gains firmer ground and concerns about fiscal sustainability are addressed, financial-market conditions should continue to gradually improve and provide support to the recovery.

Notwithstanding the strong performance earlier this year, the EU recovery so far is more muted than the average of previous upturns. This is in line with the pattern that has in the past characterised recoveries following financial crises. As argued since last autumn, the EU faces significant legacy headwinds that are set to restrain domestic demand while the economy transits to a new steady state in the coming years. These include the downsizing of construction sectors, which is still ongoing in a number of Member States; the increase in unemployment, which following financial crises tends to be accompanied by higher structural unemployment; the surge in government deficits and debt, which, as seen recently, can threaten overall financial stability; and the adverse impact of the financial crisis on potential output, which is estimated to remain well below pre-crisis levels over the forecast horizon. The two thematic chapters in this autumn forecast document provide a timely treatment of the latter two issues, with an assessment of the likely impact of fiscal consolidation on economic growth and an examination of how to restore the EU's growth potential. In keeping with the renewed emphasis on these two issues (e.g. via the Europe 2020 strategy), the chapters also consider how fiscal adjustment and structural reforms can be used to underpin the sustainability of public finances and spur a more dynamic EU economy beyond the forecast horizon.

In terms of demand components, a broadening out of the recovery appears to be taking hold somewhat earlier than envisaged in the spring. The ongoing strength of export growth has brought forward the rebound of equipment investment, which is set to return

to positive growth this year. The brighter prospects for equipment investment also reflect improved corporate profits and higher capacity utilisation rates. As for private consumption, the gradual strengthening has also been advanced, with a modest pick-up envisaged for this year. Further ahead, slowly improving labour markets, moderate income growth, subdued inflation and lower saving rates should underpin the gradual recovery of private consumption. However, the still ongoing deleveraging process in the corporate and household sectors, heightened risk aversion and the impact of fiscal consolidation are set to weigh on capital and consumer spending in the short term.

With private domestic demand gradually strengthening, the recovery is set to become increasingly self-sustaining over the forecast horizon. Overall, EU GDP growth is expected to remain rather subdued over the next three quarters, and to regain ground from the second half of 2011, when external demand growth also picks-up, to reach a pace of some ½% quarter-on-quarter in 2012. Taking into account the significant upward revision to this year's growth and the above mentioned developments, annual GDP growth should ease somewhat next year, from about 1¾% in 2010 in both the EU and the euro area to about 1½% in the euro area and more marginally in the EU, before recovering to some 2% in 2012. This implies that the EU economy starts this year to slowly close the sizeable output gap that opened up during the recession.

The aggregate picture masks marked differences in developments across Member States. Some countries, in particular Germany, but also some smaller export-oriented economies have registered a solid rebound in activity, while others, notably some peripheral countries are lagging behind. Factors explaining the divergences include trade orientation, the product mix of exportables, degree of openness, exposure to the financial-sector disturbances and the existence of sizeable internal and/or external imbalances. Looking forward, the expectation remains for a differentiated pace of recovery within the EU, reflecting the challenges individual economies face and the policies they pursue. Lingering concerns about fiscal sustainability, especially in some euro-area Member States that remain under

intense market scrutiny and differences in competitiveness positions appear among the most important challenges in this regard.

Among the largest economies, the upturn is set to be notably strong in Germany, where economic activity is expected to expand by 3.7% this year, more than double that of the euro area. Meanwhile France is just below the area average, Italy ½ pp. lower, and Spain is projected to remain in recession. By Poland, the only EU economy to have escaped a recession last year, while the recovery in the United Kingdom is expected to match only the moderate EU average. Among the smaller economies, the rebound is particularly pronounced for Slovakia (4.1%) and Sweden (4.8%), the latter two posting the highest growth rates in the EU. In contrast, GDP is projected to contract in Greece, Latvia, Romania, and mildly in Bulgaria and Ireland. By 2011, all EU countries, with the exception of Greece and Portugal, are expected to be out of recession. With the strong momentum in Germany pulling other countries, and a general gradual strengthening of domestic demand, GDP growth will tend to firm up in the course of 2011 and 2012 for most Member States.

Labour-market conditions have started to stabilise in recent months. The second quarter of 2010 saw job losses come to an end in the EU, while employment remained stable in the euro area (at 0% q-o-q). Similarly, the unemployment rate has more or less held steady since the spring, at 9.6% in the EU and at around 10% in the euro area. The situation is, however, highly differentiated across countries, with the rate of unemployment ranging from 4-5% in the Netherlands and Austria to some 17-20% in Spain and the Baltics.

Looking ahead and taking into account the usual lag between output and employment growth, the outlook is for a gradual improvement in labour markets over the forecast horizon. Employment is now projected to contract by around ½% in the EU and ¾% in the euro area in 2010, some ¼ pp. less than envisaged in the spring, with modest growth expected thereafter in both regions. The outlook for unemployment is brighter than in the spring, also owing to the resilience shown in some Member States, with declines of some ½ pp. expected over the forecast horizon in both regions. However, despite

brightening since the spring, the outlook remains for a rather jobless recovery and (potentially persistent) high unemployment ahead at the aggregate level.

Consumer-price inflation has been on a moderate upward path so far this year, on the back of upward food and energy base effects, increasing global commodity prices and firming core inflation. Sizeable slack in the economy is nevertheless expected to keep both wage growth and inflation in check, partly offsetting expected increases in energy and commodity prices. HICP inflation is projected to average 2% in the EU both this year and next, before easing to about 1¾% in 2012, and in the euro area to rise from 1½% this year to 1¾% in 2011-12.

After having been severely hit by the crisis, albeit to different degrees across countries, public finances are starting to adjust. About half of EU Member States are expected to post lower general government deficits this year than in 2009. On account of stronger growth, the end of the temporary stimulus measures and the additional consolidation efforts announced since the spring, the general government deficit in the EU (excluding Ireland where a one-off operation led to a deficit of some 32%) is expected to fall from about 6½% of

GDP this year to around 5% in 2011 and 4¼% in 2012, with a broadly similar pattern but at a somewhat lower level for the euro area. The adjustment seems to be mainly expenditure-based in both regions.

The debt ratio, in contrast, remains on an increasing path over the forecast horizon, reaching some 83% of GDP in the EU and 88% in the euro area by 2012. If not corrected in the years to come, the current trends in public debt may jeopardise long-term fiscal sustainability given the combination of sustained large deficits, low(er) potential growth than in the past and, in the not too distant future, unfavourable demographic developments.

Amid continued high uncertainty, the present outlook is faced with elevated risks, which go in both directions and appear to remain broadly balanced.

As regards economic activity, the rebalancing of EU GDP growth towards domestic demand could prove stronger than assumed in the forecast with, for instance, the labour market surprising positively.

Similarly, spillovers from the strong momentum in Germany to other Member States could materialise to a larger extent than currently expected. Moreover, policy measures to redress the fiscal situation could prove more effective than presently foreseen in dissipating market concerns (in both the EU and abroad) and thus further raising confidence among businesses and consumers. In contrast, a more pronounced slowdown in the global economy than included in the baseline is a risk to EU export growth. Related to this are risks from tensions in exchange rates and rekindled protectionist impulses. The fragility of financial markets, particularly of some sovereign-bond segments, remains a source of concern, with damaging negative feedback loops still possible. Finally, fiscal consolidation, given uncertainty on the timing of measures, may weigh more on domestic demand more than currently envisaged.

Turning to inflation, the recent rebound in oil and other commodity prices as well as increases in indirect taxes and administered prices constitute upside risks to the current projection. At the same time, the remaining slack in the economy, weak labour-market conditions and well-anchored inflation expectations are likely to contain inflationary pressures in the near term.

The crisis could have a lasting effect on potential growth. Medium term potential growth for Europe is projected to remain low and estimated at around 1.5% up to 2020 if no structural action is taken namely to resolve the labour productivity gap with our main competitors.

Given its cyclical nature, recovery alone cannot provide the impetus for leading Europe back to the pre-crisis economic situation and absorb the deficit accumulated.

To avoid stagnation, unsustainable debt trends, accumulated imbalances and ensure its competitiveness, Europe needs to accelerate the consolidation of its public finances, the reform of its financial sector and to frontload structural reforms now.

That is why the European Council adopted the Europe 2020 strategy with ambitious targets for a new growth path (raising the employment rate, raising the investment levels in R&D, meeting the climate change and energy objectives, improving tertiary or equivalent education levels and reducing

early-school leaving, promoting social inclusion through the reduction of poverty). The preliminary indications of Member States on their national targets in the five areas agreed under the Europe 2020 strategy clearly show the road that the EU has to travel to deliver its own ambitions.

If fully implemented, this strategy will help the EU come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity, competitiveness and social cohesion. This will deliver the competitive social market economy of the twenty first century, boosting confidence of market actors, companies and citizens alike.

In this context, the EU has also decided to change its economic governance. January 2011 launches the first European Semester of ex-ante policy co-ordination starting with this Annual Growth Survey which is anchored in the Europe 2020 strategy.

This Annual Growth Survey brings together the different actions which are essential to strengthen the recovery in the short-term, to keep pace with our main competitors and prepare the EU to move towards its Europe 2020 objectives. Given the urgency, the Commission has chosen to present 10 priority actions. The Commission will continue its work on a broad range of other policy areas, including trade and a host of internal policies. These are not developed here. In this Communication the Commission focuses on an integrated approach to recovery concentrating on key measures in the context of Europe 2020 and encompassing three main areas:

- The need for rigorous fiscal consolidation for enhancing macroeconomic stability;
- Labour market reforms for higher employment;
- And growth enhancing measures.

Fiscal consolidation, structural reforms and growth enhancing measures are necessary ingredients for the comprehensive response the euro area must give to the crisis.

But such a comprehensive response will have to include other elements, e.g. the review of the European Financial Stability Facility (EFSF). As regards the latter the Commission considers that the effective financing capacity of the EFSF must be reinforced and the scope of its activity widened. This Annual Growth Survey also

constitutes a contribution to the comprehensive response of the euro area to the sovereign debt crisis.

Moreover, progress in establishing a permanent mechanism for resolving sovereign crises is needed to provide certainty and stability in markets. The new European Stability Mechanism should complement in 2013 the new framework for reinforced economic governance, aiming at an effective and rigorous economic surveillance, including reviewing the effectiveness of current financial backstops.

3. Conclusions

This paper out how the crisis has demonstrated the inadequacies of the economics profession when it comes to predicting the future. In defence, one can say that this crisis was a once-in-a-lifetime global event, the effects of which were impossible to predict. It is hoped that an understanding of the channels through which events in one part of the world were transmitted elsewhere will help economists build more accurate and meaningful models. This is not a frivolous academic point; policy-makers need to make judgements about the future when deciding current policy. If the crisis leads to future forecasts that are less wildly inaccurate than those in the recent past, it will be a small but important step forward.

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Current Issues Concerning Management of Protected Areas

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Abstract

The protected areas' issues are debated today at all levels, from the local to global. Taking into account the evolution of interest in protected areas, their expansion, came the necessity of implementing a performance management, both in terms of organization of protected areas, as well as regarding the protection and conservation. In the current period, management of protected areas is a complex activity that involves a significant number of people, development of specific legislation and cooperation with other economic sectors, including tourism. From this perspective, modern management requires a holistic vision, leading to an integrated tourism development, ensuring sustainable development activities taking place in the protected areas.

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Key words: protected areas, integrate management, sustainable development, tourism.

J.E.L. classification: Q26, Q 57.

1. Introduction

The concept of integrated development started from the need for economic growth municipalities and regions by adding, over time, new dimensions. Observing the negative impact of environmental pollution has led to the integration of this factor in the development process. The discontent of local communities to the measures promoted by local businesses or local governments and/or central has been taken into consideration and planning their development programs.

In these circumstances it comes to integrated development period, the amount of all factors of influence, on the one hand, and the evolutionary process and customized according to the specific area on the other side.

2. Protected areas' management

Protected areas are the response of modern society for the growing process of deterioration, disappearance of species over-exploitation or the different categories of resources, especially non-renewable impact on quality of life and society perspectives.

Obviously they would not necessarily be needed in a world governed by environmental responsibility and respect for appropriate conduct embodied in the people and institutions in promoting sustainable development.

Protected areas are still represented for many people their conservationist purposes only and are considered true nature of wildlife oasis in a desert of economic development, to be created solely for the

conservation of species that inhabit them. Very little is acknowledged that areas under semi-natural and is in fact the implicit support of life and socio-economic development. Protected areas by the reduced value of their natural and human intervention on their territory are the best examples and models and semi-natural ecological systems.

Also to make the transition from the current development model to a model of sustainable development is necessary to research, knowledge and experience to implement the theories of sustainable development. Thus, both the assessment and monitoring the condition of natural capital and knowledge development can be achieved only in the pilot areas as protected areas.

Conservation of natural capital mainly involves maintaining an acceptable ratio between natural ecosystems and anthropogenic semi-natural, and diversity within each type of ecosystem and ensuring connectivity between these ecosystems. In this matrix spaces, good sized, must be distributed anropizate ecosystems, urban and rural ecosystems, industrial complexes and roads so as not to be exceeded the productive capacity of ecosystems and natural and semi-natural which is the main producer of resources and services necessities of life.

In a world responsible for all these considerations should be implemented and should be integrated into all sectoral policies and strategies (agriculture, transport, industry, tourism). In reality many mistakes occur which require solving these problems, beginning with small steps, within protected areas and that by creating systems and national and international networks of protected areas.

To these issues should be added that even within these oases of ecological balance - protected areas - gaps occur by failure of rules, intensive exploitation of resources, encouraging seemingly harmless activities such as tourism.

From these considerations, on the one hand and taking account of the evolution of interest in protected areas, by expanding the number and surfaces, as well as the number of countries that have established, there was need to develop their management, both terms of the organization, protection and conservation and in terms of techniques used.

The establishment of protected areas and their effective management is so a necessity because:

- they are exponents of the semi-natural ecosystems can be assessed and monitored, expressing their status at some point;
- these are areas where knowledge grows necessary to ensure the transition to a sustainable development model;
- are true outdoor classroom where people can be educated about the role of nature and necessity of sustainable development.

Although in a first phase, the management measures necessary for the conservation values of protected natural areas were limited, they resumed the protection of flora and fauna or geological features of representative, when they had to evolve in order to cope increasing pressures caused by higher development of certain economic sectors (agriculture, transport, industry, tourism). Thus, during the current management of protected areas is a complex activity involving a significant number of people, development of specific legislation and cooperation with other economic sectors.

With reference to the diversity within protected areas, their management is a complex content adapts to each category specificity. If, for example, category I, strict nature reserve, management may be quite simple, involving the prevention of any activity that may cause harm or damage to the other categories it has a more complex involving more than setting targets and methods of achieving them or reporting requirements. Therefore, management of protected areas requires great skill, combining the role of scientists, rangers, social workers (volunteers), teachers, politicians, administrators, economists and diplomats.

Process management of protected areas representing all shares of foresight, organization, coordination, training of staff, volunteers and local communities, as well as monitoring of ecosystem status and actions to achieve specific objectives of the site. This process can not be reduced to one or other of its functions, whereas none of them can define the complexity of management and can not ensure its effectiveness.

3. Integrated development of protected areas

As results from research on motivation in the establishment of protected areas and their objectives, with conservationist approach in their management must be taken into consideration other aspects: first, it is a complex character of valorizing nature reserve of resources exploitation, the many destinations possible and, secondly, that any protected area which is located in a wider area, allowed an environment that develops relationships with more or less intense and of a different nature - economic and socio-cultural, positive and negative.

In this context, management of protected areas should be linked diversity activities inside and outside, you need to address totdată unit and take into account the complexity of the environment which is integrated and the impact it generates. From this perspective, modern management of protected areas requires a holistic vision that takes into account the interdependencies with other components of the natural environment and ensuring social and economic benefits of potentiation of the effects of their operation.

In other words it is applying the principles of integrated development and protected areas. Integrated development in general, be understood as a new higher stage of economic planning, state that takes into account the actual growth and interdependence with the other components of economic and social environment, leading to a complex evolving entity, unit.

The concept of integrated development started from the need for economic growth municipalities and regions by adding, over time, new dimensions. Observing the negative impact of environmental pollution has led to the integration of this factor in the development process. The discontent of local communities to the measures promoted by local businesses or local governments and / or central has been taken into consideration and planning their development programs. In these circumstances it comes to integrated development period, the sum of all factors of influence, on the one hand, and the evolutionary process and customized according to the specific area on the other side.

Institute for Social and Economic Planning in Latin America and the Pacific [6], under the aegis of the United Nations considers the integrated development as a "comprehensive and multidimensional process involving all sectors of human activity, all factors affecting the quality of life and society - economic, environmental, physical / spatial and social ". Integrating all these aspects of development is a necessary element of a successful development strategy. It provides a balance between economic activities that tend to predominate, and relatively limited space and other natural factors, social and cultural factors that are fragile and difficult to fix.

Analyzing the development of integrated strategic perspective, it must contain a number of factors including:

- long-term planning issues;
- an interdisciplinary and multi-sectoral approach;
- involving open and strong political factor;
- strengthening administrative capacity and /or administrative reform;
- broad participation of stakeholders;
- to establish a practical mechanism of interaction between the continuous and relevant stakeholders.

Applying these requirements to the protected areas requires, above all, identifying the typology of activities inside and outside such areas.

No doubt about integrated development of protected areas can speak and global perspective, however, to date economic and socio-cultural activities have benefited from a wider application of this vision. Basically the integrated development of tourism as a specific dominant forms of protected areas is the approach most commonly encountered.

Integrated tourism development concept originally appeared in *"References on integrated tourism planning in the Pacific Islands"* published in 1996 under the United Nations [7]. This concept was resumed later in the paper "Integrated Planning Guide for Sustainable Tourism Development"[7] conducted by the Economic and Social Commission for Asia and the Pacific under the auspices of the United Nations in 1999. In this work, the term integration is closely linked to the concept of planning for sustainable development in Pacific islands. In

this context it is understandable that even benefit from a fully-fledged, integrated tourism is subject to sustainable development.

The European approach is significantly different in the sense that tourism is seen as a solution to rising living standards of local communities in terms of rural development without a direct connection with sustainability (*Project SPRITE - Supporting and Promoting Integrated Tourism in Europe's Lagging Rural region*). *SPRITE project* [8] authors provides a complete integrated definition of tourism is broadly understood as directly related to economic structures, social, cultural, natural and human resources of the region where the search is conducted and they use them at an optimal level. This definition is observed integrated factors with influence on tourism, namely: local resources, activities and local economy and local community participating. In these circumstances, the integrated tourism has the potential to provide consumers with a separate package of products, services and local experiences.

Another view on integrated tourism have had *Cabrel C. and M. Gordon* [9], in the paper "Measuring Integrated Rural Tourism" (2007) considers the integration, as seen in terms of tourism activity, as a holistic model of all the consequences that can occur over an area of interest: environmental, socio-cultural and economic.

Starting from the definition given in the *SPRITE* program, some authors (*Saxena and Ilbery, 2008*) considers tourism as an integrated and comprehensive way of critical thinking on the actors, resources and relationships involved in the tourist industry so fragmented [10].

Based on the approaches listed above and the "*Integrated Planning Guide*" published by the *Economic and Social Commission for Asia and the Pacific* can identify **the main features of integrated tourism development**, namely:

- is based on combining different sets of values and the need to achieve various targets. Integrated tourist development should be seen as a static model which, once established, can be applied in different areas. Due to the complexity of the environment, the success of an integrated development model of a certain

area does not automatically guarantee the same results in other regions. Each town has its unique character given by different combination of natural factors, economic and social. Under these conditions, each location will have other objectives which integrated development must first identify them and to find, then the optimal combination of solutions;

- must meet the needs of interconnectivity and pluralism. To talk of integration within a region that development of the components must be complementary. Different options for local development within the region should be harmonized to ensure a uniform development of the latter;
- the economic environment of increasingly complex, uncertain and ambiguous call is required to promote marketing techniques to create a distinct image in the minds of consumers and loyalty. Currently, negative information spreads through the mass media, throughout the world almost instantly. Terrorist attacks, the emergence of viruses, certain ecological disaster affecting the whole country which occurred in that particular area. The role of marketing-promotion in these situations is to segregate and isolate the area from other destinations in the country, thereby minimizing the negative impact.

In addition to the challenges of reconciling and combining of different interests and needs and their integration into a unified strategic plan which, in turn, can be integrated into economic and social realities of the region, **the concept of integrated tourism development must also meet a new series of challenges**, namely:

- be a solution to the problems of deterioration of the natural environment - in these circumstances, the integrated tourism development must be a partner in environmental protection, biodiversity conservation and restoration;
- to support sustainable development - these relate to the efficient use of environmental resources, respect for socio-cultural authenticity of local communities and the general increase in living standards;

- to avoid the appearance of a pronounced seasonality - a low level of seasonality is a balanced tourism movement to the whole year with favorable implications on employment and use of resources, the emphasis on seasonality is manifested in overcrowding in some periods, use a negative impact on natural resources and anthropogenic climate of life of local people (in peak season) and by reducing the number of employees and revenues (during the season);
 - be appropriate to the specific area and focus more on quality than quantity - suitability for specific area means finding the optimal form of tourism based on local resources, once identified, it is necessary to determine the operators in providing quality services high added value but to be consistent with the needs of tourists, providing quality services, in addition to income growth brought, means a high level of satisfaction to tourists and hence a step back and determine their future;
 - to encourage cooperation between the public and private - in the sense of integrated tourism development, cooperation is key to successful action to increase the competitiveness of destinations, based on the principle of "where are many power increases. Public-private partnership can be manifested in several ways within the local community: development of a slope, building a skating rink or amusement park, events, fairs, events and traditional folk art. This partnership is manifest in other areas, such as identifying land to be used in economic activity, laying down rules on the status of construction, local taxes;
 - create a unique identity of the destination - this is an important component of integrated tourism development activity. Any marketing activity promoting the long term has among its objectives to create a unique identity of the product or service, this unique identity is one aspect that distinguishes the other competing tourist destination and increase the tourist traffic, identification of a destination that is different the other is the first step in this process extremely important;
 - propensity to combine operators profit for other purposes beneficial to the local community - businesses need to understand the relationship between them and the local community first, workforce comes from the local community, secondly, the resources area, customs and traditions are what attract tourists to that destination, getting involved in social responsibility, which can take various forms (construction of a playground for children, funding the restoration of a tourist attraction, granting scholarships for further action remediation, etc..) is a long term investment by getting local community support, on the one hand, and resources conservation and protection as a factor of attraction for tourists, on the other hand;
 - to use their creativity and innovation in the integrated development - development of new Internet technologies and communications, construction, machinery, electricity, alternative sources. provides possible new approach to tourism phenomenon, the Internet, for example, has made possible 24 h/24 of tourism promotion through web-sites, and any person connected to the internet can get information about a tourist destination and a few minutes minimal effort, efficient use of the Internet involves techniques to optimize websites, online advertising through various methods, search of business partners and maintain links with them.
- The need for integrated development of tourist areas is mentioned by UNEP (United Nations Environment Programme) which defines **four characteristics of the integration of tourism in sustainable development general policy** [11]:
1. *national strategy* - ensuring that tourism is complemented by a series of objectives of other national economic sectors and local and national development strategies to create a tourist industry based on diversity of natural and human resources, integrated into national and local development plans;
 2. *complementarity and cooperation between the authorities* - to improve management of tourism and ensuring cooperation between the authorities at all levels and jurisdictions to ensure a clear, precise and complementary responsibilities of the latter;

3. *integrated management* - to coordinate the allocation of land and ensuring an adequate legal framework for environmental protection or to ensure an integrated development of the tourism sector;

4. *reconcile the conflict over resources* - involving stakeholders in decisions affecting the area and strengthening the capacity of organizations to implement these decisions.

4. Conclusions

Given those shown on the content, characteristics and meanings of the integrated development of tourism, its interference with sustainable development, on the one hand and, on the other hand, the fact that tourism is an activity strongly represented in the protected areas and / or that the prosperity of local communities embedded these areas or placed in their immediate vicinity can not be left in the background is understood that the integrated management solution for the future management of these areas. Integrated ensure resource protection, an optimal combination of all factors of influence within a territorial unit and a harmonization of stakeholder interests involved. Moreover, such an approach responds to the fundamental objective conservation / protection areas in a broader context of their sustainable development.

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Methods of Assessment of Tourism Impact in Protected Areas

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Abstract

Intensifying international tourist trips and the pressure that they exert on fragile areas, especially on protected areas, generate a range of issues related to achieving a balance between tourism resources on the one hand and tourism activities on the other, between benefits of tourism for local communities and the negative impact that it could have on the environment. Within this context, the identification of the methods and the indicators for assessing the impact of tourism and the implementation of protected areas management tools have an important role in ensuring sustainable development in these areas.

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Key words: tourism, impact, protected areas, indicators

J.E.L. classification: Q26

1. Introduction

Tourism in protected areas was considered for a long period of time „a clean industry”, without negative impacts, worth to be mentioned, on the environment. Presently, this image of tourism in protected areas is perceived differently, the majority of specialists being aware that it also has a negative impact and they act in order the reduce it. In the same time, tourism in

protected areas is capable to contribute in raising awareness regarding the value of nature, thus enhancing public support for environmental protection.

Under these conditions, lately, it was pursued a balanced development of tourism in protected areas, according to standards that ensure the maintenance of ecological balance and avoid overuse of resources, pollution and other negative environmental impact. In this context, it is particularly important to identify the types of impact and, especially, the procedures, the methods and even their assessment indicators.

2. Forms of impact

The approach regarding the impact involves the analysis of the relationship between tourism and tourism resources in protected areas, respectively between the natural and socio-cultural travel as an element of motivation on the one hand, and the tourism activity - synonymous with the transformation of this framework by developing a general and specific infrastructure, through the creation and consumption of tourism products, the presence of tourists in protected areas, on the other. These essential elements of tourism in protected areas determine more than one category of impact - *economic, on the natural environment, social and cultural, on local communities - which may take positive or negative forms*. Thus, the main positive **economic** impact of tourism in protected areas is linked to the creation of production growth, contributions to local budget and business opportunities. It also has the ability to promote social development through job creation, redistribution of income and

improvement of living standards [1]. Revenues from tourism in protected areas can be considered as direct and indirect contributions that are to be maximized [2]. Direct contributions are generated by taxes imposed on the revenues of workers and entrepreneurs in tourism industry and taxes on tourists, such as the airport ones, to enter in protected area etc. Indirect contributions are those resulting from taxes on goods and services provided to tourists. These revenues can be used to improve community facilities, services and general infrastructure of local communities in protected areas. Tourism in protected areas can determine local authorities to stimulate investments in general infrastructure - water supply and sanitation systems, roads, electricity, telephone and public transportation, all contributing to increase the quality of life of residents and the quality of tourism services [3]. Tourism in protected areas, through its content involves a set of *social relations* between tourists and host community population, mainly. These relationships take effect on both the tourists and the locals and may found in consumption, education and training, use of leisure time etc. This process has important social and cultural consequences, positive and negative. The social dimension of the tourists interaction with the host population in protected areas arise from the contact with other moral values and a different behavioral pattern, while the cultural dimension includes a wide variety of events resulting, directly or indirectly, from the tourist activities in protected areas such as: the preservation of traditions, respect and tolerance for other peoples' culture, imitating foreign cultural values, cultural values, national marketing, promotion of national identity, cultural erosion etc..

The socio-cultural impact is defined as the way in which tourism in protected areas contribute to changes in the value system of a community, of the behavior and the morality of individuals, family relations and collective lifestyle, in expressing creativity in traditional ceremonies and organization of the protected area community. It refers to the effects on the host community as a result of direct or indirect association with the tourists [4]. In essence, the social efficiency of

tourism in protected areas is the contribution to this field of activity: useful spending of free time, comfort and entertainment of people, the restoration of work capacity, raising the general level of knowledge and training, satisfaction of spiritual, mental motivation.

In general, the effects of tourism in protected areas are positive, favorable, but, given its complexity, the negative implications are not excluded. Thus, the growing demand of tourists for souvenirs, art, handicrafts and cultural events determined the craftsmen in many protected areas to adapt and develop products closer to the taste of buyers, changing the traditional design [5]. The special interest of tourists on local art can contribute to a sense of pride of artists and their work, such as the preservation of cultural traditions, but at the same time, the merchantability of cultural goods, causing its erosion. However, tourism in protected areas, seen from the perspective of modern man, may be the essential advantage of the globalization process, enabling people to know, to understand those to whom they live close, to discover others' life and culture novelty, to fight together in order to revitalize, to improve the natural and cultural heritage, hoping that it will be transmitted to future generations. Also, knowing and being aware of the possible adverse effects will lead to fair sizing of tourism in protected areas so that changes of any kind can be positive and favorable.

Regarding the impact of tourism in protected areas on the environment, it was demonstrated that the destructive effects are larger. They have different causes, from the large number of visitors and uncontrolled exploitation of resources to the organization of work and it manifests as air, water, soil, noise pollution, disappearance of natural habitats, destruction of local flora and fauna and increasing urban pressure. At the same time, there is the phenomenon of disappearance of biodiversity which has as effects: the threat of food supplies, of recreation and tourism opportunities and of wood resources, medicines and energy, interfering with essential ecological functions - balance of species, soil formation, greenhouse gas absorption, reducing the productivity of ecosystems which are a

constant source of food and services; ecosystem destabilization and weakening their ability to deal with natural disasters - floods, hurricanes, pollution, climate change, stress etc. caused by people. Tourism in protected areas is closely linked to biodiversity and attractions of a rich and varied environmental and may cause loss of biodiversity when the territory and the resources are used excessively and the impact on vegetation, wildlife, mountains, coastal and marine environments and on water resources exceed carrying capacity.

3. Methods and indicators for assessing the impact of tourism in protected areas

Taking into account the typological diversity of the impact and, in particular, his negative component, it is absolutely necessary to design a complex system of monitoring it. Also, the information obtained in the monitoring process must be converted into a set of indicators whose comparative analysis provides arguments and potential solutions for responsible exploitation of protected areas.

Developing and implementing such a plan / system for monitoring the impact of tourism on protected areas involves going through several stages:

- *Planning for monitoring* by setting up a coordinating committee and conduct a meeting with representatives of the host community;
- *Development of the monitoring program* by: identifying impacts and indicators to be monitored; selecting the methods of measurement; identifying the boundaries of acceptable change; developing an operational plan for monitoring;
- *Monitoring set up and its results application*, namely: training the involved personnel, managers and community representatives; performance of monitoring and examination of the resulting data, presentation of monitoring results;
- *Assessing and monitoring progress*, which means the evaluation of the monitoring program.

Regarding *the methods for measuring the impact*, currently exists in the literature and in practice over 50 methodologies that are based on numerous and varied methods and techniques, from scientific disciplines dealing with human impacts on environmental components - natural and social sciences -, or in other areas - management, planning and legislation.

The methods regards different components of the environment or followed issues (identification, description and comparison) using scaling levels, their weight and supports data collection and classification of environmental impact.

Monitoring methods in the programs are selected according to their characteristics, but also by the followed objectives. Also, time and existing logistical resources; financial systems; evaluation criteria; the evaluation team and its composition etc. are other restrictions on choosing working methods and techniques.

Among the most used methods to assess the human impact on the environment there are [6]:

- *Ad-hoc methods*. Are part of the category of simplest ones and are limited, in general, on identifying the event areas of potential impact; they have the disadvantage of the possibility of neglecting some areas or types of impact which methods are used to diminish the value. These methods are used in the early stages of the research field and provide a range of direct and indirect information on environmental issues;
- *Method of control lists*. Simple checklists are issued based on a-priori judgments and the achievement of a ranked list of factors to be considered in the evaluation (Barrow, Westman). They allow the identification of the types of impacts and the assessment of their nature and character (adverse/beneficial, significant/insignificant, short/long etc). The checklists are important because they allow ordering the ideas; they facilitate data collection and information and permit their visualization so that the impact can be traced better. There can be performed simple checklists that describe impacts and give a series of measurements and predictions and more

complex checklists that apply measurement and scaling techniques of impacts.

- *Methods of overlapping thematic maps* have appeared in the '60s and are derived from territorial planning and landscape architecture. Thematic maps allow – by overlapping and comparing - producing a composite image of the places and routes of production impacts. By using GIS and remote sensing techniques, aerial images, satellite data and field research, they provide more numerous, more detailed monitored aspects.
- *Geographic Information Systems (GIS)* regularly and real time update environmental data and help experts in assessing cumulative impacts. With their help it is possible to quantify the cumulative impacts, updating remote sensing data and supporting territorial planning decisions.
- *Matrix methods* (Arts, Barrow, Cooper, Canter, Wood) can be used to identify, to systematic study, to envision and to assess environmental impacts. A simple matrix is a combination of two checklists, one describes the potential of existing impacts on the natural and / or anthropogenic environments (distributed by columns) and the other includes environmental or socio-economic conditions that may be affected by these impacts (distributed lines).
- *Quantitative methods* are based on a series of measurements and standardization of the impacts. Among the commonly used methods can be mentioned the environmental value system (based on value judgments and a comprehensive checklist).
- *Modeling methods* are specific ways to complete the environmental models. There are various types of models (computerized, conceptual, of simulation) that have been applied in ecology, land use change, pollution assessment, socio-economic studies and regional planning.
- *Simulation models* may be useful for management of ongoing activities (e.g. air pollution dispersion models). Modeling is an attempt to simplify reality in order to understand and describe processes and phenomena or to predict. The advantage

of these methods is that there is a "skill" of the models reflecting the dynamic nature of the environment and human activity.

- *Environmental size impact analysis method* (Rojanschi method). This method, called also the method of trustworthiness, is the most common procedural practice in Romania, and is grounded on estimates of environmental quality indices based on a scale of their creditworthiness.

Impact assessment is based on the global quantitative expression of the state of environmental pollution on global pollution index (IPG). This index results from the relation between the surface that represents the ideal state S_i and the actual state S_r of the environment, i.e.:

$$I_{pg} = \frac{S_i}{S_r}, \text{ where:}$$

S_i = surface of ideal state of the environment;
 S_r = surface of actual state of the environment.

The information provided by the application of these methods combined with the experience gained in planning studies of tourism areas (7) enables the design of indicators whose determination and dynamic analysis ensure quantification, event incomplete of the impact dimensions.

The indicators that measure the impact of tourism in protected areas are a necessary tool in designing the sustainable development strategy.

Measuring the impact that tourism has on the environment is difficult due to its complexity (large number and variety of their effects), the quantitative and qualitative aspects involved and, last but not least, the lack of information (8).

However, in the specialized literature various indicators have been identified - from the perspective of sustainable tourism - that provides an opportunity to assess environmental impacts and to identify measures in order to reduce them.

The intensity of use involves the identification of the potential of resource overloading in a natural protected area. For this purpose, an indicator measuring the *tourist density in relation with the surface*

can be used with the following formula:

$$Dt_{\text{in relation with the surface}} = \frac{\text{inoming tourists}}{\text{surface}} = \text{tourists} / \text{km}^2$$

Tourism density (Dt) in relation to the population shows the number of tourists visiting the protected area and provides information on the respective strenuousness, the solutions to be applied so that no environmental conflict appears.

The social impact represents the number of tourists visiting an protected area relative to the population. In this way, we measure the social impact of the presence of tourists in a given area.

$$Dt_{\text{in relation with the pop.}} = \frac{\text{inoming tourists}}{\text{surface}} = \text{tourists} / \text{resident}$$

Determinating this indicator helps avoiding social conflicts and also the orientation of tourism management strategy so that the impact is minimized. When the report is 1 tourist / 1 resident there is an urgent need for reorientation of tourist flows to areas less solicited.

4. Carrying capacity to support - warranty to reduce the negative impact of tourism

Carrying / loading capacity is a tourism planning policy instrument that can provide the framework for the implementation of measures and actions for planning and developing tourism in a certain region, taking into account the particularities of each region. Thus, the setting of limits on space tourism planning or sizing flow of visitors should not be reduced to a single number, such as the visitors who can have access to an area at a time, but must be established for both of maximum and minimum levels, necessary to support the local business community. In terms of content loading capacity, specialized literature (9) identified three fundamental components or dimensions: *a physical and ecological component*, *a socio-demographic* and *a political and economic one*, whose importance varies depending on the particularities of their region of interest, tourism practiced forms and their impact on

the environment.

Regarding *the specifics of the region*, evidenced by the typology of resources, the fragility of ecosystems, the number and demographic structure of population, the development level of economy, we can say that they determine, to a certain extent, the carrying capacity of the pressure exercised by tourist activity. *The practiced forms of tourism*, both determined by the type of the resources and by tourists motivation to travel, both significantly influence the behavior of tourists and the relationships between them and local communities, the development of tourism and the environment. Regarding *the relationship with the environment*, it can be expressed in two ways, both by the constraints generated by the pressure of tourism activity on the environment and by the effects of environmental degradation on tourism, that can significantly influence tourism territory planning and management models, but also the life cycle of tourist destinations.

- *The physical and ecological component* includes fixed and flexible elements of the natural and built environment and also of the infrastructure. Fixed elements refers to the ability of natural ecological systems to withstand the pressures of tourism activity and over which we can not occur, but only to measure in order to establish limits of affordability, and flexible elements are those that involve general and specific tourism infrastructure. The indicators as the acceptable level of air, marine and noise pollution, the intensity of use of transport infrastructure and services, the maximum acceptable level of damage of natural resources, the excessive use of public services related to water supply networks, energy, waste management, the number of tourists per unit area, the number of parking spaces in fragile areas etc. can provide information in determining the load capacity, given the physical and ecological components.
- *The socio-demographic component* refers to important social issues for local communities, directly related to tourist activity (workforce, local cultural identity etc.). In this case, the load capacity is used both for determining the level of tolerance permitted by this population in terms of

tourists, but also to increase the level of visitor satisfaction. Thus, there can be analyzed indicators as the number of tourists who can have access to a tourist area without affecting the identity, the way of life, the local community activities, the types of tourism activities, that do not alter the nature of local culture and traditions, the number of tourists per unit area, number of accommodation to 100 people etc..

- *The political-economic component* refers to the impact of tourism on both the local economy and the competition of tourist activity with other sectors. In this case, the loading capacity evaluation includes aspects related to the level of specialization in tourism, migration of labor from other sectors of the tourism industry, the employment rate compared to other tourism activities etc..

With these requirements as a reference, in the specialized literature several ways of calculating the carrying capacity (C) were crystallized; one of the most known and used determines the maximum number of tourists who may visit a tourist area, at a certain time, so that they can enjoy optimum holiday and also that no conflict with the local population and environment appears.

$$C_o = \frac{Sxk}{N}, \text{ where:}$$

S = area surface

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K= correction factor, determined according to the strain of the area, with values ranging between [0; 2]

N= standardized surface for a tourist

The need determinate such indicators occurred because they are the basic level of management information, essential for measures management to be taken in order to monitor the key elements of human-environment relationship, in the context of tourism development in protected areas. (8)

5. Conclusions

Tourism in protected areas can have both positive and negative effects on the natural environment and the local communities, which lead to increased concerns to identify the methods and impact quantifying indicators, as well finding solutions for mitigating / limiting the consequences from unbalancing the biodiversity and the social environment (people). In this context, assessing the impact of tourism in protected areas is extremely difficult, generated by the particularities of each tourist destinations. Nevertheless, using planning tools, the responsible authorities can help mitigate the negative impact that tourism could have. For this it is necessary to introduce studies on the carrying capacity in local and regional development plans and ensuring a favorable institutional framework for such action.

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Path to Achieve Global Convergence

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Abstract

The world's main accounting standards setters are currently working with an unprecedented agenda of standards development in an attempt not only to bring International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP) closer together, but also to achieve substantial improvement of these sets of standards. This agenda is likely to have a major impact on the companies that use these standards for their financial reports and the stakeholders that rely on those reports. The ongoing process of converging and reforming the world's accounting standards continues to challenge standards setters and worry stakeholders.

Key words: international standards, global convergence, standard-setting

J.E.L. classification: M41 Accounting

1. Introduction

Starting with 2005, when the European Union required European Listed Companies to use International Financial Reporting Standards (IFRS) for group financial reporting, the global trend has steadily moved towards adoption of IFRS. Today, more than 40 per cent of Global Fortune 500 companies use IFRS and by the end of 2011 a clear majority is likely do the same. The growing acceptance of IFRS brings the vision of a single set of high quality accounting standards closer to reality.

There are two major forces at work in driving towards the achievement of this objective[1]:

- Since 2001 more than 100 countries have moved to a position where they require or permit the use of IFRS, while the remaining major economies are also progressing towards convergence of their national standards with IFRS, or the adoption of IFRS
- The two main standard-setters - the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) - have committed to a joint undertaking to improve IFRS and U.S. GAAP and to bring about their convergence

2. IFRS adoption around the world

The IASB website presents a map [2] of the world indicating those regions which require or permit IFRS, those regions seeking convergence or pursuing adoption of IFRS, with the remaining regions being mainly on the African continent and in South-East Asia. Even with these African and Asian regions there are positive indications emerging that progress is being made towards IFRS.

Three of the countries that are currently seeking convergence with IFRS or pursuing adoption of IFRS are Japan, India and the United States.

In Japan, much work has been carried out on the elimination of major differences and will continue with the objective of eliminating the remaining differences by June 2011. The Japanese Business Accounting Council, a key advisory body to the Japanese Financial Services Agency (JFSA) approved interim proposals to allow certain listed companies early adoption of IFRS from fiscal years ending on or after 31 March 2010 followed by a final decision about the mandatory adoption of IFRSs about 2012.

In India, a plan has been adopted by the government for listed companies to commence implementation of 'notified Indian standards that have been converged with IFRS' on 1 April 2011 with a phased transition period up to 2014 depending on size. There are no adoption plans for non-listed companies and there is a separate 'road-map' for banking and insurance companies which is expected to be published shortly.

3. IASB and FASB efforts to converge

The two leading accounting standards-setting organizations in the world today are the IASB and the FASB. The IASB sets the accounting standards for over 100 countries that have adopted IFRS, while the FASB develops US GAAP, which serves the world's largest capital market. Working closely together, and spurred on by the G-20, these two organizations hope by the end of 2011 to finalize several revised standards that have been "converged" to be as comparable as possible.

Given its stature and significance to global markets the convergence of IFRS and U.S. GAAP is fundamental to achieving the ultimate objective of a single set of high quality accounting standards used globally.

Despite recent adjustments to the timeline for convergence, the FASB and the IASB still hope to finalize a number of important accounting standards by the end of 2011, including standards for financial instruments, revenue recognition, leases, the presentation of other comprehensive income, and fair value measurement. Though the dates by which companies will have to apply these standards are still to be determined, they will ultimately have a significant impact on stakeholders such as companies and investors.

If the standards setters succeed, it will be a major step toward the ultimate goal of creating a single, unified set of accounting standards, developed and managed by one global standards body. The US Securities and Exchange Commission (SEC) will consider the status of the convergence projects when it decides whether or not to adopt IFRS for US-based companies.

Members of the European and North American Audit Committee Leadership Networks have discussed the ongoing

convergence efforts at previous summit meetings, focusing on the progress being made, the emerging implications and the political dynamics that are both driving and impeding change.

With the planned deadline for the convergence projects now a year closer, leading audit chairs are seeking to understand not only the projects' impact and current status, but also the evolving challenges that are shaping these projects and the role that they and their companies can play to make the projects successful. Many audit chairs have been surprised by the magnitude of the efforts under way. 5

Both the FASB and the IASB are devoting considerable resources to the convergence projects, which were initially specified in the Norwalk Agreement of 2002. The intent is still to complete as many projects as possible by 2011, though the precise timetable is subject to change.

The IASB and the FASB have again recently reaffirmed their commitment to the project to converge and improve standards, with plans and targets for completing by June 2011 the major projects under their joint Memorandum of Understanding (MoU) which was originally signed in 2006 and updated in 2008.

In October 2009 the FASB and IASB reviewed the status of joint projects described in the MoU, assessed the timelines and developed strategies to ensure timely completion of projects, including

- Financial instruments
- Consolidation
- Derecognition
- Fair value measurement
- Revenue recognition
- Leases
- Financial instruments with the characteristics of equity
- Financial statement presentation
- Emissions trading schemes
- Insurance contracts
- Joint arrangements
- Financial statement presentation
- Emissions trading schemes

The joint intention is to complete new, converged standards on each of the above areas with the work to be completed by mid-2011. Work is also taking place on developing a new conceptual framework

which will underlie the continuing development of new and improved standards.

Recently, the FASB and the IASB announced that the target completion dates for some projects would be extended into the second half of 2011 and that the number of significant exposure drafts issued in any one quarter would be limited to four.[3]

These convergence projects will present major challenges for companies' information technology systems, internal controls and staff resources. They will also present communication challenges as companies attempt to educate investors and analysts so that they do not misinterpret the numbers produced by the revised standards.

In a letter to the chairmen of the FASB and the IASB, Financial Executives International (FEI) noted that because of these challenges, convergence would require a three-year implementation period.[4]

There are many practical difficulties in achieving the '2011 objective' and it is going to take some very focused attention and determined effort to reconcile and/or eliminate the many differences between the two bodies' standards. A major example of this is in relation to financial instruments with, for example, differences in approach between the two bodies in relation to such matters as measurement and asset impairment.

The advantages of successfully completing these projects on a timely basis are substantial in terms of significant improvements in the quality of financial statements and the calibre of financial reporting in jurisdictions that use IFRS.

To improve the quality and acceptance of the emerging standards, the FASB and IASB are seeking as much input as possible from constituents. Stakeholders have a variety of ways of making their voices heard, including comments on discussion drafts, participation in field studies and one-on-one meetings with members of the standards boards. [5]

The Securities and Exchange Commission (SEC) has solicited comments on a proposed road map to adopt IFRS in the U.S. for all filers. Surveys carried out by Deloitte and others show strong support for adopting a single set of standards but with emphasis that various pillars need to be put in place to achieve that goal.

At its meeting on 24 February 2010, the SEC reiterated its support for a single set of high quality global accounting standards commenting that IFRSs are the set of standards best positioned to be global standards.

The key areas of concern to be addressed by the SEC staff as part of the work plan include sufficient development and application of IFRSs globally - comprehensiveness of IFRSs, auditability and enforceability of IFRSs, and comparability across jurisdictions.

The Commission Statement directs the SEC staff to carry out a work plan prior to an SEC decision on whether to require US issuers to transition to IFRSs. According to the Commission Statement, that decision will be made in 2011 when the IASB/FASB programme for convergence and improvement of standards is due to be completed with potential transition dates likely to commence in 2015/2016.

The SEC's Division of Corporation Finance is responsible for reviewing all company filings, including those of foreign private issuers. A Deloitte publication summarises the comment letters issued to foreign private issuers in respect of their filings as reviewed by the SEC and provides an interesting insight into the issues identified.

By far the largest number of issues raised on a single area were those in relation to financial instruments with fair value disclosures, risk disclosures, hedge effectiveness and related disclosures being the issues of most concern. Other areas which invited more than five comments in letters included presentation of financial statements, share-based payment, revenue recognition and provisions.

It is also noteworthy that the main areas commented on by the SEC are in most cases those which are on the agenda for improvement and convergence by 2011 - this seems more than a coincidence.

As one would expect, many of the comments made are similar in nature to those made by Irish and U.K. equivalent authorities - IAASA and the FRRP. Nonetheless, the summary report is informative and, again, highlights issues which all IFRS-adopting entities may find useful to consider.

4. Involving of all constituents in standard setting

Interesting times will continue with the next two years expected to be almost unprecedented in terms of the volume of IFRS activity.

Despite the significant ramifications of accounting standards for a variety of stakeholders, some of these stakeholders are not always as forthcoming with their views as the standards setters would like. Both the FASB and the IASB are trying to increase the input that they receive from their constituents in the hopes of improving standards' quality and practicality.

In fact, the involvement of all constituents is critical for producing high-quality standards. [6]

The long-term viability of IFRS depends on the development of standards that will not provoke carve-outs or more dramatic defections. Some jurisdictions, including the EU, already use carve-outs – their own versions of certain standards.

Companies have a variety of ways for influencing standards setting. We may discuss several approaches:

- Comment on discussion paper drafts. In addition to commenting on exposure drafts, companies can weigh in earlier by providing feedback on the discussion papers that the boards often release during the process of developing an exposure draft. For example, on 1 July 2010, the FASB and IASB released a staff draft on financial statement presentation, seeking input before publishing a formal exposure draft. [7]
- Participate in field testing. The boards frequently field-test a proposed standard, both before and after an exposure draft is released. Taking part in these studies provides an opportunity to wield influence.
- Initiate one-on-one conversations with members of standards boards. Reaching out to individual board members can be very effective, especially during the comment period.
- Participate in roundtables. The boards hold public roundtable discussions about proposed standards, allowing constituents to debate proposals with board members

and each other. To facilitate participation, the IASB hosts these discussions in a variety of locations across the globe.

- Understand the political complexion of the standards-setting boards. The boards publish dissenting views when they issue a proposal. A divided board offers an opportunity to change a standard, possibly leading to a more protracted process, but a better standard. Exposure drafts contain tentative conclusions that are intended to provoke discussion.

Despite the measurable progress toward convergence, audit committee members in the networks are unhappy with many aspects of the convergence effort and with the state of accounting standards in general. They are frustrated by the pace of progress on convergence, and one US audit chair voiced doubts about the US ever adopting IFRS: "I don't even ask about IFRS anymore." They are also frustrated by the increasing complexity of accounting standards and by the content and quality of specific standards. Networks members elaborated on their expectations of accounting standards and their disappointment with the current situation:

- Transparency. Members highlighted the importance of having standards that allow companies to convey accurately to the investor community how they have performed. Audit chairs decried the fact that financial statements are becoming less and less useful. One member noted, "Most investors don't understand financial statements." Another remarked, "Chairmen's statements now comment on how accounting standards are distorting results."
- Practicality. Members want high-quality standards that are practical to implement and easy for investors to use. One European audit chair remarked, "Our annual report is 500 pages long, which is longer than a Harry Potter book and too heavy to be legally carried by the postal service [in my country]."
- Certainty and stability. Members expressed considerable frustration with the lack of certainty around the convergence process. If it is unclear when standards will actually be completed, or if standards are continually

changing, companies are less likely to take them seriously.

Despite extensive outreach and consultations with stakeholders, the two boards continue to struggle to reconcile differences in how fair value should be applied. At the time of the meeting in Amsterdam, they were still proposing different approaches, and both boards are internally divided on the issue as well. [8]

The resolution of difficult issues such as the more extensive use of fair value is further complicated by disagreement among individual board members. When an exposure draft is issued, there may be a sizeable dissenting vote, and this vote can be strengthened during the ensuring comment period, leading to significant changes in the standard.

Board members may differ on general approaches as well as specific technical points. Some board members, for example, may be particularly interested in the concerns of a certain set of stakeholders.

The long and laborious march toward convergence is testing the patience of stakeholders and the resistance of standards setters. Audit committee members are concerned about the quality of emerging standards and the uncertainty surrounding the convergence process.

Meanwhile, the FASB and the IASB are struggling to balance the interests of different constituents as they attempt to meet aggressive deadlines. In order to improve quality and acceptance of the new standards, both boards are seeking extensive input from stakeholders, and they are offering access to the process in a variety of ways.

As the endgame approaches for several important standards, audit committees should ensure that their companies gauge the potential impact of proposed standards and make their voices heard.

The benefits of global adoption of IFRS are significant for investors. Global adoption will create a common denominator from which regulators and supervisors can assess the operations of the entities and markets they oversee. It will permit investors to compare the financial position of companies across borders, potentially allowing investors to more efficiently allocate capital on a global basis.

5. Conclusions

The concept of a single set of global accounting standards, considering the global economy and the prevalence of cross-border transactions, makes great sense. However, the burden and cost of implementation during the current economy is a large hurdle for some companies. In the long term, I believe a single set of global accounting standards will be very positive.

I think that the political, cultural and governance challenges associated with getting global adoption of a uniform set of high-quality accounting and financial reporting standards accomplished are far more difficult to deal with than the technical accounting issues, and will likely prevent the achievement of that goal. Still the convergence goal should be pursued to the extent feasible, and any remaining differences should be identified so that financial statement users can better consider the impact of such differences

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Intensification of Disparities between New Member State – Consequence of Capital Flow

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Abstract

The beginning of the 90's transitional period generated a significant increase of loans, in Eastern, South Eastern and Central Europe. The challenges that period brought were successfully overcome by the countries with flexible economies.

Lately, the uncontrolled evolution of the credits determined a rapid growth, but also a bigger recession, especially for the countries with less consolidated economy.

The opening of economies represented an opportunity for new investments, especially due to the governmental targets to increase the convergence with the Western Europe countries.

Key words: capital flow, FDI, economic growth, economic indicators.

J.E.L. classification: E20

1. The impact of the investment flow in the New Member States

The current crisis had a lower impact on the countries that redirected capital to foreign direct investment (FDI); but the countries that used capital flow for loans for banks and companies faced a harder situation, the consequences being severe decrease of GDP.

Part of the New Member States that joined the European Union in 2004 and 2007 (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia) have independent central banks, and capital accounts. These have to respect the same convergence prerequisites, determining similar macroeconomic policies. Nevertheless, they felt differently the impact of credit. The Baltic countries are the ones

that have been threatened by an excessive amount of loans, because of a high level of capital inflow that was in 2007 approx. 15% of GDP, while Slovakia and the Czech Republic were the less affected ones.[1]

Capital flows were high in most of the New Member States, but the increase was slowed down starting with 2008, when the economic and financial crisis hit. (Figure. 1).

Figure 1.

Net Private Capital Flows (percent of GDP)						
	2004	2005	2006	2007	2008	2009
EU	7,1	8,7	8,1	11,6	8,4	1,5

*)Eurostat [3]

The flows were high before 2003 also, but the biggest increase was between 2003 and 2007, and intensified the disparities between states.

Considering the low volatility at global level and the low interest rate, capital investments were directed to the areas where the yield was expected to be the highest, especially on emerging markets.

The investments were formed by ISD but also bank loans, the latter being the factor that caused the intensification of the disparities between regions.

The Western mother banks expanded to Eastern Europe. By supplying for the local branch, they generated a loan "boom". Their entering the market was rather aggressive, because they targeted the increase of the market share in a development region, which would have led to the expected profits.

Loans were a success especially in the countries with poor population, poor living

conditions and extremely low internal product value, elements that determined the continuous growth of imports, leading to the deepening of the commercial deficit. Loaning was not directed to productive sectors, sectors for which investments should have been encouraged. Instead, loans were directed only towards household consumption.

As a consequence of consumer behavior, that requests constant capital inflows, not for productive activities but for internal consumption, countries became more and more vulnerable.

In 2008, the economic and financial crisis revealed that, in the areas where the percentage of loans in GDP had grown the most, a significantly increased inflation rate and commercial deficit appeared, and, of course, extremely low competitiveness.

The negative consequences of this excessive loaning reflected in low wages, but also in rapidly increased housing prices.

Towards the end of 2008, the capital flows from mother banks decreased. The direct foreign direct investment flows were also affected by global recession, going from 1,2 trillions EUR (2008) to less than 0,72 trillions (2010). The decrease of FDI, though being a general trend, analyzed from a geographic point of view, had different intensities. In South-Eastern Asia FDI decreased with 17%, while in the Western Asia, FDI continued to grow in 2009, for the sixth consecutive year. In South-Eastern Europe, the impact of the crisis in FDIs appeared later than in Western Europe, considering that the New Member States reacted better to crisis until mid-2008, and in some cases, until the first part of 2009. In the second half of 2009, as a result of the deepening of the economic crisis, the decrease of FDI affected the entire Europe, the profits decreased, businesses slowed down. In 2009, the capital outflows from the developed countries decreased severely, by 46%. Analyzing the FDI for the Global Triad for 2008-2009 leads to the following conclusions: Japan was the most affected (decreased 17 times) followed by the USA (decreased 3,1 times) and then by Europe (decreased 1,8 times).

Because of the pressure caused by the lack of liquidities, lending slowed down,

continuing only where the financing sources came from the residents' deposits.

Because of the policies they used, the banks that before 2008 supported the capital flows in the less developed countries in order to maximize profits were severely affected by the crisis, facing lack of liquidities and solvability on national market.

The internal demand severely decreased, especially in the Baltic countries, as a consequence of the decrease in consumption and investments; the Czech Republic and Poland were the exception.

The decrease in import demand in developed countries triggered, starting with the second half of 2008, the free fall of global commerce that, by the beginning of 2010 had already lost between 40 and 45%. The severe decline of aggregated demand was associated with the increase of the tensions on global financial markets, leading to reduced commercial loans and increased loan costs.

Figure 2.

Annual average inflation rate					
	2006	2007	2008	2009	2010
EU-27	2,2	2,3	3,7	1	2,1
Bulgaria	7,4	7,6	12	2,5	3
Germany	1,8	2,3	2,8	0,2	1,2
Greece	3,3	3	4,2	1,3	4,7
Spain	3,6	2,8	4,1	-0,2	2
France	1,9	1,6	3,2	0,1	1,7
Italy	2,2	2	3,5	0,8	1,6
Hungary	4	7,9	6	4	4,7
Poland	1,3	2,6	4,2	4	2,7
Portugal	3	2,4	2,7	-0,9	1,4
Romania	6,6	4,9	7,9	5,6	6,1
United Kingdom	2,3	2,3	3,6	2,2	3,3

*) Eurostat

The crisis had an overwhelming impact especially on the countries with a rapid GDP growth in the past years and in which reducing loans generated the largest current account deficit.

The current economic crisis impacted negatively on the main economic indicators: inflation, unemployment, economic growth,

volume of commerce, foreign direct investments.

2. The consequences of global decline on the evolution of economic indicators

On a global scale, starting with 2007, several difficulties appeared in keeping the inflation rate in a bearable margin that would not have a severe impact on consumption, therefore the economies of the countries going through crisis should recover.

The pressure of inflation impacted on the demand, by reducing it, and also on the labor force market.

The year when the decline was felt the most was 2008, when most of the countries recorded much higher price increases than in the previous years. The highest inflation rates were recorded in Bulgaria (12%), Romania (7,9%) Hungary (6%). The EU average was approx. 3,7%, compared to 2,3% in the previous year.

The stability of prices was affected in most of the countries. This was a consequence of changes in raw material costs, which have a medium to long term impact. The most affected countries were the ones with more fluctuant economic development. In March 2010, the reference value for inflation rate was calculated to be 1%, based on the values recorded in Portugal, Estonia and Belgium, the most performant EU countries in this respect. [2]

For this, specialists used a different calculation approach than the procedure adopted in the Convergence Report in 2004 – this time, one country was removed from the study, the only one that recorded, for 12 months, an inflation rate of in March 2010. The exclusion decision was taken in order to not reduce too much the reference value and to highlight the considerable divergences between member states, which would have shown the severe economic problems the EU is facing.

Figure 3.

Unemployment Rate					
	2006	2007	2008	2009	2010
EU-27	8,2	7,2	7	8,9	9,6
Bulgaria	9	6,9	5,6	6,8	9,9
Germany	9,8	8,4	7,3	7,5	6,8
Greece	8,9	8,3	7,7	9,5	12,3
Spain	8,5	8,3	11,3	18	20,1
France	9,2	8,4	7,8	9,5	9,7
Italy	6,8	6,1	6,7	7,8	8,5
Hungary	7,5	7,4	7,8	10	11,2
Poland	13,9	9,6	7,1	8,2	9,6
Portugal	7,8	8,1	7,7	9,6	11
Romania	7,3	6,4	5,8	6,9	7,2
United Kingdom	5,4	5,3	5,6	7,6	7,7

*) Eurostat

The price index is expected to vary between 1,2% and 2% in the near future, and inflationist pressure will become a medium term concern, after the recovery becomes more solid and stable.

Even if, from the price evolution point of view, Spain was not one of the most affected countries, the alarming unemployment growth, especially in the last 2 years (200 and 2010) proved that Spain also faced severe problems.

In 2010, along Spain (20,1% unemployment rate), other countries faced the same situation: Greece (12,3%), Poland (9,6%) and Romania (7,2%).

As a consequence of the decrease in global demand and investments, of more expensive loans, the GDP growth rate decreased severely between 2007 and 2009, most of the EU member states recording negative values.

In Romania, GDP recorded one of the most reduced values (-7,6%), followed by Hungary (-6%) and Bulgaria (-5,7%).

Figure 4.

Real GDP growth rate						
Growth rate of GDP volume – percentage change on previous year						
	2006	2007	2008	2009	2010	2011(f)
EU27	3,2	3	0,5	-4,2	1,8	1,7
Belgium	2,7	2,9	1	-2,8	2	1,8
Bulgaria	6,5	6,4	6,2	-4,9	-0,1	2,6
Germany	3,4	2,7	1	-4,7	3,6	2,2
Greece	5,2	4,3	1	-2	-4,2	-3
Spain	4	3,6	0,9	-3,7	-0,1	0,7
France	2,2	2,4	0,2	-2,6	1,6	1,6
Italy	2	1,5	-1,3	-5	1,1	1,1
Hungary	3,6	0,8	0,8	-6,7	1,1	2,8
Poland	6,2	6,8	5,1	1,7	3,8	3,9
Portugal	1,4	2,4	0	-2,5	1,3	-1
Romania	7,9	6,3	7,3	-7,1	-1,9	1,5
United Kingdom	2,8	2,7	-0,1	-4,9	1,3	2,2

*) Eurostat

3. Causes and effects of crisis in Romania

In Romania, the 2003-2008 economic growth focused on household consumption, which was growing with 10-15% annually and on the dynamic fixed capital accumulation (20-30% growth), which led to the increase of employment rate, income and demand growth, but also a price increase for a wide range of products. After a positive evolution during the previous years, characterized by an important inflation rate decrease, from 3-figures values to one figure –value in 2005, the inflation rose again to 7,9%. In 2009, the price growth was of only 5,6% but based on the deepening of the crisis and as a consequence of the layoff measures, the inflation rate rose again, to 6,1% in 2010.

The fiscal policy, budgetary expenses and banking system are the three mechanisms that fueled the decline. The adopted fiscal

measures were procyclic. The 16% income and profit tax flat rate, introduced in 2005, which stimulated demand is representative for this argument. 82% of the amount of extra money obtained through this measure went to consumption, and budgetary income became more and more dependent on consumer tax. (VAT, excises).[4]

The uncontrolled investment based budgetary expenses (oversized, compared to the needs of the real economy and the financing possibilities), and salary expenses (that between 2005 and 2008 recorded an increase of 86%) represented additional factors for consumption. As in the other New Member States, the banking system activity had a positive trend. The consumer loan grew from 10% to 39% of GDP.

In 2008, the company loans decrease, being over passed by population loans, which by the end of 2008 would reach 70% of total income.

Compared to the savings rate, which in Romania had one of the lowest values in Europe, the investment rate has high, which led to a significant current account deficit.[5]

Figure 5.

Savings and Investment Rate in Romania (2005-2009)

	% from GDP				
	2005	2006	2007	2008	2009
Savings Rate (Sr)	13,1	14,4	17,1	18,8	19,1
Investment Rate (Ir)	23,7	25,6	30,2	33,3	25,6
Sr-Ir	-10,6	-11,2	-13,1	-14,5	-6,5

*)INS, calculated by RNB

The personal needs loans grew unprecedentedly, focusing on the purchase of long term usage goods. Real estate was used as collateral, real estate with a value up to 50% value than the real one. The demand for loans grew, and the ability to pay installments diminished year after year.

The economic crisis in Romania must be analyzed from 2 perspectives:

- Internal- the responsibility lays with the internal policy, which favored wage increases at a higher rate than labor productivity growth, excessive

consumption, mostly based on debts. These measures also favored speculations on the real estate markets. One of the biggest errors was delaying the application of prevention measures that could have diminished the unavoidable impact of decline.

- External – the global circumstances amplified the existing unbalance and generated new ones.

4. Conclusions

The new member states presented a much too high degree of economic opening, and the process was fast; therefore, the capacity to absorb capital flows was low.

The economic policies the new member states applied targeted an unprecedented economic growth, in order to decrease the lag

between them and the other states. The current crisis had such a significant impact because many of those countries did not comply with fundamental long term sustainable growth objectives.

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Consumer Behavior – A Consequence of Economic and Social Changes

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Abstract

Consumer behavior is part of the economic behavior, being observed from a multidimensional and interdisciplinary perspective.

Being a consumer is a quality given, in the first place, by the parties involved in the economic activity; the behavior is analyzed from a micro and macroeconomic perspective – behavior oriented towards satisfying individual needs.

According to the current economic trends and also as a consequence of the globalization of the markets, the following question arises: a person consumes to live or lives to consume?

Key words: consumer behavior, income, economic crisis, globalization

J.E.L. classification: D10

1. Introduction

The first studies on consumer behavior date from the 1960s. Until then, the analysis was done only at psychological level.

In order to support the detailed research on consumer behavior, The Association for Consumption Research, which in 1989 had over 1100 members, organized annual worldwide acknowledged congresses.

Consumer behavior includes the totality of the individual or group decisions connected to purchasing goods or services for satisfying current and future needs. The analysis includes studying the actions and attitudes that precede and influence these actions.

The evolution of the society triggered, in time, consumer behavior changes.

The globalization led to the increase of the number of companies competing, in places rather distant from one another, crossing the traditional, geographic, cultural, religious, moral and ethic borders.

2. Modern society – different consumer

The new trends on the global market brought with them new life philosophies, from the consumer's perspective, which put him in three different situations: mass consumption, the abundant society and hyperconsumption.

The first phase, the mass consumption was mostly generated by the development of infrastructure, of new transportation networks, which, at local/regional level, led gradually to the transformation of small markets into big, national markets. The development of mass consumption was also caused, in great part, by product manufacturers and service suppliers, which also invested significantly in the technical modernization of the production machinery and equipment. Lately, the specialty literature, [1](Key,P,2006) has used more and more frequently the phrase "democratization of consumption", which may be seen as a new production strategy or as simple "commercial strategy", having as main goal to sell a large amount of products, for the beginning with rather low profit margin.

The modern 21st century consumer differs significantly from the consumer one or two centuries ago, because of the new, modern lifestyle, mostly associated to his ability to assimilate the culture, traditions, customs of the people he comes into contact with.

The second situation the modern consumer faces is the so called "abundance". The abundance society, unlike mass consumption, focused on productivity increase, consumer

purchasing power (especially for the ones with salary based incomes), addressing mainly to the household appliances market.[2]

Gradually, the market for long term usage products (household appliances) grew, mainly due to the personal loans the banks gave in the last years.

Marketing studies showed that the increase of productivity and market share alone - which insure a substantial profit for the supplier, for a short time - are not enough; a quality readjustment during the marketing of the goods, by using the economies of scale is also necessary.

The mass consumption society grew inside the European Union countries, based on the economic growth of various sectors and on the improvement of the standard of living in certain countries as well as on the recent years' unprecedented development of the self-service facilities, supermarkets, hypermarkets, and the transformation of some stations and airports into commercial networks for travelers from all around the world.

With the development of new markets, the consumer's personal motivation became, obviously, more and more complex, thus having the possibility of becoming more independent, more selective in choosing the goods and services.

The globalization impacted significantly on the labor and product and services market of the 20th and 21st centuries, because of the latest social, language, economic and religious challenges.

The most known behavior models in psychological and economic literature belong to Freud and Veblen.

The Freudian model explains the consumer's behavior reactions, taking into consideration a series of factors like the person's attitude towards consumption (which can be either positive or negative). The Veblen model analyzes the consumer's behavior by observing the reactions and the external factors. Considering the two models, we have the following types of consumer behavior: the competition, ostentatious consumption and the compensation consumption.[3]

The competition consumer is a person that focuses on purchasing goods that give him higher social status within the group; this

consumer wants to strengthen his social status by financial superiority. This consumer has an ostentatious attitude, targeting the display of a higher status than the current one. This behavior is common for all the countries, but differs in terms of display.

Ostentatious attitudes appear especially in the economic boom, in USA and UK, but, in Romania, this behavior is displayed shortly, mainly during the periods preceding the growth peak. In the other EU Member States, the actions are long-term oriented, the social status being transferred to the heirs.

Sometimes these ostentatious consumers target imitating other persons' behavior; the evaluation of the products they purchased isn't done on personal criteria, being addicted to the image having these goods reflects, focusing on taking advantage of the success and fame that comes with the social status. For these consumers, the goods don't represent a means to satisfy their own needs, but a way to strengthen the others' opinion regarding their financial wealth.

The compensation consumption means buying durable goods (house, car, furniture, household appliances) which would induce the idea of a successful life, in compensation for the rigid social status.

The compensation consumption decreased during the current economic crisis as a consequence of income cutbacks and the increase of consumer goods.

The modern consumer's behavior is mainly based on personal satisfaction, and consumption is seen more and more as a strictly subjective choice, being influenced by a series of factors: consumer's age, gender, profession, social status and entourage, income, standard of living, tastes and preferences, his ability to assimilate a new culture, new traditions or internal rules, but also the economic development of the area.

There weren't any changes of the household consumption in the last decade within the EU (Figure. 1, Figure 3). Nevertheless, the differences between the structure of consumption in Romania and the consumption in EU are significant, especially regarding the expenses for food (35% in Romania compared to 13% in UE, in 2000 and 29.1% in Romania compared to 13.1% in UE, in 2009).

The significant differences in consumption give an important message regarding the economic development (standard of living, income and purchase power).

During the last 10 years, in Romania, household expenses on food decreased with approx. 20%, as a consequence of the improved living conditions, but also of the increase of the expenses on education (from 0.9% in 2000 to 2 in 2009) culture (from 4.6% in 2000 to 4,9 in 2009).[4](Eurostat Database)

Even if the consumers' preferences are alike, their abilities of satisfying their needs are different, which causes changes in the structure of consumption.

Starting from an analysis at microeconomic level, we bring up the pleasure or satisfaction that the consumer feels when taking "one unit" from a good or service.

In a society dominated by hyperconsumption, the consumers are especially interested in the quality of the product, which has to comply with the consumer's emotional states.

A series of transformation and structural changes of approach of new competitive strategies and of presentation of new offers on market appeared, based on the "technological progress" and new globalization trends.

The latest changes determined the appearance of a new type of consumer which has faster access to new products, images, services (communication) at any hour, especially through internet.

Hofstede's well-known studies on cultural dimensions often explained national differences in ethics. Hofstede's studies were analyzed especially from the perspective of national differences in ethics. We cannot claim that culture is the only cause for consumer behavior, but also circumstances and social aspirations.[5]

It hasn't been scientifically proved that a factor has the same impact in different cultures "inter-national differences may be generated by the different mentalities in different countries, or by the systematic polarization of the reply of people in different countries to the same factors". The ethic implications of consume behavior involves series of cognitive, affective and behavior trends towards problems and activities connected to social standards.

Ethic decisional models show that moral judgment depends mostly on the deontological (inherent quality) and theological (consistent) approach of the situation, but also on the personal and circumstantial features of the evaluator.

Figure 1

Figure 2

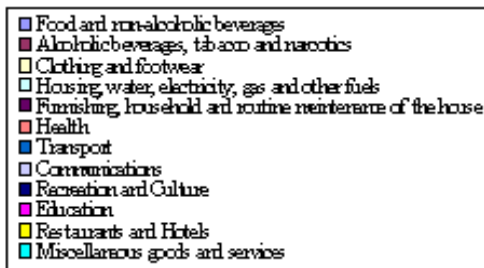
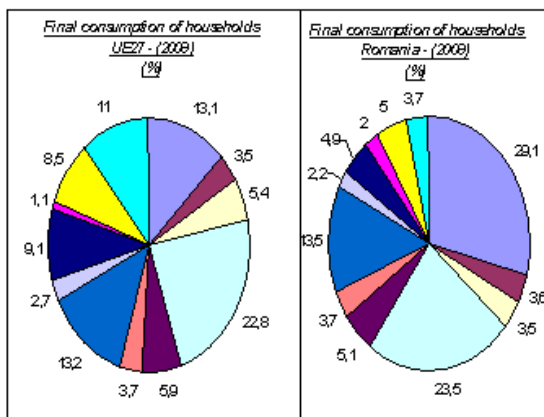
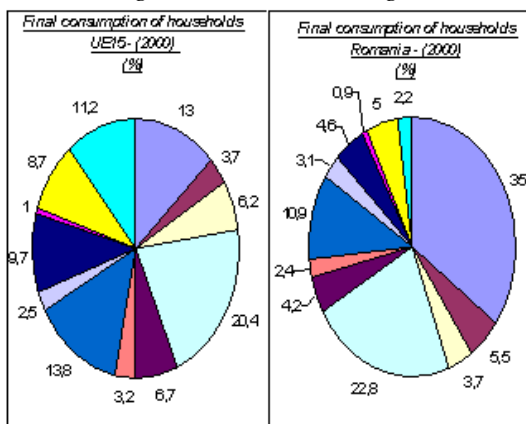


Figure 3

Figure 4



3. Conclusions

National and organizational culture, religious or personal beliefs, economic pressures and other factors will influence decisions, intentions, leading, in time, to different consumer behavior in different countries. Any perspective determines economic development, as an important factor in testing the effects of culture on consumer ethics. Research shows that the less developed countries do not always have the necessary resources to insure the legal means to balanced economic development of various sectors or markets.

Consumer ethics is defined by the moral rules, standards that guide individual (or group) behavior in taking the selection, using or selling decision. [6](Muncy & Vitell, 2005).

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The Evolution of Romania' Balance of Payments Current Account and of Romania' External Debt between 2007 and 2010

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Abstract

Emerging market economies were significantly affected by the global financial crisis.

Nevertheless, compared with their experience in previous crises, emerging market economies displayed remarkable resilience, maintaining robust rates of growth even as the crisis unfolded in advanced economies starting around mid-2007, and containing disruptions to financial markets so as to avoid experiencing crises themselves.

Many countries experienced recession in 2008 and Romania went into recession in the third quarter of 2008.

In this article we present the impact of the present crisis on the Romania' balance of payments current account and external debt between the end of 2007 and the end of 2010.

Key words: financial crisis, balance of payments, current account, external debt

J.E.L. classification: G01; G20.

1. Introduction

A balance of payments sheet is an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers. The balance of payments summarizes international transactions for a specific period, usually a year, and is prepared in a single currency, typically the domestic currency for the country concerned. Sources

of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as negative or deficit items.

Since 1974, the two principal divisions on the balance of payments have been the *current account* and the *capital account*.

The *current account* shows the net amount a country is earning if it is in surplus, or spending if it is in deficit. It is the sum of the balance of trade (net earnings on exports – payments for imports), factor income (earnings on foreign investments – payments made to foreign investors) and cash transfers.

The *capital account* records the net change in ownership of foreign assets. It includes the reserve account (the international operations of a nation's central bank), along with loans and investments between the country and the rest of world (but not the future regular repayments/dividends that the loans and investments yield; those are earnings and will be recorded in the current account).

The *current account* is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid).

The current account balance is one of two major measures of the nature of a country's foreign trade (the other being the net capital outflow). A current account surplus increases a country's net foreign assets by the corresponding amount, and a current account deficit does the reverse. Both government and private payments are included in the calculation. It is called the current account

because goods and services are generally consumed in the current period.

The balance of trade is the difference between a nation's exports of goods and services and its imports of goods and services, if all financial transfers, investments and other components are ignored. A nation is said to have a trade deficit if it is importing more than it exports.

The net factor income or income account, a sub-account of the current account, is usually presented under the headings income payments as outflows, and income receipts as inflows.

In the traditional accounting of balance of payments, the current account equals the change in net foreign assets. A current account deficit implies a paralleled reduction of the net foreign assets.

Action to reduce a substantial current account deficit usually involves increasing exports (goods going out of a country and entering abroad countries) or decreasing imports (goods coming from a foreign country into a country).

◆ Firstly, this is generally accomplished directly through import restrictions, quotas, or duties (though these may indirectly limit exports as well), or subsidizing exports. Influencing the exchange rate to make exports cheaper for foreign buyers will indirectly increase the balance of payments.

◆ Secondly, current account deficit are reduced by promoting investor friendly environment i.e. Foreign Direct Investment, Foreign Institutional Investors, the income from these foreign investments positively contributes to current account.

◆ Thirdly, adjusting government spending to favor domestic suppliers is also effective.

Less obvious methods to reduce a current account deficit include measures that increase domestic savings (or reduced domestic borrowing), including a reduction in borrowing by the national government. [15]

2. Romania' balance-of-payments current account evolution

Through the macroeconomics' analysis carried out by National Bank of Romania and

presented in Financial Stability Report/ 2010 result that:

"Due to the crises started in mid-2007, the world economy deteriorated significantly in 2009 (down 0.6 percent), its first contraction in 30 years, while the European Union economy saw a sharper fall (more than 4 percent), the important government stimulus packages notwithstanding.

The Romanian economy followed a similar trend as the other countries in Central and Eastern Europe, except Poland. The Romania' economic contraction was sharp (7.1 percent) and the fiscal deficit widened substantially (to 7.4 percent of gross domestic product). There was no need for public funds to support the banking sector, as the noticeable increase in capitalization of credit institutions in Romania was fully achieved through the efforts undertaken by shareholders, also in response to the National Bank of Romania's demands.

The current account deficit adjustment (from 11.6 percent of gross domestic product in 2008 to 4.5 percent of gross domestic product in 2009 and its maintenance close to this level in 2010) help to markedly reduce one of the vulnerabilities of the Romanian economy when the crisis broke out. At the same time, external deficit financing was achieved almost entirely via foreign direct investment, even though their volume decreased by about 45 percent against 2008.

A substantial part of external private debt was rolled over for increasing maturities, to larger-than-initially-forecasted levels, despite the decline in banking intermediation at global level, and the short-term external debt stock, along with its share in total external debt, narrowed considerably, thus contributing to the reduction of the Romanian economy's second vulnerability since the crisis broke out, respectively since mid 2007.

The largest contribution to the narrowing of the external deficit came from the systemically important companies in the real sector. As far as these companies were concerned, after their trade deficit exceeded EUR 6 billion in 2008, in 2009 their external transactions posted a slight surplus of EUR 0.1 billion." [4]

Between December 2007 and December 2010 the balance-of-payments current account posted deficits, those deficits were between EUR 5.520 Million, in December

2007 and EUR 966 million in December 2010.

This diminishing of the deficit of account current is due, in principal, to the climb-down of the trade deficit (this deficit was of EUR 5.653 million in December 2007, then it became EUR 4.221 million in December 2008, EUR 2.065 million in December 2009 and finally in December 2010 it was of EUR 1.623 million).

Also, the evolution of the incomes' deficit posted a significant influence over the decrease of the deficit of current account (the deficit of incomes fell from the value of EUR 954 million, in December 2007, to EUR 238 million in December 2008, then the incomes' deficit rose to EUR 479 million in December 2009 and, finally, registered a slowly decrease at EUR 444 million)

The current transfers registered surplus in all period. The value of this indicator grew from EUR 1.088 million in December 2007, to EUR 1.345 million in December 2008, then diminished at EUR 822 million in December 2009 and in December 2010 increased at EUR 1.102 million.

The evolution of balance of payments current account in studied period is presented in the Table 1. and in the Figure 1.

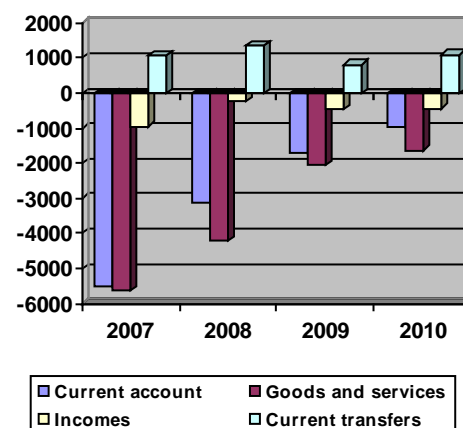
Table 1. The annual dynamics of balance of payments current account

- EUR million-

Period		Current account, Of which (A+B+C)	A) Goods and services	B) Incomes	C) Current transfers
Dec. 2007	Credit	12,130	9,736	560	1,835
	Debit	17,650	15,389	1,514	747
	Net	-5,520	-5,653	-954	1,088
Dec. 2008	Credit	12,817	10,117	590	2,110
	Debit	15,931	14,338	828	765
	Net	-3,114	-4,221	-238	1,345
Dec. 2009	Credit	11,364	9,588	266	1,510
	Debit	13,086	11,653	745	688
	Net	-1,722	-2,065	-479	822
Dec. 2010	Credit	13,828	12,073	266	1,489
	Debit	14,794	13,696	710	387
	Net	-966	-1,623	-444	1,102

Source: National Bank of Romania

Figure 1. The balance of payments current account evolution



In all period the current account deficit was covered by non-residents' direct investment in Romania. The evolution of Romanian external debt is presented in chapter 3 "The evolution of external debt".

3. The evolution of external debt

The brut total external debt of Romania registered a permanent increasing in period December 2007 – December 2010, in principal due to the global recession and financial crisis beginning in 2007 and its influence upon the Romanian economy.

An important share in brut total external debt is kept by brut external debt (with more that 80%), comparative with the share registered by direct investments inter-companies (below 20%).

Also, an importance share in brut external debt is kept by banks and monetary authority followed by the government debt.

Regarding at the components of the direct investments inter-companies the share of 90% is held by foreign direct investment.

This evolution is presented in the Table 2. "The annual dynamics of external debt", in the Table 3. "The evolution of brut external debt' components", in the Table 4 "The evolution of direct investments inter-companies' components" and in the Figure 2. „The external debt evolution”.

Table 2. The annual dynamics of external debt
-EUR million at the end of the month-

Data	Total brut external debt*, of which:	Brut external debt	Direct investments inter-companies
Dec. 2007	58.629	46.695	11.934
Dec. 2008	72.354	57.7534	14.600
Dec. 2009	81.163	66.015	15.148
Dec. 2010	90.765	74.881	15.884

*) The balance of external debt is cash-based (excluding unmatured accrued interest); the IMF's SDR allocations are not included:
a) external loans taken directly by the Ministry of Public Finance and local general government in compliance with the legislation on public debt, including Government Emergency Ordinance 99/2009 ratifying the Stand-by Arrangement between Romania and the IMF;
b) external loans guaranteed by the Ministry of Public Finance and local general government in compliance with the legislation on public debt;
c) under the Stand-by Arrangement concluded with the IMF, excluding the amount received by the Ministry of Public Finance from the IMF according to Government Emergency Ordinance 99/2009.

Source: NBR

Table 3. The evolution of brut external debt' components

-EUR million at the end of the month-

Data	Brut external debt, of which:	Brut external debt of:			
		Government	Monetary authority	Banks	Other sectors
Dec. 2007	46.695	9.630	145	19.459	17.460
Dec. 2008	57.753	10.254	303	24.826	22.370
Dec. 2009	66.015	13.583	5.765	21.488	25.180
Dec. 2010	74.881	18.174	9.105	22.661	24.941

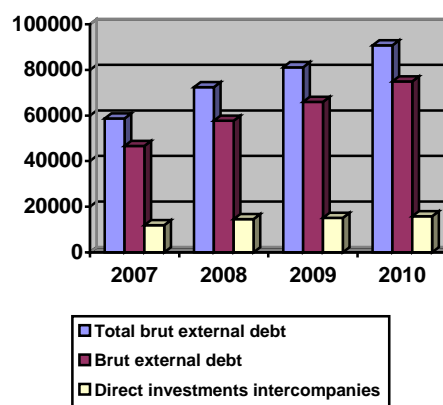
Source: NBR

Table 4. The evolution of direct investments inter-companies' components
-EUR million at the end of the month-

Data	Direct investments inter-companies, of which	Debts with affiliated companies	Debts with investors
Dec. 2007	11.934	2	11.932
Dec. 2008	14.601	18	14.583
Dec. 2009	15.148	6	15.142
Dec. 2010	15.884	0,0	15.884

Source: NBR

Figure 2. The external debt evolution



The companies that benefited from foreign direct investments weathered the crisis better than the rest of the economy. Their performance indicators deteriorated at a slower pace. These companies may contribute to a more sustainable convergence to the euro zone, as they proved their structure allows them to withstand shocks more efficiently, they play a key role in generating value added in the economy (almost 40 percent of value added of non-financial companies) and account for more than 75 percent of Romania's exports. [4]

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The Effects of the Present Crisis on the Romanian Banking System

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Abstract

The financial crisis of 2007 to the present is a crisis triggered by a liquidity shortfall in the United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the hundreds of trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity.[15]

Many countries experienced recession in 2008 and Romania went into recession in the third quarter of 2008.

In this article we present the impact of the present crisis on the Romanian Banking System between the end of 2007 and the end of 2010.

Key words: financial crisis, credit institution, loans, deposits

J.E.L. classification: G01; G20.

1. Introduction

The Romanian banking sector has remained relatively unaffected by the direct impact of the global financial crisis, till the third quarter of 2008, due to its traditional banking activity model. Local banks were not engaged in investing in complex structured

financial instruments and, therefore, the size of financial institutions' exposure to US sub-prime market risks, either in the form of holding structured financial instruments or other instruments issued by the largest investment banks, was negligible.

Romanian banks were adversely impacted by its collapse (in the third quarter of 2008) as a result of a major increase in the risk aversion of global financial market participants, despite the lack of direct exposure to Lehman Brothers. As a significant number of Romanian banks are members of global or regional banking groups, the turbulence in the global market caused a major fall in mutual confidence between them, which may be denoted as an "imported" confidence crisis. As a result, liquidity in the local money and foreign exchange markets decreased significantly. Tensions in the money market were also caused by the increased risk aversion of global investors resulting in a "flight to quality" and the withdrawal of capital from emerging markets.

Stress tests conducted by the National Bank of Romania in 2009 and 2010 indicate that banks operating in Romania have sufficient capital buffers to absorb potential losses resulting from even very strong adverse economic developments.[4]

2. The effects of the financial crisis over the principal indicators for credit institution.

The Romanian banking sector entered the period of global financial turbulence and economic slowdown in a comfortable position in terms of profitability and capital adequacy. During the period December 2007

– December 2010 bank capitalization has increased to comfortable levels. These developments are the result of the efforts undertaken by credit institution, while the National Bank of Romania's demands in this field and the signing of the financing arrangement by the Romanian authorities with the European Union and the International Monetary Fund, along with the commitments assumed under the European Bank Co-ordination Initiatively the nine largest foreign banks operating in Romania, were the major catalysts of these efforts. [4]

Between 2007 and 2010, the structure of Romanian banking system posted no significant changes in terms of the number of credit institutions, total net assets, share holding and concentration degree. This situation is presented in Table 1.

Table 1. "Structural indicators of the Romanian banking System"
-at the end of the month-

No	Indicator	Dec 2007	Dec 2008	Dec 2009	Dec 2010
1	Number of credit institutions	42	43	42	42
2	Number of banks with majority private capital	40	41	40	40
3	Number of banks with majority foreign capital, of which	36	37	35	35
	- foreign bank branches	10	10	10	9
4	Total net assets (including foreign bank branches) (mil. RON)	251.426	314.442	330.184	341.846
5	Assets of banks with majority private capital/ Total assets (%)	94,7	94,6	92,5	93,2
6	Assets of banks with foreign capital including foreign bank branches/ Total assets (%)	88	88,2	85,3	86,1

Source: NBR

The deterioration of international economic situation due to the global crisis exerted negative influence on the Romanian banking sector. The economic slowdown adversely impacted the economic standing of borrowers and, consequently, the quality of banks' credit portfolios deteriorated.

The increase in credit risk and funding costs adversely impacted banks' profitability (see Table 2). Return on assets (ROA) and return on equity (ROE) decreased at the end of 2009 comparatively with the same period of 2008 and in 2010 the values of those indicators became negative.

The majority of Romanian banks followed the National Bank of Romania's recommendations and retained 2008 profits in order to increase their capital base. As a result, the average capital adequacy ratio in the banking sector increased to 14.67% at the end 2009 and at 14.66%, at the end of 2010 (compared to 13.76%, and 13.78% at the end of 2007 and respectively at the end of 2008) (sees Table 2).

The indicator "Total operating income/Total operating expenses" decreased from 179.56%, at the end of 2008, at 156.53%, at the end of 2009 end, respectively at 155.92%, in December 2010.

The indicators "Credit risk ratio" and "Non-performing Loans Ratio", debased sharply followed a rising trend, reaching 20.81%, and respectively 11.85% in 2010, comparative with 15.29% (Credit risk ratio) and 7.89% (Non-performing Loans Ratio) in December 2009 and with 6,52% (Credit risk ratio) and 2.8% (Non-performing Loans Ratio) in December 2008.

Also, the indicators "Past due and doubtful loans/ Total loans portfolio (net value)" and "Past due and doubtful claims (net value) / Total assets (net value)" followed the same path followed by indicators "Credit risk ratio" and "Non-performing Loans Ratio"

Table 2. Indicators for Credit Institutions
-percentages-

No	Indicator	Dec 2007	Dec 2008	Dec 2009	Dec 2010
1	ROA - Return on assets	...	1,56	0,25	-0,09
2	ROE - Return on equity	...	17,04	2,89	-1,02
3	Capital Adequacy Ratio* ($\geq 8\%$)	13,78	13,76	14,67	14,66
4	Total operating income/ Total operating expenses	...	179,56	156,53	155,92
5	Credit Risk Ratio*	4,00	6,52	15,29	20,81
6	Non-performing Loans Ratio*	...	2,8	7,89	11,85
7	Past due and doubtful loans/ Total loans portfolio (net value)	0,22	0,32	1,45	2,22
8	Past due and doubtful claims (net value) / Total assets (net value)	0,17	0,29	1,01	1,49

Source: NBR

*) Indicators for commercial banks and Creditcoop; foreign bank branches do not report Capital Adequacy, Own Funds and Loans Classification Statement

Calculations based on credit institutions prudential supervision reports

ROA = Annualized net profit/ Total average assets

ROE = Annualized net profit/ Average own capital

Credit Risk Ratio = Gross exposure of non-bank loans and interest classified as doubtful and loss/ Total classified non-bank loans and related interest, excluding off-balance sheet items

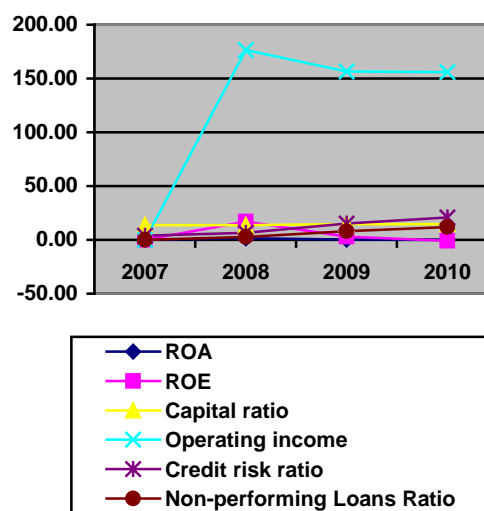
Non-performing Loans Ratio = Gross exposure of non-bank loans and interest classified as loss that is overdue more than 90 days and /or for which legal proceedings were initiated against the debtor or against the operation / Total classified non-bank loans and related interest, excluding off-balance sheet items

Note:

Indicators include all credit institutions (commercial banks, foreign banks branches and Creditcoop).

From January 1, 2008, based on FINREP and COREP reports
From January 1, 2008, Total assets and Own capital for indicators 2, 4 and 7 are calculated as averages.

Figure 1. Indicators for Credit Institutions



3. The evolution of loans and deposits of non-banks and non-government customers during the crisis period.

The evolution of loans and deposits of non-banks and non-government customers during the crisis period, respectively from December 2007 to December 2010 is presented in Table 3 and in Figure 2.

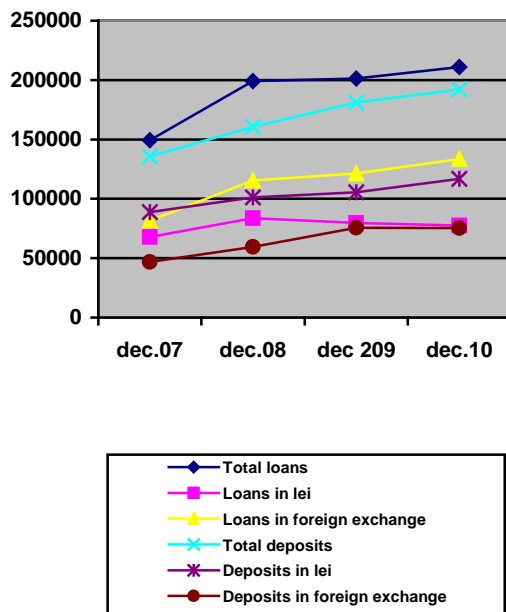
Table 3. The evolution of loans and deposits of non-banks and non-government customers
- mil RON, at the end of the month-

No	Indicator	Dec 2007	Dec 2008	Dec 2009	Dec 2010
1	Total loans (r.4+r.7), on which:	149.261	199.106	201.193	210.851
2	- current loans	148.169	196.306	193.035	194.692
3	- overdue loans	1.092	2.800	8.157	16.159
4	Loans in lei, on which:	67.800	83.746	79.788	77.448
5	- current loans	67.038	81.934	75.323	69.845
6	- overdue loans	762	1.812	4.465	7.602
7	Loans in foreign exchange, on which:	81.461	115.360	121.404	133.403
8	- current loans	81.131	114.372	117.712	124.846
9	- overdue loans	330	988	3.692	8.556
10	Total deposits, time deposits, deposits redeemable at notice and repurchase operations (r.13+r.16), on which:	135.496	160.759	180.978	192.112
11	- residents	129.063	151.439	168.076	178.094
12	- non-residents	6.433	9.319	12.902	14.018

13	Deposits, time deposits, deposits redeemable at notice and repurchase operations in lei, on which:	88.753	101.170	105.440	116.745
14	- residents	87.656	98.806	103.001	114.136
15	-non-residents	1.097	2.364	2.439	2.609
16	Deposits, time deposits, deposits redeemable at notice and repurchase operations in foreign exchange, on which:	46.742	59.588	75.538	75.367
17	- residents	41.407	52.633	65.075	63.957
18	- non-residents	5.335	6.955	10.462	11.410

Source: NBR

Figure 2. The evolution of loans and deposits, by currency



Both "total loans" and "total deposits" reported positive annual growth from December 2007 to December 2010.

By currency, the evolution of loans and deposits in lei knew an increase in December 2008, comparatively with December 2007, then the evolution reported a decrease in December 2009 and December 2010, comparable with the values from December 2008. The evolution of loans and deposits in foreign exchange registered a constantly upswing since December 2007 to December 2010.

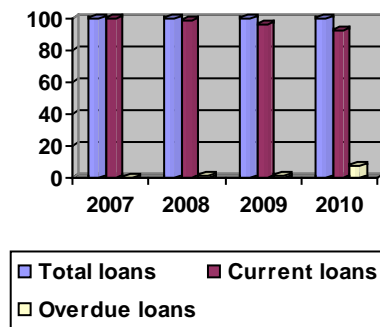
The evolution of current loans and overdue loans weight in total loans is presented in Table 4. and in Figure 3.

Table 4. The share of current loans and overdue loans in total loans

-percentages-					
No	Indicator	Dec 2007	Dec 2008	Dec 2009	Dec 2010
1	Total loans , on which:	100	100	100	100
2	- share of current loans	99,27	98,59	95,95	92,34
3	- share of overdue loans	0,73	1,41	4,05	7,66

Source: NBR

Figure 3. The share of current loans and overdue loans in total loans



The share of overdue loans in total loans followed an uptrend, rising from 0,73% in December 2007, to 1, 41% in December 2008 then to 4,05% in December 2009 and, finally, growing at 7,66% in December 2010.

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Economic Competitiveness: a Theoretical Overview

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Abstract

The complexity of the concept of competitiveness lies in the fact that the term is used in various levels of aggregation, allowing the generation of its different meanings at microeconomic, mezzo economic, and macroeconomic level.

Based on the evidence of interdependence and complementarities of economic competitiveness with other terms, such as to induce errors in understanding the phenomenon, this scientific approach aims: the development of conceptual limitations of the term competitiveness, what does competitiveness mean at the firm, industry and national level and accentuation the essential theories of trade, from classical theories such as Adam Smith's absolute advantage to new theories such as Helpman's or Krugman's model and to reveal their influence on international competitiveness.

Key words: competitiveness, trade theory, comparative advantage, imperfect markets.

J.E.L. classification: F11, F12, F23

1. Introduction

The scientific approach developed in this paper starts to address the concept of competitiveness, reviewing various definitions of literature and sparked controversy around the concept. Much of its opaqueness stems from the fact that the term is used at different levels of aggregation, leading to different meanings as well as different indicators. We will introduce separately the concepts of competitiveness at the level of firms (micro) level, at industry (mezzo) level and national (macro) level.

The second part of the paper performed a review of the main theories of trade that are relevant for economic competitiveness,

synthesizing the main findings of the classical theory and the neoclassical theories that trade theories can induce on competitiveness.

2. What are we talking about? Concept of competitiveness

The terms of competitiveness are often used in different contexts, meaning different things.

At company level, competitiveness is defined as the ability or capacity of companies to compete and sometimes as the ability to compete in international markets, with a satisfactory rate of return (OECD, 2001).

Companies may build competitive advantage over their rivals through products differentiation, through ability to learn and innovate, or by shaping the framework conditions under which they operate, including the market and regulatory frameworks.

There are authors (Belz and Hugenschmidt, 1995) that break down the concept of competitiveness to the individual business unit and product level, saying that for multiple-products companies it is very difficult to evaluate competitiveness at firm level. Rather, it makes more sense to evaluate a firm's competitiveness at the level of its business units or products categories.

Sometimes, the firm is often described as being the most obvious level to which the concept of competitiveness can be applied. It is firms which compete with one another in the market place. An economy cannot be competitive unless companies operating there are competitive, whether they are domestic firms or subsidiaries of foreign company (Porter, 2002).

Competitiveness at industry level is understood by economic literature as the ability to compete, particularly in international markets, with satisfactory rates

of return (OECD, 2001). Porter and Van der Linde specify that the proper definition of competitiveness at the aggregate level is the average productivity of industry or the value created per unit of labour and per dollar of capital invested (Porter and Van der Linde 1995). Concerning at the impact of public policies on competitiveness, it is often argued that it is more informative to explore industry than firm level competitiveness because a competitive advantage that an individual firm may gain as a result of the public policy is often realised at the expense of competitors. At industry level, impacts by public policies on competitiveness may be assessed in an aggregated way and in comparison to other industries either within the same country or the same industry in another country.

The competitiveness of a country is essential for the welfare of its citizens. It means output growth and high rates of employment in a sustainable environment. In a fast-moving world economy, one of the keys to competitiveness is adaptability. An economy is adaptable if it can accumulate and redeploy resources rapidly in pursuit of new opportunities, while, at the same time, fully exploiting existing competitive strengths. Adaptability is crucial not only for the growth prospects of a country but also for its resilience to economic shocks.

Most often, the competitiveness concept is discussed of the national level, frequently denominated as international, national or economic competitiveness. From this perspective, it is distinguished between: an understanding of competitiveness as a country's share of world markets for its products and a productivity oriented understanding of competitiveness (Porter, 2002).

The OECD describes a nation's competitiveness as the degree to which it can, under free and fair market conditions, produce goods and services which meet the test of the international markets, while simultaneously maintaining and expanding the incomes of its people over the longer term (OECD, 1990).

The 'market share' view, is held by economists representing traditional or strategic trade theory, frequently links competitiveness to trade flows. This view of competitiveness is based on an interpretation of national competitiveness as a zero-sum

game, with each country gaining at the expense of others. Many critics stress that competition of such a zero-sum kind does not exist between nations. Paul Krugman, for example, points out some crucial differences in the competition between economies and firms: above all, a country that loses its competitiveness does not go out of business. Also, nations are not able to externalise social and environmental costs to the same degree as companies in order to increase their efficiency. These discrepancies make competitiveness a somewhat elusive concept at national level (Krugman, 1994).

While the 'market share' view of national competitiveness stresses a country's performance on international markets, critics like Krugman or Porter are convinced that a country's standard of living depends almost entirely on its own domestic performance, and not how it performs relative to other countries.

Applying the concept of competitiveness to national level is highly contentious. In addition to the conceptual objections raised by Krugman, Porter and the like, there are methodological and political concerns. National competitiveness is a highly complex aggregate of the varying levels of competitiveness of individual firms and industries. The evaluations depend to a large extent on the set of indicators used to analyse national competitiveness and therefore judgement and rankings of the world's most competitive countries vary from one measurement to the next. When it comes to assessing the impacts that policies have on competitiveness, the OECD describes the national economy as the most preferred level of analysis. When evaluating a particular policy, the effects on the economy as a whole should be considered, not just the effects of individual sectors (OECD, 2004). It is likely to remain a big challenge to the research community to distinguish the effects of one policy from another policy on the aggregated level of the national economy.

Other researchers reject the debate on nation level competitiveness in particular on grounds of its expected political implications and effects on state governance. Fougner points out that the debate on international competitiveness has shifted from how governments can support national companies to export and invest abroad to how states can

attract investors. He underscores that the primary governmental problem on the part of state authorities is no longer to make firms more competitive, but to make the state itself more competitive (Fougner, 2006).

3. Implications of trade theories for competitiveness

Trade theory asserts that economic welfare is dependent on the production of goods and services that a country has comparative advantage in. Therefore, international competitiveness is secured when production is in line with a country's comparative advantage situation.

The survey starting from trade theory and embracing competitiveness theory will try to detect concepts and elements that would facilitate clarifying and understanding driving factors determining international trade competitiveness.

Each of the following major groups of economic theories provides frameworks of direct relevance to any discussion of international trade competitiveness:

- Traditional trade theory, which incorporates the principles of perfect competition, homogenous goods, and constant returns to scale in production. This includes the trade theories of Smith, Ricardo, Heckscher and Ohlin and the modifications or extensions of the Heckscher-Ohlin theory.
- The second group- new trade theory would include theories characterised by product differentials, imperfect competition and increasing returns to scale. These theories have been pioneered by Dixit and Stiglitz (1977), Krugman (1979, 1980, 1985) and Helpman (1981).

During XV–XVII centuries, when international business became important, evolved an economic theory named mercantilism, which viewed trade as a zero-sum game in which a trade surplus of one country is compensation by a trade deficit of another country.

In contrast, according to the theory of absolute advantage, Adam Smith viewed competitiveness of country as a positive-sum game in which all trading partners can benefit if countries specialize in the production of goods in which they have

absolute advantages (Cho and Moon 1998). The advantage comes from the division of labour. Smith extended this idea to that of international division of labour. From his point of view, competition was important because it assured that each person and nation would do what they were best fitted to do, mutually rewarding their services and maximally contributing to the common good.

David Ricardo extended absolute advantage theory to comparative advantage theory. He demonstrated that gains from trade could be made when two countries specialize in the production of goods for which they have a comparative advantage.

According to the ricardian model, differences in production function across sectors and across countries rise due to differences in comparative labour productivity.

Classical theories previously presented provide models to clarify the competitiveness of international trade based on differences in productivity levels between countries, but it does not explain why these differences exist. Certain degree of specialization is being foreseen, but in reality countries produce a variety of products, part of which is being traded.

Neo-classical economists Heckscher and Ohlin explained that comparative advantage arises from differences in factor endowments. According to their theory, there are two basic characteristics of countries and products. Countries differ from each other according to the factors of production they possess. Goods differ from each other according to the factors that are required in their production. A country will have comparative advantage in and therefore will export, that good whose production is relatively intensive in the factor with which that country is relatively well endowed. In other words, in two countries, the capital-abundant country will export the more capital-intensive good while the labour-abundant country will export the labour-intensive good.

Some neo classicalists have developed alternative theories, such as Leontief paradox, product cycle, country similarity and economies of scale (Cho, Moon 1994), which are still widely used for practical purposes in applied scientific researches.

To sum up, the ideas of the traditional theories of international trade are that the specialisation in products of comparative

advantage, accumulation of resources, innovation of productive processes and the intensity of entrepreneurial activity determine a country's international competitiveness. Furthermore, the conventional models advocate free trade as the main proponent of improved competitiveness.

Comparative advantage justifications for international trade imply a strong tendency for trade between countries with large differences in technology or factor endowments. It has been shown that in many cases trade flows are greatest between countries with similar technological capabilities or factor endowments.

The literature of the last decades have shifted the focus away from the traditional models based on the assumptions of perfect competition and returns in production to the implications of imperfect competition and economies of scale for international trade.

The new trade theories have challenged three underlying assumptions of the traditional trade models, as follow:

- the assumption of perfect competition, which is replaced by imperfect competition;
- constant returns to scale which is replaced by increasing returns to scale;
- the definition of an industry in terms of homogeneous goods which is replaced by product differentiation.

New trade theories are based on monopolistic and oligopolistic models rather than perfect competition models as in the case in traditional trade theory. The Dixit&Stiglitz(1977) model of product differentiation has formed the basis for models of monopolistic competition on trade.

On the other hand, perfect competition models can only accommodate pure technological external economies since internal economies of scale imply imperfect competition.

Helpman's view (1981) and Krugman's view (1985) classified economies of scale in the following ways: static intra-firm technological economies of scale; static external economies and dynamic economies of scale. Each of these types of economies has implications for international trade. Economies of scale or increasing returns means, that if inputs were doubled, output would be more than doubled. If there are economies of scale, countries would benefit

if they specialize in the production of a limited range of goods. Economies of scale and international trade make it possible for each country to produce goods more efficiently without sacrificing of variety of goods.

Not least, the new trade theories don't restrict the choice between comparative advantage or increasing returns as the underlying causes for trade. The models of intra-industry trade assumed that products could be grouped into industries where, at the aggregate level, factor proportions or comparative advantage explanations were responsible for inter-industry trade, while intra-industry trade was primarily driven by economies of scale in production. In this way, new trade theory offered a kind of synergy between comparative advantage and increasing returns.

4. Conclusions

The paper provides a comprehensive survey of the literature discussing competitiveness. The notion of competitiveness is specifically defined and explained.

The theoretical literature is synthesised to characterize the main driving factors, explanation how they relate to understanding of the relative competitiveness of international trade is being suggested.

Analysis of the trade theories, allowed us to highlight some specific elements of the new climate in which trade takes place, leading to the conclusion that it would be better for economic development strategy of a country, cover less comparative advantages and focus mainly on competitive advantages

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Sales Management in Small Business

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Abstract

Sales management is particularly difficult, as one of the few areas in which management rarely meets with his staff. In an age where technology has increased dramatically the speed with which the goods and services can be produced, distributed and facilitate communication between organizations, the most valuable factor for the efficient functioning of a company in its relations with customers is still the human performance.

Key words: manager, leader, sales team

J.E.L. classification: M31, M54

1. Introduction

Sales operations is the link between the firm and its clients, a point of contact with them. Sales operations are carried out in the core business and generating incomes is a vital function.

Today, sales operations consist not only of personal sales, but also from a range of other forms of contact with customers, including sales by phone, internet and other forms of electronic communication, service activities or technical assistance available to customers who join the traditional form of selling through agents[1].

Fundamental nature of the sale in a market-oriented enterprise implies the existence of several vital functions - the provision of information, belief and creating, developing and maintaining relationships with customers.

2. Sales management within GMB Computers

GMB Computers is a limited liability company operating in the Constanta. The main activity is providing complete IT solutions. GMB Computers provides a range of products, starting from next-generation computers, servers, networking products, multimedia products, video cameras and digital audio-video products and other peripherals, to the latest portable devices such as mobile phones, PDAs, iPods, laptops or flash memory with high capacity.

GMB Computers was guided from the beginning by a set of values that over time have come to define the way society thinks about the business: customer orientation, trust and respect, responsibility and professionalism, honesty, innovation, excellence.

Structure of an organization is considered within its frame. This means that all persons and branches set up in such a way as to ensure achievement of the company's forecast[6]. In the company GMB Computers there is a specific organizational structure of the company, carrying the daily work, so it can be easier[2].

Goals in terms of management structure are: clarification of channel sections and tasks, clarifying the organizational hierarchy, to clarify the channels of communication and ability for managers to allocate resources to the objectives defined by the plan. The company's top management consists of General Manager, Technical Manager, Director of Sales, CFO and Project Accountant. According to the chart, the top four management positions form the Steering

Committee. The General Manager General and the Finance and Accounting Manager are the two shareholders of the company. All four departments aim to provide IT products and services in accordance with customer needs and international standards.

The role of sales manager in the GMB Computers is planned to achieve business development goals, by motivating the sales team towards obtaining the best results. This continuing support is provided by the sales manager of his team. There are certain standard tasks that are performed by sales managers, as happens in the GMB Computers: planning, organizing, controlling, recruitment, training and motivation.

Sales manager's role varies depending on the position and level located in an organization. In the case of GMB Computers the sales manager contributes to all three existing levels: the strategic, tactical and the operational one.

In the case of the strategic level, decisions involves: currently and the future underserved markets, the types of products that can satisfy customers in these markets, areas of activity which the company does not want to deal with[3].

Tactical level involves decisions about structuring the sales staff by size and organizational structure, development of sales staff, the policies and programs for recruitment, selection and training, motivating staff through supervision, coordination, compensation, evaluation and control.

Operational level refers to manager's focus to persuade the people to fulfill their assigned duties at the highest level of quality. They have to encourage salespeople to self-managed, as individuals[5].

Sales team within the company GMB Computers consists of 24 employees. The company has four subsidiaries: Constanta, Mangalia, Cernavoda and Eforie South. Workers within them, 18 as number, are available for customers to provide the best solutions and products. There are 6 salespeople, who carries out the sales to other companies. There are a number of steps in terms of sales team management: recruitment and selection, training, management and supervision, remuneration, motivation, evaluation and control. affect the business. The process of achieving

In the GMB Computers by *recruiting staff*, the company seeks not merely the filling of opening jobs, but also the process through which the new employee integrate psycho-socio-professional in the company, in the working group, how he is attached to the group, how he perform tasks and even respond to more duties.

Regarding *employing staff*, GMB Computers follows certain policies that govern the selection of potential employees: policy based on equality, youth orientation.

Training is important for improving productivity at the individual level sales agents. Thus, training the sales team is an continuous process within the GMB. It consists of the following activities: training, equipment sales, coaching.

The company tries to offer a challenging experience as a sales team based on different directions: *a personal* development, skills and ability, *a professional* developing on sales field that helped in achieving business goals and *constant motivation* of the team.

Payment is an important factor for workers and for the company. GMB Computers operates a system of combined pay. It contains a lot of variants, depending on various global corporate and commercial objectives, and the variety of situations and tasks associated with the sale of each case. This is understandable because the elements that determine the method of payment may include variables such as complexity of the process of buying or number of factors influence the decision process. For all sales staff there is a base wage.

One of the most important factors affecting business performance is the *motivation of staff*. The financial part is an important motivator in the GMB Computers materialized primarily through granting commissions which encourages agencies to focus on their activities and are offered in proportion to the complexity of activities.

Evaluation is difficult, costly and time consuming. For the success of the sales team were taken into account the processes and actions essential that begin through setting clear standards of performance and motivation[7].

The process of planning and control sales has an essential role in economic activity in that forecast future trends that may sales plan in the GMB Computers includes

the following phases: analysis (where the company was at that time), forecasting (where the company is leading to), goals (where the company wants to reach), sales planning (the plan to achieve the proposed sales), control (the goals will certainly be fulfilled).

Setting goals also play an important role. Computers GMB settled the following objectives for 2011: to increase turnover by 13%, to increase by 11% revenue growth, increased spending by up to 10%, increase by 35% the profit growth, increase market share by 2%, increase volume growth sales by 20%, reducing stocks by 2%, increasing customer satisfaction by 5% and reduced customer complaints by 10%.

Once a correctly and motivational planning system has been established, sales manager can control the daily business performance using productivity indices on which it was agreed, and set specific performance standards. GMB Computers has developed a guide that can be updated easily, were these standards are presented. What is very important to mention is the need to update these performance standards to keep pace with any changes in work roles.

This guide sales performance used by GMB Computers is divided into 3 business prospects that the company considers essential in achieving performance: financial sustainability, employees and customers and the quality and innovation of products and services.

3. Conclusions

Over time significant changes have occurred both in theory and in practice sales management. In light of the new reality of relational selling, sales managers should not be guided in their activity of recruiting sales agents established standards based on stereotype "vivid commercial mastery"[4].

This specific process can be concluded with several sales management staff in the GMB Computers and some recommendations for the proper functioning of the sales department.

In the employment of labor, they must try to detect the qualities necessary for establishing and maintaining long-term interpersonal relationships. Training salespeople should focus on improving communication and customer psychology knowledge. In terms of remuneration and evaluation, rewards plans that stimulates relations should not be questioned. In terms of motivation, some studies have shown that customer-oriented staff, who know how to work wisely, obtain from this activity also an intrinsic motivation.

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Introduction in the Accounting Systems Convergence and Convergence as an Accounting Concept

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Abstract

The financial situations performing and presentation in accordance with the IFRS is practical and take into consideration a large number of problems with which these are confronted when applying the IAS-IFRS precautions. In its content the IAS-IFRS requests are presented on domain of interest, such as presenting the information in financial situations, group situations, elements evaluation and admission in the balance and in the profit and loses account.

In March 2001 the International Accounting Standards Board (IASB), which became a foundation organized after the American organization model of normalization (FASB). The foundation consists of four elements:

- *trustees meeting*
- *normalization organism, IASB, which takes the harmonization activities from the old international organism (International Accounting Standards Committee: IASC)*
- *an interpretation committee, the international interpretation committee concerning the financial reports (International Financial reporting Interpretations Committee: IFRIC)*
- *a normalization consultative council (International Accounting Standards Advisory Council: IASAC)*

Key words: harmonization, situations, committee, profit.

J.E.L. classification: M41, M49.

1. Introduction

National accounts and international accounting rules are going through a transitional period which is full of challenges and opportunities.

Geopolitical interests, economic, professional still prevent a solution and reach a consensus which would benefit all countries and entities components.

A solution and a consensus would have allowed the most international of all occupations, accounting to play what meets the new standard within the international trade known as globalization.

Task organizations coordinate and organize the international accounting profession (FASB, IASB, IOSCO and IFAC) is to accelerate steps to reach the much coveted accounting harmonization or convergence.

At the beginning of enforcement actions in the world of rules and procedures common terminology used was known as accounting harmonization, it is now increasingly replaced by more convergence accounting terminology.

2. Accounting Systems Convergence

The trustees meeting consist of nineteenth members. Five of these members are appointed by the expert accountants international federation (International Federation of Accountants: IFAC), after a consulting process of the various organizations which represent the accounts performers, accounts users and collegiate.

The other trustees are perceived as personalities, as a consequence of their professional competence in the field of accounting and normalization. The trustees most important missions are: the power to finance the new normalization machine and to vote the organization budget; the quality to appoint members of IASB, Normalization Consultative Committee and Interpretation Committee.

International Accountants Standards Boards, IASB, holds the responsibility concerning the international accounting standards elaboration and publication.

They are called Financial Reporting International Standards (IFRS).

The old mechanism standards, IASC, keep their symbol (IAS) and will remain legal until their replacing by an IASB standard, therefore by an IFRS.

The standard elaboration due process is reproduced after that of the American normalization organism and consists of two important phases: in the former phase, IASB publishes an exposure draft (ED); in the second phase, after all the possible comments have been received the council publishes conclusive standard or postpones its publishing.

The Interpretations Committee. [1] In connection with the IASB this committee (IFRIC) is charged with the omitted standard interpretation and possibly with handling proposals in order to solve problems which could be raised by the standards appliance. Once they are admitted by the IASB the interpretations have the same authority as the standards.

International Accounting Standards Advisory Council represents a forum of the persons and organizations aimed for the financial report and international accounting harmonization. As its own name indicates its role is that of conciliating, which is exerted for IASB help.

The council helps the international organism to establish its working program and its priorities, to admit certain rule programs. It must also be consulted by the managers, in the case they aim at IASB statutes changes. Nowadays, the general term of IFRS international accounting referential is accredited. This includes:

- financial report international standards (IFRS) elaborated by IASB;
- accounting international standards (IAS) which were and will be submitted a revision process through omission of alternatives, redundant and conflicts in their own content, as well as those which imposed such an amelioration or their omission is not necessarily;
- new interpretations: elaborated by IFRIC Committee or by its predecessor, "Standing Interpretation Committee",

they being submitted to omission and revisal when the reality requires it.

Taking into consideration the UE' s ambitions connected to adopting the international accounting referential, such a promulgation brought and will still bring fundamental changes in the perfectionists accountants from Europe reflection area. These challenges bring the amazement of those who keep their traditions. It is bigger a some European countries (actually the majority) carried out and still carry an accounting model remote from the Anglo-Saxon philosophy, model which was used for the inspiration of international normalization organism.

The main element of these evolutions is in accordance with the accounting objective, even through international conceptual frame: information providing the investors necessity concerning their decision related to the financial titles that they own bought, keeping or sell.

From such an objective results that the balance has priority reported to the other financial situations. In this forces report the appliance more and more important of the economic content prevalent principle is placed over juridical form and the use of an evaluation system based on the real value.

Concerning the balance, the speed loss of the patrimonial balance in favor of a structure that should better explain the financial and economic reality is obvious. As concerning the principle of first consider the economic then the juridical (English translation which is not in accordance with the Anglo-Saxon interest), it can lead us to the idea that we should consider a fact control instead of a right control. Moreover, its intervention requires the belief in the thoughts about a professional accounting.

The more used real value in the measurement domain does not mean the giving up of historical costs and prudency, but at least the diminishing of these principles in the accounting message, making place for a criteria closer to the correspondence between the information relevance and liability.

The real value represents, first of all, a market value, which means that the active and debts should be evaluated conforming to an efficient market. Very often, the real value is calculated on the basis of models using

actualizations, the present values of treasury fluxes waited by the respective company.

The use of international accounting standards, although relatively unexpected, is still necessary. Their learning must not infinitely repeat the efficiencies and credits rule, as we used to assimilate in the past the account functions and the immortal plan.

The necessary professional evolution in the assimilation of IFSR letter and spirit standards is absolutely necessary and will clarify the values. The accounts tutors, users and auditors must elaborate an adequate interpretation and judgment capacity, as much as these new normalization products, which we call IFRS standards, lead to using an important estimation quantity, namely approximation, which means subjectivity.

In the assimilation of international standards the necessity of a comparative interpretation between the international referential and that produced by IASB may grow.

Our country accounting is nowadays in a gradual implementation process of financial reporting international standards, fact confirmed by the two regulations emitted by the Public Finance Minister: [2] OMFP no. 907/2005 referring to admission juridical persons categories, which apply accountant regulations in accordance with IFRS, respectively regulations in accordance with the European directives and [3] OMFP no. 1121/2006 referring to the IFRS appliance.

At worldwide level the general tendency in the accounting domain is that of convergence of referential accounting systems, as an answer to the globalization process of economy. In this way the international organizations International Accounting Standards Board and Financial Accounting Standards Board develop negotiations in order to omit the differences existing between the two accounting systems, in such a way that the financial situations users should benefit of homogenous situations, no matter where they are.

For facilitation [4] reasons of information approximation, the information is concentrated, theoretical details are concise, which thing will allow the fast understanding of the IAS-IFRS problematic referring to a certain domain, without the necessity to get through the whole standard. The first adoption of IFRS.

The new concept related to the harmonization or convergence represents a constant preoccupation for the professional organisms, as well as for the surveyors and financial- accounting users. The present accounting phenomenon has characteristics based on the need of uniformity in accounting, also forming general objectives of this domain, objectives which can be realized only by the action of its normalization. The main phenomenons which govern the process of contemporary accounting reform at worldwide level are: accounting normalization, harmonization, convergence, conformity and internationalization. These phenomena act not only individually, but also in a reciprocal inter-conditioning relation.

Accounting normalization represents the process through which is harmonized the financial situation presentation, the accounting methods and the terminology.

Accounting harmonization represents the process through which the accounting rules are improved in order to become comparable.

Accounting convergence represents the process through which the accounting rules are elaborated in a manner capable to direct it towards the same fact or aim, by prominence of the resemblance between national- local-international.

Accounting conformity represents the process through which the concord in action and content of the financial situations presentation and performing rules is appreciated, representing a harmonization of national regulations with the rules presented by accounting normalization local and international organisms.

Accounting internationalization originates in the preoccupations for international harmonization of the accountant practices and rules.

There is an opinion that the high level of expositions and interventions related to the central theme of the congress put a finger on better clarifying of certain aspects connected to the convergence in financial reported standards implementation.

A former aspect of convergence in accounting is represented by the convergence between the American Accounting Standards (USGAAP) and the international standards of accounting (IAS/ IFRS). In spite of all differences existing between the two

accounting referential (among which we mention the different optics, namely while the American standards are based on a system of rules very clearly defined and include information for the companies which are searching clients for the American markets, accounting international standards are based on fundamental principles and include information destined for the companies which search capital on international markets), through the agency of Norwalk agreement, IASB and FASB established that all the disagreement opinions should be identified in order to assure in a proper period of time the necessary convergence. In this context we should mention the EFRAG role, which brings an important contribution from the private section, introduced in order to underline the European point of view concerning the IFRS evolution. At European level the aspects related to the convergence in accounting take into consideration the identification of disagreement clauses between the European directives, especially the fourth and the seventh directives and the international accounting standards (IAS/ IFRS); these two directives were castigated by introducing the real value in 2002 and the evaluating options in 2003. In the conception of IFAC and FEE the IFRS adopting mechanism must represent a reason for deliberation, reflection and change of information between the main interested parts, especially the national normalizers, the accounting profession and supervisors from the domain of value titles, banks and assurances, the account users and those who prepare them.

In the latest years in UE countries great steps were made in order to improve the financial report system while FEE works in strong connection with all the partners in these aspects dispute; the capital markets need a high quality financial reporting indeed.

The European Parliament decided: accounting international standards (IAS/IFRS) will be compulsory from the beginning of 2005 for those companies which are marketable exchange; the same is established for those companies which improve things concerning the consolidated accounts. There is quite a large opposition for the extension of accounting international standards appliance for other companies than

those which have been mentioned and the reasons for this are various:

1) In the majority of the countries the most part of the companies is constituted by the small and middle companies category for which the standards appliance is difficult and expensive;

2) The main users of the information provided by the small companies are usually the state (budget) and banks: the budget uses the accounting for the establishment of the taxation result and some major changes in this domain would mean that the state should lose an important quantity of money; the banks do not necessarily look for performances obtained by this category of companies, but keeping the patrimony, which guarantee their relation with the companies;

3) The immense juridical implications: not to forget the juridical and right systems, whose changing implies a long period of time and social and economic environment deregulation risks, at least temporarily.

The particularizing aspect of the European model is connected not to the first phases of its evolution, but to the level that it reached and at which it evaluates, when its basic function directly aims at internal convergence and the economic, social and local cohesion. The alternative under which the European model developed followed the neo-classical theory logic referring to the international trading. The progressive enclosing of other countries in the European economic mechanism transposed the construction accents from those aiming at the communitarian market defining towards those having as finality their regulation. Therefore, these determinations became the processes of convergence and cohesion on the basis of mutual politics, whose finality is represented by accommodation to the performing nucleus standards of the model.

The European model has as finality the individuals' social guarantee and for this fact the market subordination was realized, exclusively of the communitarian market. This is a rope dancing game between economic and social, aiming at assuring construction's stability. The European integration process implies not only market integration, but also the appliance of social cohesion politics, producing in this way welfare earnings for everybody. Nowadays, the European economic model mechanisms

were improved, also from the perspective of theoretic attitude, from the spontaneous market to the market regulation. This step signified the market subordination to the communitarian function in order to consolidate the system social finality.

The convergence process aims at economic system structure adaptation to the economic global cycle, as well as the consisting economies at the European model structural characteristics. The latter represents the result of the cohesion communitarian politics, as well as that of national politics which influence the economic raising and modernizing. The integration European model has as finality the living standard rising for the UE citizens, in the condition of differences development reduction. This specific objective can be realized by harmonizing the convergence processes (internal, as well as external) and by the cohesion processes.

In the literature of specialty the cohesion and convergence notions can be considered as being the same, with the intention of reducing the development differences reduction. When we talk about the convergence internal sources we take into consideration those factors which stimulate the process of economic rising. In the case they generate an economic transformation they will influence in a positive manner the economic potential and as a consequence the whole process of economic convergence for a long period of time. The economic modernization implies not only the accommodation to the European model structure, but also to the structural characteristics of the global cycle of business.

Accounting principles or detailed accounting rules?

FEE, the promoter of sustaining the IFRS implementation in UE till 2005 encourages the departure on the basis of financial reporting standards principles; this thing means that the clearly formulated principles destined to the public interest service improves rules which show the way in which these principles should be applied in concrete situations. This way of encouraging facilitates the determination and transparency and help the companies to answer in a corresponding manner to complex situations towards the new evolution implied by the

business practice. This way of encouraging also notifies regulation concentration and the "technical omissions" which can appear in the places where detailed rules are developed in an attempt to cover all the happening that may appear in practice.

Taking into consideration the disadvantage of approaching on the basis of principles (namely the possibility of a too large "creativity" which can be used for suppression of accounting information), but also the disadvantage of approaching on the basis of detailed rules (such as oppressing the initiatives; the creation of the false and extremely harming impression that if you respect the rules everything function right or the creation of temptation and even of some mechanisms of rules omission) we consider that the exclusivist way of departure either on the basis of principle or on the basis of rules can prove not to be enough for the realization of certain qualitative works and correct report.

IFRS represents a challenge for the accounting profession in Romania. The most important consequence of the program elaborated by the Romanian normalizer consists of the opening way for the accounting profession to develop at its true value. The business environment, the users of the information provided by the financial situations become more and more conscious of the accounting professional in the company and generally in the economy.

3. Conclusions

Given the disadvantage of principles-based approach (ie the possibility of too much "creativity" that can be used for suppression of accounting information), but also the disadvantage of detailed rules-based approach (such as on initiatives, creating the false impression and very bad if all the rules function well or even create temptation and failure mechanisms rules) believe that exclusive mode of departure, either on principle or based on rules may prove to be not enough for the achievement of quality work and balanced.

IFRS is a challenge for the accountancy profession in Romania. The most important consequence of the program developed by Romanian Normalizer consist in the way of opening to accounting profession to develop

at its true value. Business environment, users of financial statements information provided become increasingly more aware of the accounting profession within the company, and generally, in the economy.

Current concerns for international accounting convergence will bring universal, of course, some changes and adjustments that will require the existence of a national accounting convergence.

In this regard, we believe that it is not possible to harmonize accounting or accounting convergence of our country intended to make two big accounting systems, namely the Fourth Directive of the European Economic Community and the International Accounting Standards.

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Principles and Evolutions of the Internet Marketing

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Abstract

Public and consumers receive products' and services' information and migrate, in the current period, from the traditional media to online. An increasing number of people accessing news more and more desired by specialized websites and even on mobile devices anywhere and anytime. Rapid adoption of new technologies affect - and even transforming - production, distribution and consumption, but to optimize the online channel, should act objectively, not subjectively, and decisions must be based on key performance indicators. In the process of adapting to these changes in the market, marketers now have the opportunity to reach an entirely different audience via online tools and the mobile. This evidence-based approach, facilitated by web analysis helps organizations to focus their efforts and success with new versions of tenders.

Key words: marketing, Internet, digital, business, communication

J.E.L. classification: M31, L86

1. Introduction

On the Internet goes global marketing communications, no longer applies the motto "Think globally and act locally." It uses the term "potency" because this medium does not automatically guarantee any success, because the possibilities of communication are perceived globally. Potency lies in the original products, ideas and, in general, the

achievements will be shared globally. The local jurisdiction is more original and more easily transferred, the greater the likelihood of a successful world [1]. In this context, the marketing mix is gradually being transformed from a manufacturer's agent in one of the customer, who must actively and consistently including the interests of the buyer.

2. The transition from traditional to online marketing

Dynamic research and development in computer science is very pronounced in this period, appearing so many news that those who tried to define this time as "Web 2.0" are, already, overwhelmed by those who constantly innovating in the hope of making markets and revenue growth. The Internet offers many potential uses, depending on the objectives and user capacity. Thus, it can be considered as a source of information, an interactive communication tool, a distribution channel for products and services.

With web pages, a person or organization may present to the world. They show today as newspapers, is particularly complex as possibilities for displaying content. But unlike television, radio, newspapers and magazines, web, as media support, are under the control of individuals. These "producers" create content which individual information can be used for many other people. By e-mail, these creators and producers can be in close contact with each other. The result is market dynamic and interactive web information [2]. In these circumstances, the digital environment has some important features [3]:

- is quickly moving information efficiently;
- is constantly changing;
- allows for continuous development of hardware and software;
- provides new business development.

In particular the flow of information on Internet marketing is a challenge for all those who have the ability to create commercial websites to make them more attractive and useful. In addition to the great power of innovation, the web is characterized by the fact that it is developing with unprecedented speed, while quantitative and numerical expansion, having a quality place. Thus, in 1994 they launched the first advertising banners [4], and ongoing communication became more organized and professionalized. The sites, which until recently were only "a set of compiled data" [5], have become showcases real and virtual stores. But to be successful on the Internet, marketers need to know the fundamentals of the marketing process, including assessment of needs and wants of people, market research, product policies, pricing, distribution and promotion (marketing mix) etc. Although online marketing is rooted in traditional concepts of marketing - it is divided, however, through a new process - interactive. Sellers can now have interactive relationships with consumers in their own offices or homes at any time. Conversely, buyers can interact with vendors in a new way, realizing communication, so in two ways.

Online marketing has the advantage that it can present interactive sales materials that meet the needs of every type of buyer. Marketers can create brochures that allow consumers to choose the information they want to see them and even individual sales presentations to fit each client. On the Internet, the distinctions between different forms of marketing (advertising, public relations, sales promotion and direct sales) are unclear; the website of an organization is usually a combination of all of them. Internet presence brings a competitive advantage for organizations are particularly important as an alternative not only to promote products, but also an additional distribution channel.

For a better insight into online marketing is suggestive comparative approach on the traits afforded by mass marketing and electronic:

- Mass marketing needs to survive an extended market, reaching consumers through television and magazines, sending standard messages to large audiences and diffuse. It has the highest efficiency for food, cosmetics and pharmaceuticals, beer and cars. But also has many disadvantages, including: no real-time interactivity, feedback missing symmetrically reduced flexibility, lack of control over the message receiver, the receiver is more influenced by messages than offer information to his application.
- Direct marketing requires a well-defined market segment, reaching consumers in general, through the mail. It is effective for selling credit cards, travel, software, supplies catalog.
- Online marketing targets individuals through the Internet is effective for selling travel, stocks, computers and software, etc. It has the advantage that the company can establish warm relationships and potential future clients, through direct communication, using e-mail, personalized welcome messages in web pages, following their interests, previous orders etc. (eg. A florist can track birthdays, holidays and anniversaries you celebrate a person and can remember some time before ordering flowers).

Through the presence on the web, organizations can make known their fields, can broaden its market by attracting new customers and partners around the world, may have contact with their representatives and, not least, can sell their products. That is why companies web presence has become a necessity, no other existing advertising medium can not be more accessible, affordable, fast and economical.

On the other hand, information has become in recent years one of the most important products developed in industrialized countries. Modern marketing techniques put an increasing emphasis on the interactive side of trading, highlighting the importance of communication skills (relationship marketing, targeted marketing to individual consumers etc.). In fact, any transaction involving an intensive exchange of information, phased as follows:

- dissemination of information;
- contact information;
- exchange of information;

- deliberation;
- consensus;
- exchanging products or services traded.

As can be seen, five of the six stages of a transaction are made at the informational level. Depending on the nature of products / services delivered and the last stage may even be turned into an exchange of information (text, images, sounds, software, electronic money etc.).

Technology transforms the business, making business even in some cases, and the Internet is an electronic alternative to the real market, which is not only viable but also more efficient, eliminating geographic boundaries and time zones and the barriers to entry are very low.

Impact of Internet on marketing activity and overall the organization is limited by [6]:

- logistics: fast, cheap, close links with suppliers;
- connecting within organizations: linking web of subsidiaries, branches, located in different cities or countries, ensuring a prompt response to changing customer needs;
- sales: the largest value added in this area so far. The cost of advertising a product on the web is only a fraction of the cost of advertising in newspapers, television or radio;
- service: high impact, similar to that of marketing sales;
- human resources: the Internet is a vast training and recruitment tool of labor;
- technological development: faster and more comprehensive interaction with the world. By collaborating with other agents on the market, are exchanging information, software etc.;
- shopping: advantages related to marketing;
- high-speed information transfer;
- personalization information;
- interactivity: help the seller to understand fully the needs of consumers, which can easily be involved in designing products and services, changing its applications can be met quickly. For example, some automotive sites have a feature called "Design your own car", which is nothing other than a way to gather customer preferences;

- great feedback, companies can learn not only what customers buy, and what pages they are interested in pursuing which they operate;
- current information can be updated;
- flexibility;
- elimination of time and space limits;
- cover market niches by promoting products for straightening clearly defined target groups.

Expression domains of marketing on the Internet are almost as extensive as in the real economy, the most common being [3]

- web sites;
- Internet advertising;
- direct marketing by e-mail;
- permission-based marketing;
- online marketing research;
- online data exchange;
- public relations online;
- integrated marketing on the Internet.

American Marketing Association (AMA) has developed a Code of Ethics on Internet marketing, which demonstrates its growing importance to marketers' activities. The Code provides guiding principles and directions of ethical responsibility in this dynamic field of marketing [7].

General Responsibilities: marketers must evaluate the risks and be responsible for the consequences of their activities on the Internet. Their professional conduct should be guided by:

- supporting professional ethics to avoid harm by protecting privacy rights, property and access;
- compliance with all laws and regulations on non unlawfully marketing, when done by mail, phone, fax or other medium;
- ownership changes in regulations related to Internet marketing;
- effective communication of risks and policies on Internet marketing to member organizations;
- organizational commitment to ethical Internet practices communicated to employees, customers and shareholders.

Confidentiality: Information received from customers over the Internet should remain confidential and be used according to the expressed goals. All data, especially confidential customer must be protected from unauthorized access. Applications specifically

mentioned about receiving unsolicited email messages to be respected.

Ownership: common information sources on the Internet must be properly authorized and documented. Ownership information must be protected and respected. Furthermore, marketers must respect the integrity and ownership of computers and networks.

Access: marketers should treat access to accounts, passwords and other information as confidential and examine them or disclose them only with the responsible party. Integrity of information to third parties should be respected as regards the placement of information, advertisements and messages.

Internet meets all the advantages of media and direct marketing business.

3. Tendencies in the on-line marketing: from Web 1.0, through Web 2.0 to Web 3.0

Based on broadband, cheap hardware and open-source software, the Internet turns into a completely different environment from what had until now, leading to new types of companies, the creation of alternative business models to the emergence countless opportunities for development. We are in early stages of development which would be better defined as "Next Internet", which includes all digital devices, from PCs to mobile phones and TVs.

- *Web 1.0*

In the "property" terms included: sites, domains, addresses, locations, designers and architects; visitors. The sites are "built", but the areas are "developed". If there was anything wrong, the sites were declared "under construction". In the terms of "sailing" people could "surf" on the Internet and using "protocols", the information could be "transported", "imported" or "exported" from one location to another.

For example, blogs are considered sites in the Web 1.0 search engines, but their nature is fundamentally different from that of a site: blogs are "written", not "built" on them to write daily, even and several times a day, are places of debate and conversation (their authors "talk" with readers and other bloggers, and they "respond" by comments or notes on their blogs).

- *Web 1.5*

In the dotcom (.com) era sites have diversified their offered services, there were millions of news pages that were updated often, and people reading the press, came on the forums, sailing. Those who wrote the news and web pages were, in general, only journalists and information "traveled" to the reader. Anyone can create their own web page: either conceived or born of the open-source, with the possibility of free hosting.

- *Web 2.0*

It is associated with a new stage in the development of the Internet, published in early 2000 and involves combining and improving the existing technologies, applications and online content to create new services. It is defined as a true "architecture of participation" or as a "tool" that puts together the contributions of ordinary people everywhere and it gives meaning and value.

The most important principles are: the Internet has become a platform, and the information is the main driving force, the architecture of participation has a direct impact on social networks, creating an effect of aggregation of users in various virtual communities, innovation is the core principle, and "collective intelligence" is the sum of individual contributions of users worldwide, simplicity and accessibility are key elements that allow access to anyone, without having special technical knowledge.

However, Web 2.0 has a number of features means more than just a group of technologies is a new way of thinking, even a new business perspective, is an expression that captures the fundamental changes produced in the internet and the impact it has on how we think and live. Among the possibilities offered to users are: an experience much closer to desktop applications with intuitive graphical interface and, above all, transparent, has the ability to connect between them and the various applications or services to aggregate data from various sources - RSS, blogs supports collaborative tools like wikis, social networking platforms, collection of bookmarks (del.icio.us or digg), videos (YouTube) or images (flickr); democratize its content and distribution (content user created and distributed freely).

Thus, we can say that Web 2.0 is rather a new vision of the web than a technology or a technology group, more than an "attitude" than a technology, a cultural phenomenon, rather than technical, a marketing term, a new wave of technology, an internet within everyone's reach.

Following are still some of the "big players": Microsoft, Amazon, Yahoo (webmail application Yahoo Mail!, del.icio.us - social bookmarking application - bought in December 2005, flickr - photo sharing software - purchased in March 2005, my.yahoo.com - personalized portal, Yahoo Instant Search), Google (Gmail, Google Calendar, Google Docs & Spreadsheets, Google Reader, Google Scholar, Google Book Search, Blogger, YouTube - bought in October 2006, Google Maps).

Limits of Web 2.0 expansion:

- increased speed and volume of data traffic over the Internet bring to network security issues;
- Internet infrastructure needs substantial improvements to keep pace with growing demand;
- undertake a large number of financial transactions, which raises the level of network protection against "cyber-attacks";
- social pages are the most obvious example of the spread of private information on the Internet;
- although users freely share their information on such websites, engines collect and store information after each search;
- personal email content is stored on servers and in some cases, scanned for commercial and security;
- advertising to target audiences and improve the search facilities are the direct consequences of more detailed data collection and deeper.
- *Web 3.0*

From Internet bidirectional communication phase will evolve to what we call generic "Web 3.0". This website will continually learn what she likes and dislikes each user prefers and sites will be a permanent profile of each user and will display the information it wants, the preferred mode. Note that the online media industry trend keeps heading towards "predictive behavioral targeting".

Need to integrate online services in the marketing mix is important for companies that want to increase sales. Fortunately, the Internet provides powerful tools for marketers seeking to expand marketing program integrated electronic media. The online program must be integrated into traditional marketing program purposes, such as all marketing activities to support each other. Integrated marketing has three components:

- consistency of the message: the consumer finds the same message regardless of the used medium. The colors, logo, characters are identical, so their connotations and credibility creates a strong feeling of familiarity;
- interactivity: consumers lead a very useful dialogue with the company, obtaining information that respond to their questions quickly, accurately and staff;
- marketing mission: to define what an organization is and what is its purpose.

Interesting is the fact that the size of the organization is still an irrelevant detail on the Internet. In a shopping center, people can immediately see the size of competitors in that market, on the Internet, this is not possible. Small companies can compete with large ones, but this may change as increasingly more companies entering the web, bringing the power of their brand names famous. Now is the time since the new firms or smaller can establish a brand identity on the Internet. Moreover, the online business world, companies can quickly be surrounded by competitors who say they can offer the same products under similar conditions, which can even be done immediately [8].

For marketers, it is necessary a major shift in thinking on the value of a customer, too. Long or too long, companies have treated clients as "replaceable goods", instead of being concerned about their long-term value.

Successful companies must persuade existing customers to make their additional purchases from the same source. Online marketing offers this possibility through the creation of posts for each customer, by recording each person's preferences and nonpreferences, its purchasing patterns and choosing how power should be used if each conviction. It can be sent personalized letters describing new products, company sales statistics and information on manufacturing

technologies. It should be noted, however, that online marketing does not invent this process, but only made it easier and less expensive.

4. Conclusions

Finally, the first step in starting Internet marketing strategy is the careful evaluation of the characteristics of this communication and the correct identification of opportunities offered. Operations on the Internet should be treated as an independent strategic unit which has to be designed, implemented and coordinated in accordance with the specific organization.

Next will be fully interactive Internet, people around the world can work together on the same project, and the products and tools can be rapidly improved through collective thinking of an entire online civilization. It is also developing a territory indefinitely content: any user who has a browser can access vast areas of information, can process it and then can offer it in a new form for tens of millions of users.

But the most important thing is that it will create unlimited opportunities for prospective investors and those already existing. New companies now build on the success standards (Flickr, MySpace, Wikipedia, etc.), But these pioneers are more creative ways, fascinating. Few new companies make money at the moment and certainly many of them fail to make a hit. But among these companies may find the following Google or Microsoft, or at least one company that will pay a fortune, soon, to have these giants.

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The Theory of Games and the Corresponding Applicability

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Abstract

Game theory is the study of how optima strategies are formulated in conflict. Because of the mathematical complexity of game theory, this module was limited to two persons and zero sum games. Zero sum means that the sum of the losses of one player must equal the sum of the games of the other player.

In a pure strategy game, strategies for the players can be obtained without making any calculations. When there is not a pure strategy, also called a saddle point, for both players, it is necessary to use other techniques, such as the mixed strategy approach

Key words: theory, games, applicability, equilibrium, competition.

J.E.L. classification: C70

1. Introduction

The theory of games is a relatively new branch of microeconomy that evolved continuously in the last decades. In the analysis of the above-mentioned concept one might consider the work that is entitled "The Art of War" by Sun Tzu and, particularly, the motto of it: "Express your strengths regardless weaknesses you might have, yet fragile when being strong".

2. Corresponding applicability

The pioneer of this theory is considered Emile Borel, that in 1921, published the first study in respect of this theory in his book "Over Games", but failing to develop the basic theorem. Later, John von Neumann (mathematician) and Oscar Morgenstern (economist) by means of the work "Theory of Games and Economic Behaviour" (1944)

succeeded in developing the axiom. A game is referred to as being a contest where two or more opponents, identified as players, compete, the winning the final competition is pursued by each of them. The theory of game is the science of interactive decision making.

John von Neumann and Oscar Morgenstern defined the game as "any interaction among various agents, governed by a set of specific rules that determine possible moves of each participant and the earnings for each combination of moves." The impact of theory was an enormous one. Consequently, it has been concluded that the description can be applied to any social phenomenon. The content of analysis refers to the special cases of games with zero sum.

John Nash Jr., one of the most eminent mathematicians, continued research on the topic during his life, thus succeeding in the doctoral dissertation of over 30 pages in 1951 to demonstrate that any such game must function according to a combined strategy that shall eventually lead to an equilibrium.

Although affected by an aggravating paranoid schizophrenia, his contribution to the development of the analyzed theory (Nash equilibrium) was awarded in 1994 with the Nobel Prize in Economy. Nash Equilibrium is a set of strategies (one for each player) which determines that no player can earn additional gains by the unilateral changing strategy. Nash equilibrium introduced the concept of "the absence of regret". Thus, after the result is obtained and displayed, no player regrets the way of playing in agreement with the manner of action of the respective partners.

The American Thomas Schelling (The strategy of conflict, 1980) and Israeli-American Robert Aumann, Nobel Prize winners for Economics in 2005, have continued research of John Nash and succeeded in setting out a system that contributes to "the explanation of economic

conflicts, as is for example the prices war or trade wars. " The works of the two specialists have proved useful in the defining of the possible effects of cooperation and conflict.

The theory of games has applicability in many fields such as economics, sports, politics, human relationships. The only condition is that each participant in the scheme might have something to gain at the expense of others. In this theory each player depends on the decision of the other players. One must anticipate and take into account the possible decisions of the others.

The theory of games uses three basic hypotheses:

- all players know the rules;
- all players behave rationally;
- each player knows that others are rational.

This theory is based on the existing balance in any system economic: the sum of earnings is equal to the sum of losses. There are at least two players, losses, gains along with rules of the game. A zero sum game is any game in which the interests of players are diametrically opposed. By contrast, a nonzero sum game is the interactive situation in which participants have combined incentives (besides conflictual interests they might have in common specific interests). For example, two countries that experience an economical conflict have the target to ensure the optimum of the trading conditions. At the same time, there is the likelihood that both to be willing to avoid the costs of a trade war. Taking these circumstances into account, the interests of the two countries are diametrically opposed.

The theory of games is based on the fact that participants take rational decisions. But the problem arises when irrational behavior of a player (eg. huge stock of nuclear outbreaks) is considered rational according to the standards corresponding to the theory of game. In the beginning of the Cold War the Eisenhower administration considered nuclear weapons as being just another weapon of the arsenal. However, T. Schelling was convinced that nuclear armament is quite efficient, thus contributing to the action of discouragement and consequently, USA proposed variety of tactical responses viable in any situation.

The balance had been created - no nation was in advantage (in case of nuclear attack the reprisals would have been catastrophic). The equilibrium situation requires knowledge of weaknesses and strengths of each state. As in the case of the prisoner's dilemma, both countries need to assume that the other is concerned only with the personal interest and must therefore adopt a dominant strategy and, in this way, trying to limit the risk. If a player alters the equilibrium (install shield missile) is the perspective of a nuclear conflict to be taken into account?

In an attempt to avoid such imbalances the theory of games was applied. When a nation built missile silos the other marked it as possible target. U.S.A and USSR continued the nuclear arms race to such a level that the nuclear arsenal had to be installed on airplanes and submarines which were non-stop patrolling to prevent the situation of the silos destruction. The atmosphere was extremely tense and even a defense motion (building an antiatomic bunker) of one of the players might lead to a nuclear cataclysm.

There was nothing rational in launching weapons if a player would have been launched nuclear arsenal. World destruction for the sake of revenge? If revenge doesn't discourage what can prevent a nation from launching a first attack? There have been used used various misinformation strategies among leaders of both states (such as the fact that they are overwhelmed by hate or just mentally unstable - just to force the opponent to keep guard above). Arms control and disarmament negotiations were only repeated games that allowed both parties to reward the communication and punish its absence. Finally, due to repeated meetings and increase of the degree of communication between the two countries, trust and cooperation have led to diffuse the atmosphere.

Fortunately, none of the two players were willing to play the final scenario in which the purpose was the victory that would have been celebrated by some underground survivors. The theory of game shows how to choose the optimal strategy in a conflict. Schelling showed that even the most radical and destructive strategic confrontations could create, simply by the

logic of confrontation, equilibrium points and the elements of consensus and cooperation between the two parties.

A minimum of cooperation would be necessary for the society to prosper. Another example where it can be applied the theory of game is the competition market. If a competitor lowers the price, one might obtain a significant profit as the market share is increased.

However, if another competitor respond in the same manner when the two market shares remain unchanged and both competitors shall eventually experience losses.

The theory of games and economic behavior nowadays opened an unexpected field of study that helps us better understand economic phenomena and why not, our daily life. In conclusion, I might say that in certain situations, the best thing to do is to behave in an unpredictable way. It essential that when a person is in the position of a player and chooses the corresponding strategy is important to consider the interests of the both parts. One must assume the premise according to which the opponent will choose the best option.

It is important to choose the strategy in such a way that the expected benefit to reach a maximum value, taking into account the fact that the opponent analyses the others options in a corresponding manner

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Theories of Competition

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Abstract

Competition is regarded as being one of the fundamental elements of a market economy, the concept of competition has emerged and developed since the inception of political economy as a science.

Starting with the 20s' of the twentieth century, the economists influenced by contradictory processes in the economy have returned to the central idea according to which the market should be conceived in terms of pure and perfect competition.

Key words: theory, competition, market, neoclassical, barriers

J.E.L. classification: B1

1. Introduction

Adam Smith in his 'Wealth of Nations, An Inquiry into the corresponding Nature and Causes' developed the concept of competition. The analysis was based on the work of David Hume's "Essay on the primitive contract" (1748) who had found that one new social duality was constructed around the social reality, being based on interests and needs where "the need is the user's interest."

One might identify in this very interval the first substitution of policy with economy, as the engine of the smooth functioning of society: "the needs and interests of society are the main connections that attach the individuals to government, thus being referred to as sacred bonds." In another work, "Treatise on the human nature", Hume considers that sympathy is the element that realizes the link between the individual selfishness (self-interest) with the interest of society as a whole.

Starting from Hume's concept of sympathy, A. Smith validates it by the apology of frugality (Theory of Moral

Sentiments), that, eventually, becomes a means of moderating the impulses and the social control theory which enables to impose his basic equalization theory of needs and interests.

2. Theories of competition

Adam Smith's economic theory is conceived at the confluence of philosophy (the moral one especially, that held the place of sociology at the respective time) and politics.

The economy is regarded, in his opinion, as a method of the social construction and not the purpose of the philosophical approach. For example, the market concept does not solve economic problems for Adam Smith but two huge social problems of the time:

1. the one related to the reason of the war and peace and
2. the foundation of the social obligation.

Market, in the point of view of Smith, is a natural mechanism that might offer a solution for two problems contrary to the theory of Hobbes. The market is seen by Adam Smith as the place where the products are exchanged.

This produces a natural process by which the supply demand balance, and vice versa, and this natural process is believed to be caused by an "invisible hand", the one of interest that is not subject either to the State or people's will.

The "Theory of invisible hand" expresses the fact according to which from the combination of selfish private interests of individuals results an overall balance of the market economy, which enables its effective and harmonious functioning, able to provide gain and prosperity not only to individual agents, but even general good / interest. In conclusion, for the market to produce wealth and balance, it must necessarily be left absolutely free.

No one, much less the state should not engage in the economic life, because the state is the worst administrator of the economy, "because it does not spend the money earned through its respective work but the capital from fees and taxes. "

Adam Smith's perspective was fundamental in the imposition of free market economy, especially since the other theory in point of natural division of labor has encouraged the industrial revolution. According to his theory, only free competition is a guarantee of progress by means of the two main corresponding functions: the optimal allocation of resources in the advance of production factors and extra-cancellation.

Thanks to the pioneering taken by A. Smith, and the future development, the theory of competition is referred as being one of the central concepts of economic orthodoxy. Absolute advantage theory that is developed by the same analyst considers specialization as beneficial in achieving those products in which the nation has an absolute advantage by operating on the premise of free trade under a perfectly competitive market.

He has proposed and realized the imposition of the free trade within the framework of trade process between the markets of the same state but also among the ones of various countries. By means of the economics the analyst was convinced that wars will be eliminated and will be imposed a permanent peace in the world which has as dominant features the commercial interest and the target of welfare.

These goals haven't been achieved, but, on the contrary, the significant development of capitalist industry and the start of capitalist competition among the states of the world (especially European ones) has led to a senseless and permanent war to occupy the new markets for their products and colonization of as many territories so as to obtain cheap labor force and raw materials for industrial process resumption.

Studies on competition are related to important names such as the neoclassical Leon Walras, Antoine Augustin Cournot, Bertrand, Vilfredo Pareto, Edgeworth, Alfred Marshall.

One of the most important merits of marginalists is the establishment of the

concept of pure and perfect competition. This concept was developed by the representative of the mathematical school of Lausanne, L. Walras. L. Walras's model allowed the analysis, "in pure stand "of the price formation mechanism in conditions of free competition.

According to the theory of the specialist the ideal market meets all five criteria:

- Participants atomistic (presence of a large number of sellers and purchasers);
- homogeneity of the products (products sold in these markets are identical by quality and appearance, so the consumer to be indifferent the seller from which to purchase the property);
- market fluidity (free market entry of new producers);
- perfect mobility of factors of production (their free passage from one branch to another);
- market transparency (requires free flow of information on market of all conditions of sale of products (information on quality, quantity, price).

Currently it appears that almost none of the above conditions is respected and a market that would be characterized by the all five principles is utopian. Still, the pure and perfect competition model should be taken as an axiom, the properties of which need not be proven no actually approved by the existing reality. This competition model could not be a representation of reality, but it might exist as a principle and can function as a theoretical basis for empirical explanations of the modern market structures.

French economist Antoine Augustin Cournot founded the basis of theory explaining the formation of quantities and prices in situations of monopoly and oligopoly market. Consequently, real market models were researched, that have proved to be very different from the model proposed later on by Leon Walras.

For this purpose the above mentioned economist has simulated different situations in which sellers, choosing the quantity they intended to sell, could influence their benefit, but also the one of the respective competitors. Neoclassical French Bertrand criticized A.A. Cournot's approach and proposed the study of competition on price basis and not quantity.

The English economist A. Marshall, with his model of economic equilibrium in part, began the study of the concrete competition cases by defining and introducing for the first time the concept of economy of scale.

Joe S. Bain has developed the theory of entry barriers "which explained the absence of entries of new firms on markets where prices are higher than average production costs (normally it should determine new business entries in the branch because of the obvious possibilities of gain). He has assumed that firms that expressed the intention to enter the market are disadvantaged in comparison to the ones that are already on market, because the latter have absolute cost advantages, economies of scale or benefits arising from the range of differentiation products.

These disadvantages, Bain's view, represent significant barriers to new entrants. He identifies four types of barriers as regards the market entry:

1. absolute advantages of firms already existing on the market;
2. product differentiation;
3. economy of scale;
4. statutory exclusions, which prevent enterprise mobility.

Thus, it appears that the market is not a simple informal meeting ground of anonymous individuals who have no power to influence exchange structures, specific to the market with ideal and pure competition.

There has been a continual emphasis on the importance of exercise the principle of freedom of competition, as a fundamental condition of a viable market economy. Thus, competition is achieved only through the market mechanism and the state intervention to correct certain deviations from the model of pure competition is likely to affect economical processes.

Competition involves between a rather reduced number of unequal sized firms. This trend is dictated by the new conditions in which the competitive struggle occurs.

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Eco-tourism on the Black Sea Coast

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Abstract

As a modern shape of tourism, the ecotourism follows to observe and admire the natural environmental elements, in such a manner that assures the conditions of protection and preservation of nature. On the Black Sea Coast, the marine ecotourism can involve activities like: watching animals and birds from marine environment, trips by boats or submarines, scuba-diving etc., activities that can be the answer to some needs of a market niche.

Key words: marine coasts environment, ecotourism, marketing

J.E.L. classification: M31

1. Introduction

On marketing point of view, the marine ecosystem is the corporal base for tourism product, the tourism attraction. By adding specifically tourism services (accommodation, food supply, transportation etc.) on these natural and/or cultural attractions, the tour-operators create ecotourism marine products, which are offered on the tourism market. Through an appropriate marketing mix, the tourism organizations suppliers fallows to create and offer sustainable products for these tourists which really appreciate them, on an adequate price level, and to distribute and promote them in such a way that underline and support there's sustainability character. A good marine ecotourism marketing must allow the tourists to get a satisfying experience (for a product that is bought on a relatively high level price), must assure prosperity for the local communities from tourism destinations, and must get economic or other advantages for the other

stakeholders, in such a way that the preservation of nature is assured.

2. The concept of ecotourism

Defined and understood in various ways, the ecotourism become a new modality for spending holydays in natural, wild or isolated areas, on our planet. Many nature's admirers understood that is necessary to practice a health tourism that allows and contribute the preservation of natural environment by using in touristic purpose the natural and cultural environmental elements, in such conditions that assure an equilibrate economic local development. The ecotourism is a tourism shape that „uses” in touristic purpose the various natural elements of the environment and the areas where these are located (Stănciulescu et al, 2000, p. 13). Without an appropriate management, the development of tourism in natural areas can become a threat for ecosystems and local communities' integrity. Usually, in regular conditions, when visitors number is increasing (contributing in such way to local economic development), the fragile equilibrium of ecosystems is deteriorating. The ecotourism has been developed going from the stream of biosphere's preservation and because became a consistent source of incomes for the natural areas that must be protected. In the seven and eight decades, the tourism in wild areas from Africa, tropical forests from South America or choral isles from Pacific became an interesting subject for the nature lovers and travelers, being considered as the first ecotourism ways.

Some specialists consider that the ecotourism is a distinctive type of tourism based on four criteria (Nistoreanu et al, 2003, p. 75):

- Is practiced in natural and cultural areas not adulterated
- Involves various actions of preservation
- Encourage the involvement of local community
- Sustains the local people well-fare.

Considering the same opinion, the ecotourism is a sustainable shape of tourism in natural areas, practiced for a better knowledge and appreciate of local nature and culture that involves preservation measures and actions and assures an active involvement of local community and generates considerable incomes for local people.

The international preoccupations for ecotourism development are various. United Nations declared the year of 2002 The International Year of Ecotourism, and the most important action was The World Summit for Ecotourism, in the Canadian town of Quebec. Through the most relevant goals of this Summit can be considered the following (The Declaration from Quebec, Nistoreanu et al, 2003, p. 97):

- Underlining the ecotourism role in sustainable development process
- Exchange of information considering the sustainable planning, development, management and marketing of ecotourism
- Evaluation and understanding of social, economic and natural environmental impact of ecotourism
- Establishing some mechanisms of monitoring and controlling the ecotourism impact
- Conviction governs, public and private organizations to use and promote the ecotourism as an appropriate measure in the process of sustainable development edification
- Identifying new international ways of cooperation, as to contribute on sustainable development and spreading the ecotourism management.

The presentations were structured in four major themes:

- Eco-touristic planning and production development
- Monitoring and standardizing in ecotourism
- Marketing and ecotourism promoting

- Costs and benefits in ecotourism: a sustainable distribution between stakeholders.

Approached, on one hand, as a business opportunity or, on the other hand, as a concept with principles, the ecotourism represents a market segment that continuously evolving.

3. The marine ecotourism on Romanian Black Sea Coast

Distinctive type of sustainable tourism, market niche for tourism in natural areas and specific modality of ecotourism, the marine ecotourism is a shape of tourism travel, responsible for maritime zones that preserve the natural environment and sustain the local people well-fare (Stănciulescu et al, 2000, p. 22). In the beginning, the marine ecotourism activities were unfolded as scientific activities (especially as observation of coral reefs, in the last decades of last century). Now, the number of marine ecosystems' visitors is more and more increasing, and the ecotourism specific activities are various.

The marine ecotourism was often considered as a responsive reaction to uncontrolled human activities from marine coasts areas (fishing, industry, mass tourism), activities that can conduct to significant destructions of marine ecosystems. The ecotourists are often involved in research activities such as marine life observation, inventorying marine species, acting for natural environment preservation or cleaning operations of marine water and beaches.

The most important resources that can be considered as tourism attractions on the Romanian Black Sea Coast are the Black Sea, with large beach and fine sand and the Danube Delta.

The Romanian Black Sea Coast (245 km long) is going down from the Midia Cape to Vama Veche (Bulgarian border point).

The wide beaches go smoothly down in the sea and allow safe sea and sun baths, heliotherapy and water skiing. The water by the sea shore reaching between 18-25 Celsius degrees.

The waves and aerosols influence generates a special cure – talasotherapy.

Other natural tourist attraction can be considered the presence of original fish fauna

(sturgeons and dolphins, a non dangerous species of sharks etc.), lakes for leisure and water sports, local forests (Comorova), parks and nature reserves.

But one of the most important attractions on this area is Danube Delta, one of the greatest wetlands of the Earth. Borne in a Black Sea Gulf, initially as a littoral string (between 11,000 BC and 7,500 BC), the Danube Delta has three branches (Sf. Gheorghe, Sulina and Chilia), more than 400 lakes of different sizes, the oak and ash tree forests, the sand dunes. The beaches on the delta marine seacoast provide a great diversity and spatial variety.

The Danube Delta Biosphere Reserve (DDBR) has a total area of some 580,000 ha, and almost 1/3 from the total number of plant species that grow in Romania can be founded in here.

There are also many important colonies of pelicans and cormorants, a large variety of other water birds, which reside in or visit the delta for breeding and wintering, and a large number of fish, with species of both high economic and ecological value.

The ecotourism is different from the classical tourism shapes that are characterized by massive tides of tourists in coastal areas. Its goal is to establish and to maintain a symbiotic relation between tourism and natural marine environment, to generate positive effects on the environment and a sustainable development for local communities.

4. Some considerations on the structure of marketing mix in ecotourism

The marine ecotourism concerns the nature appreciation and involves (Genuinely Sustainable Marine Ecotourism in the EU Atlantic Area, University of the West of England):

- Local participation in planning and management process
- Sustainable management, the environmental preservation being the key-objective
- Education for the participants concerning the environment understanding and preservation

- An appropriate mix of formal and voluntary measures
- Cooperation between all stakeholders
- Responsible marketing
- Monitoring and evaluation.

An appropriate marketing must allow for the eco-tourists to obtain a satisfying experience (for the price that is give), for local communities to thrive, for the other stakeholders (tourism services suppliers, tour-operators, travel agencies etc.) to get economic benefits, and for natural and cultural environment to be preserved in better conditions.

From marketing policies point of view, is necessary to consider the four basic elements of marketing mix: product, price, position, promotion.

The product

The marine ecotourism activities are based on two environmental elements: water and land. These elements assure the basic existence for various species of flora and fauna, and there's observation is the key for the process of tourism products' creation.

From marketing point of view, the tourism product represents an assembly of specific elements, structured on the following categories (Balaure et al, 2005, p. 268-270):

- Tangible elements, with material structure, that represent the „body” of tourism attraction, and includes the natural and anthropical patrimony, the general infrastructure of tourism destination and touristic equipments
- Intangible elements, representing the tourism services assembly, offered to the tourists by tourism products' suppliers
- Communications concerning the tourism products (information transmitted to the tourists using promotional tools, like advertising, sales promotion, fairs, public relations etc.)
- Image of the product, which means the perception for tourists of this product.

Going from this opinion, it can be considered that marine ecosystem (or its composing elements) is the tangible base that represents the tourism attraction. Adding the other standard-elements, mostly basic (accommodation, food supply, transportation etc.) and supplementary tourism services

(that allow to practice specific recreation or scientific activities, such as traveling with boats or ships to observe the life of marine animals, fish and birds, scuba-diving, submarine transportation etc.), the ecotourism product is created and offered on the market.

From marketing point of view, in ecotourism is important not only to assure an appropriate satisfaction of tourists' needs, but to realize an optimal assembly of the elements of tourism product, as to preserve the natural environmental integrity, to maintain and even to improve the quality of marine environment and to assure a sustainable development of local communities. For these communities is vital to encourage the development of some specific economic activities that can be realized in such a way that don't harm the environment, valorize the local habits (such as traditional fishing and hunting, handicrafts etc.), preserve the specific culture and the traditional way of people's life.

The price

The price for ecotourism products can be established in such a way as to indicate the high quality or the rarity of these products. A high level of prices allow to fructify the rarity of the tourism attractions that composed the eco-marine product, and, in the same time, is a modality to select the tourists segments and to indicates that these kind of products are designated not for mass-tourism, but for some specific tourists categories, which are disposed to pay a lot of money to get exclusive products.

For the local communities, forced to maintain a traditional way of live that not encourage a strong industrial or touristic development, the high level of prices assures benefits and resources to keep the sustainable development and for the local people, involved in traditional activities, supplying services or products on a high level of price assures the incomes for the family living.

The distribution

Considering the specificity of theirs elements, the marine ecotourism products are usually assembled by specialized tour-operators and can be distributed through a

relatively small number of travel agencies. To get a sustainable distribution, it must approach and apply the sustainable principles on the all links of distribution chain, from services suppliers, to tour-operators and travel agencies. By theirs' power and position on the distribution channel, the most important role to assure a sustainable marine tourism it's owned by tour-operators. Producers, and in the same time, wholesalers, the tour-operators can contribute to achieve sustainability of tourism marine products through different ways:

- Understanding themselves and helping suppliers to understand the principles of sustainability
- Choosing those services suppliers, which acts in sustainable spirit and encouraging suppliers to develop theirs' activities in sustainable conditions
- Designing sustainable products, going from a strong collaboration with those suppliers which are following sustainability in theirs' activities
- Cooperating with local community from tourism destinations and involves in environmental problems' solutions
- Market targeting, identifying those tourists segments preoccupied to by and to make a sustainable tourism
- Imaging and positioning the marine tourism destinations
- Promoting and distributing those products to travel agencies and informing the tourists about these sustainable products etc.

The promotional policy

The promotional policy is one of the most visible elements of tourism marketing mix. Important element of marketing-mix assembly, promotion and marketing communication has an important role to sustainable tourism achievement process because assures the tourists' information about products and brands, contribute to the creation process of tourism organization' image, influence and change the tourists' behavior.

All activities of tourism marketing organization are useless in absence of marketing communication, which is very important because of different reason, such

as: inform business partners, collaborators, medias, tourists etc., about services and products that are offered, about marine destinations, about the organization itself, or about its activity; inform local community, stakeholders and other important decisional factors about its current actions, which are putting in to practice its marketing and global policy; create, maintain or consolidate the tourism organization or its offer' image; influence consumers' perception, expectations or opinion as to choose and buy certain ecotourism products; underline the products or the organizations' brands; increase demand for certain tourism products etc.

The structure of the marketing communication activity in tourism includes certain specific techniques and tools, such as: advertising, sales promotion, public relations, marketing events, sales force, or direct marketing.

A considerable force in marketing communication is represented by brand, the distinctive sign of property and quality, which contribute to the services, products or organizational image creation process. The communicational tools are used in different measures in tourism, considering the nature of transmitters. For example, on distribution levels (tour-operators, travel agencies, Internet retailers), to Destination Marketing Organizations (DMOs), the most used tools are: guidebooks, brochures and catalogues, press conference, travel fairs and other events etc.

Host community, employees and visitors interacts at the tourism destinations, and by their behavior can influence the destinations' sustainability and the perception about these.

5. Conclusions

To become a business opportunity and, in the same time, a way to get profit in respectable conditions to people and environment, a responsible marketing policy must be elaborated considering some necessary aspects, such as the following:

- Practicing sustainable management and responsible cooperation between stakeholders
- Analyzing the market-target
- Studying the environment

- Elaborating the marketing strategy
- Assembling an adequate marketing mix, considering that the price, the distribution and the marketing communications must reflect the rarity and the quality of the elements of eco marine products
- Permanently monitoring and evaluating the results etc.

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Financial and Economic Crisis during Current Economic Restructuring

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Abstract

Cyclical evolution represents a reality of any contemporary economy. In the same time, each phase of a cycle is a characteristic of a particular state of economy, performs a specific function in its overall evolution, so that, by restructuring components, the whole economy is reformed. In the opinion of Romanian economists, the current economic and financial crisis appears to be unprecedented over the last century. A massive decline in confidence, both in the business sector and for consumers, both responding by restricting spending, is in full swing. Challenges triggered by the crisis are multiple.

Key words: economic restructuring, cyclical evolution, economic growth

J.E.L. classification: O11

1. Current approaches to economic and financial crisis

It is well known that, in the postwar period, cyclical fluctuations mitigated for several decades. This position gave rise to a new question: "Is economic cycle an obsolete concept?". In 1990 same question was asked again. Few years ago, Robert Lucas and Ben Bernanke have said publicly, that although the economy would continue to suffer occasional downturn and the age of severe recessions or of global economic depressions was already over, imbalances still remained and appeared in different forms, despite the business cycle phase. [1] This situation has enabled a school of thought according to which economic theory and practice must be restructured from the ground.

It is estimated that, when an economy faces imbalances, one of the next possible ways may be followed:

- to introduce conditions of stable equilibrium by a profound restructuring
- to maintain the status quo and implement Keynesian policies They represent attempts to neutralize harmful effects of the former imbalances without touching the original causes of disorder, that is breach of conditions of stable equilibrium and manifestation of fluctuations in the economy.

Cyclical evolution represents a reality of any contemporary economy. In the same time, each phase of a cycle is a characteristic of a particular state of economy, performs a specific function in its overall evolution, so that, by restructuring components, the whole economy is reformed.

In the opinion of Romanian economists, the current economic and financial crisis appears to be unprecedented over the last century. A massive decline in confidence, both in the business sector and for consumers, both responding by restricting spending, is in full swing. Trying to restore stability, U.S. government and some governments of European countries, have rationalized parts of their financial sectors to an extent that contradicts the very foundations of modern capitalism. The world seems to change course, heading towards a time when the state's role will be larger, while the role of the private sector will be lower. This will, probably, be the most important macroeconomic restructuring caused by the current crisis.

It is estimated that the current crisis is rooted in the real estate speculative bubble in the U.S. This vision is at least incomplete. The main causes are both macroeconomic

and microeconomic and they were interconnected.

From a macroeconomic point of view, abundant liquidity, created by major central banks around the world and by oil and gas exporting countries' desire to limit currency appreciation, was a profound cause of financial crisis. There was, also, a super-saturation with savings generated by the increasing integration into the global economy of countries with high rates of accumulation (China, South-east Asia), and by the global redistribution of wealth and income to exporters of goods such as: crude oil, natural gas, etc. . All these have created the resources available for investments, including sophisticated financial instruments.

Very low interest rates and low volatility have been the consequences of abundant liquidity, thereby leading to increased appetite for assets with large gains and a tendency to underestimate risk.

Against this background a series of microeconomic causes have operated: securitization, clefts in the business model of rating agencies, rational private outsourcing, but socially inefficient, and international competition for deregulation.

Finally, the demand for liquidity in combination with a loss of confidence between banks gave rise to a rush for cash and effective interest rate started to increase. In the U.S. and in some European countries, governments and central banks have responded by improving liquidity, providing government guarantees for loans, recapitalization of financial institutions, preventing a messy collapse of large, networked companies, buying shares in banks, or through a coordinated interest rate decrease.

According to Friedman, slower growth and lower productivity generate a series of doubts and controversy over the private capacity of innovation in continuing to prevent the stifling effects of government control, if we continue to grant even more rights to government. He, also, suggests, that a more intrusive administration could damage prosperity due to free market and human freedom.[3]

Friedman's critics acknowledge the beneficial effects of government involvement in the economy: deregulation, privatization, a

reduced public spending, reducing taxes, non-intervention in the currency market and , the most important, to allow people to make their own decisions even if some will lose.

Such a conception seems to have no currently counterpart in economic reality, when the very lack of control over markets and globalization are blamed for the disasters induced by the financial crisis started in 2008. The crisis has encouraged criticism of the ideas of Chicago School and return to Keynesian ideas about stimulating the economy by increasing public spending and state involvement in regulating imbalances in the economy.

Who is right? Such a question is simplistic and incorrect. On the one hand, there is no pure market economies, and Friedman does not take this idea into consideration, and no absolute rule in the economy. On the other hand, because no theoretical construct may not fully represent the complexity of a reality after the time it was made, what we call today "free market economy" or "neo-liberal orthodoxy" is still serving as a model, as the Keynesian solutions of the U.S. administration in their effort to cope with current economic and financial crisis.

The recent crisis has highlighted a growing problem known under the collocation "too big to fail". [4] Lehman's collapse and the subsequent cardiac arrest of the global financial system have revealed that many financial institutions had become so great, indebted and interconnected that their collapse could have catastrophic systemic effects.

In the U.S., when a bank goes bankrupt FBIC takes control through a process of forced administration. But among these institutions "too big to fail" there are too few traditional banks. Most of the companies are huge financial institutions like Morgan Stanley and Goldman Sachs, AIG and other insurance companies extended over all possible fields, companies sponsored by the government, like Fannie Mae and Freddie Mac, hedge funds like Long -Term Capital Management.

Challenges triggered by the crisis are multiple. In the short term, the main challenge is finding solutions that will restore confidence of investors and consumers. In the long term, the main challenge is to adjust

the principles that guide the international financial system reform, mainly relating to transparency, improvement of regulations on securities accounting, ensuring a proper regulation of financial markets, companies and products and a closer cooperation between the world's financial institutions including upgrading governance structures of IMF and World Bank.

The recovery process can be represented in different forms reflecting the relative degree of rigor and sustainability of the process. [4] A V-shaped recovery is intense and rigorous, a U-shaped recovery is slow and disappointing, and a W-shaped is double minimal recovery, the economy is going through a temporary downturn, only to dive to zero again. The most likely scenario is, currently, a U-shaped recovery in advanced economies with weak growth in the forefront of the trend curve for a number of years.

2. Cyclical developments, economic restructuring and macroeconomic environment in Romania

After 1989, during the transition to a market economy, gross domestic product (GDP) has had an oscillating evolution, as an expression of profound transformation and restructuring of the national economy.

Table 1. Variation of GDP Growth

Year	previous year =100%	Year 1989 =100%	Year	previous year =100%	Year 1989 =100%
1989	100,0	100,0	2000	102,1	76,8
1990	94,4	94,4	2001	105,7	81,2
1991	87,1	82,2	2002	105,1	85,3
1992	91,2	75,0	2003	105,2	89,7
1993	101,3	75,1	2004	108,5	97,3
1994	103,9	78,0	2005	104,2	101,4
1995	107,1	83,5	2006	107,9	109,4
1996	103,9	86,8	2007	106,2	116,2
1997	91,9	79,8	2008	107,1	124,5
1998	95,2	76,0	2009	92,3	115,5
1999	98,8	75,2	2010	97,5	105,6

Source: *Statistical Yearbook of Romania, in 2008, the INSS data, own calculations*

In 2005, we had a GDP equal to that of 1989, but with a substantial improvement and modernization of branches and sub-structures of the economy, marking the end of transition to a functioning market economy and creating the necessary conditions for a closer position to the average level of countries of the European Union. Over the period 2001-2008, we obtained a GDP growth of about 40%, which corresponds to an average annual rate of growth, close to the maximum level of economic potential of 5.8%. This is a macroeconomic indicator that can be achieved in terms of full capital and labor, whose value (level) is not very different from the actual nominal GDP if the activity takes place normally.

Table 2. Growth Rate of Potential GDP and Productive Inputs

Period	Potential GDP	Capital	Employed population (15-64 years)	Total factor productivity
1992-2000	0,8	0,0	-1,0	0,7
2001-2003	2,3	1,3	-2,3	1,5
2004-2007	7,4	3,7	-0,5	2,7

Source: *Government of Romania, Pre-Accession Economic Programme, 2005, www.cnp.ro / studies*

If nominal GDP dynamic exceeds potential GDP, inflationary pressures and external imbalances occur in the economy, that can become unsustainable. Leap potential GDP recorded since 2004 is partly explained by methodological changes: until 2003, we took into account the total employed population since 2004 only working age population employed and is envisaged. Also, statistical data were revised.

Although the progress recorded in modernizing the economy and improvement of its functional character underlines the internal factors of development, as an open and highly integrated economy of the European Union, Romania is sensitive to

changes in economic environment and especially to the evolution of the main countries of the EU, that is its commercial partners. Therefore, one must consider the cyclical evolution of economic growth in the European Union and globally, as a factor that strongly influences the Romanian economy.

The financial crisis triggered in the U.S. and Western Europe in 2008 began to be deeply felt in Romania. The first episode of recession, 1990-1992 was a period of transition from a command economy, the second recession was observed in the years 1997-1999, being regarded as a transformational recession. A period of recovery and then an overhanging growth, above potential, followed these episodes. This was the most prosperous period, but a chaotic growth based on unsustainable consumption and our lack of strategic vision of development in terms of a wrong mix of economic policies that has stimulated consumption at the wrong time and has emphasized imbalances determined a new recession. In the last quarter of 2008, the Romanian economy ceased growth and signs of crisis became apparent. In 2009 GDP fell by 7.7% over the previous year and assessments for 2010 are about - 2.5%.

From the perspective of heterodox theory, the main cause of the current economic crisis started in the U.S. and then expanded globally through the contagion effect, is an excess of investment associated with the structure of competition for market share gain, which leads to excess productive capacity. A pressure of financialization of non-financial companies was added, which led to an excess fictitious financial investment, based on money illusion. There are similarities between the crisis triggered in the U.S. and then expanded in the developed countries and the Romanian crisis: the process of deregulation, the phenomenon of corruption associated with bad management of funds, the polarization of income distribution, real estate speculative bubble. What happened in Romania is easier to present [5]:

- Romania's economic crisis is internal, it would have occurred without external impulse;
- the causes of economic crisis in Romania are different from those of the financial

crisis in developed countries, the latter factor was just Shutter;

- transmission mechanism is the current account deficit financing and banks' exposure to derivatives are not bad;
- the adjustment mechanisms are represented by pro-cyclical policies: reducing the budget deficit, reduce public expenditure and not counter-policy.

In summary, the crisis in the Romanian economy has been driven by wage growth than productivity, increasing consumption and private debt financing by the exponential growth of current account deficit. It is a crisis of overconsumption. In detail, there are more cases to be added, namely:

- opening the capital account too quickly;
- consumption-foot, based on short-term external financing;
- pro-cyclical fiscal and budgetary policy, based on flat and strong growth in public sector employees, while the economy is expanding;
- postponement of structural reforms;
- reduced absorption of structural funds;
- denying the crisis in late 2008 which delayed the implementation of preventive measures and increasing internal and external imbalances.

From all this, the excessive consumption fever debt is the main cause of the crisis in Romania. Funding was provided by increased consumption of short-term external debt. Total external debt rose from 18 billion in 2004 to 72 billion euro in 2008. At the end of third quarter 2008 (at the height of growth, the economic slowdown that began then) short-term external debt was 33 billion euro of which 99% was private debt. Non-government credit increased rapidly from 10% of GDP in 2001 to 39% of GDP in 2008. Credits given to population and is reached at the end of 2008 about 70% of disposable annual income population. Since the summer of 2007 loans to households has exceeded people's deposits in banks, low savings rate, as opposed to high investment rates lead to accumulation of large current account deficit. It has consumed more than they produced. A significant contribution has had a fever consumption and speculative real estate bubble but not the proportion or what happened in the U.S.: only 5% of the population accessed the mortgage is

borrowed, most loans were for personal needs, but, most often backed by a good real estate.

3. Possible solutions to overcome the crisis and resume growth

Postponing reforms mean a profound restructuring in several areas (the real economy, economic policy mix, the market system, etc.) is a cause of imbalances and extend the economic crisis deepening, the U shape that is emerging more, while expression contradictory phenomena. Such is the labor market situation where emigration is recorded representing 3.2 million people, mass unemployment in rural areas, employment in the informal economy, agriculture is dominated by subsistence households. The Romanian economy is energy-intensive: a consumption record seven times higher than the EU average to produce one euro of gross domestic product. Many goods and services markets dominated by monopolies and oligopolies are restricted, which leads to higher prices for customers. The postponement was due to reforms and the lack of strategic vision and its components. Spreading economy - industry, agriculture, tourism, services.

The stringent application of topical interest for Romania is a viable anti-crisis program. Romania has a loan agreement with IMF, which provides quantitative performance criteria and benchmarks for restructuring. If Crisis is more than deficit financing, agreed with the IMF program is helpful but not enough to restore growth on sustainable basis. It includes quantitative performance criteria and structural benchmarks for reform: ceilings on monetary aggregates, interest arrears, reduce inflation, reduce public expenditure, growth stocks, capping the budget deficit, the adoption of new legislation on wages in the budgetary, fiscal accountability, administrative reform.

In the economic literature other solutions anti-crisis arising from the monetary approach are presented too: resume lending and boost consumption (main source of the crisis in Romania was an excess of consumption. Not that the crisis can be made on the same channel that generated the crisis), increased public investment in

infrastructure, increased call the Structural Funds (To date, Romania has demonstrated a low capacity to absorb structural funds. They tend to be procyclical. Can help economic growth, the factor of whether they are well targeted and damping effect). To overcome the crisis and achieve sustainable growth - consistent with the macroeconomic performance - Romania should have as a priority, increasing the employment of labor. [5] Currently occupancy is below 60%, which means that 4 of 10 fit does not work. If it succeeds as one of the 4 to work it means a million jobs, which is in line with the Lisbon Agenda, which does not mean full employment, or an equilibrium level but there is more people who use and save Produce added value and pay taxes. Employment growth could be correlated with other specific objectives: increasing internal migration from rural to urban, which could offset the rural pockets of poverty and reduce external migration. Overcoming the economic crisis involving an industrial policy and agricultural policy to stimulate economic sectors create jobs, value added, goods and services with a sustainable demand on domestic and foreign market.

Increasing employment is the opposite of staff restructuring. and reduce spending on the employers. In restructuring the public sector must address inefficient persons, those whose positions are not justified economically and socially. In the private sector restructuring is focused on reducing personnel costs. Increasing tax revenues and reducing budget deficit may be based on other sources including the most obvious is to reduce tax evasion.

Another component of a sustainable breeding program is a tax reform based on the principle of solidarity, which means that everyone pays tax according to the availability of pay-and the automatic stabilizer function of prices and profits to be a have the tax system. A flat tax system based on who wants to say that it is built on the principle of neutrality is misleading in a world with many externalities, asymmetries and adverse shocks.

Tax reform should also be accompanied by a change in budget planning: The state budget should be based entirely on a multi-annual programming, many investment

projects are inherently multi-and structural funds are also provided for projects that are multi.

Sustainable exit from the current crisis is not just about GDP growth in the previous year. Welfare includes quantitative and qualitative dimensions other than income growth. To overcome the current crisis and resuming economic growth is important to avoid the resumption of over-the duty cycle and maintenance costs financed deficits in normal limits determined by the market.

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The American Mortgage Crisis – Global Economic Crisis Triggering Factor

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Abstract

The paper aims to make a radiograph of the world economic situation, how to overcome global economic crisis, the impact of global crisis on the countries had developed on one side and emerging on the other hand, and how which attempts to overcome the effects of this unprecedented crisis by different countries in different regions of the world. The paper's objectives are related to the presentation of the current global economic situation, the rapidity with which covered the entire world financial crisis.

Key words: economic crisis, emerging economies, developed economies, recession, financial flows

J.E.L. classification: F50, F59

1. Introduction

The paper is structured into four main chapters, preceded by an introductory chapter and ending with a chapter of conclusions. Chapter one, Introduction, presents the structure and phenomena work covered each chapter. Chapter two sets out the global crisis that characterizes the turning point of the global economic order, making a review of the current situation. Next chapter three that examines the return of economic crisis, strong but uneven phenomenon for developed and developing, so-called emerging economies. Chapter four shows that economic recovery requires the adoption of

coherent policies for the next chapter, Chapter five, to provide regional and global prospects of the global economic crisis. The paper ends with the conclusions resulting from analysis of the current economic crisis.

2. World crisis, turning point of the global economic order

The world economy is currently experiencing the largest decline in the postwar era, dominated by a financial crisis that swept in a record time, all over the world. Many developed economies have entered a recession, the rest of the economy slowing down and substantial growth. International trade and global monetary and financial flows show a significant contraction, while the unemployment rate has increased considerably.

The nature of the current crisis events can be reported in a precedent - in particular, the current situation of financial crisis combines the most advanced economies in the world with a period of global economic contraction.

In 2010, countries across yet another shock wave, which invariably involve changing the current world order. The last twenty years have seen major changes in international economic context, the collapse of the Soviet Union and the centrally planned economies of Eastern Europe, reforms in China and India, export-based growth strategies in East Asia, all leading to the creation of a world economy market and also bringing 4 to 5 billion people.

On the one hand, these major changes have led to tremendous opportunities for

development, but on the other hand, have destabilized the international economic system built in the mid-twentieth century, subsequent recalls being only temporary.

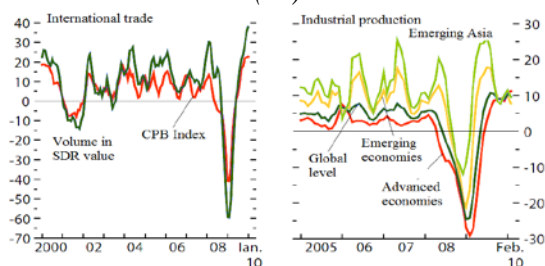
Recessions products simultaneously in several countries are considered to be deeper and more prolonged than unilateral ones. In this case, recovery is extremely difficult to produce, international trade plays a smaller role than in synchronized recessions. Recession now facing countries of the world can be characterized as being strongly associated with Synchronous and severe financial crisis, a rare combination at least for the postwar period.

Consequently, the crisis will be extremely difficult, thus justifying the historical parallels between now and the Great Depression of the 1930s, by far the most long and deep recession, known by most developed countries.

3. Recovery from crisis - robust, but irregular

Fortunately for the world economy, signs of recovery from the crisis appear, but can not even talk about a return to all parts of the world. Partial data show that in 2010, world production increased by 4.25%, which means a clear improvement compared to 1% in October of 2009, financial markets recovering much of the economic and consumer confidence both (Figure 1).

Figure 1. Global economic indicators (%)



Source: Netherlands Bureau for Economic Policy Analysis, IMF, February, 2011

Real GDP growth reached 3.25% in second quarter 2009, having to reach up to 4.5% last quarter. The world's key economies (both developed and emerging), improved domestic demand and the foreign debt was boosted by the return of international trade.

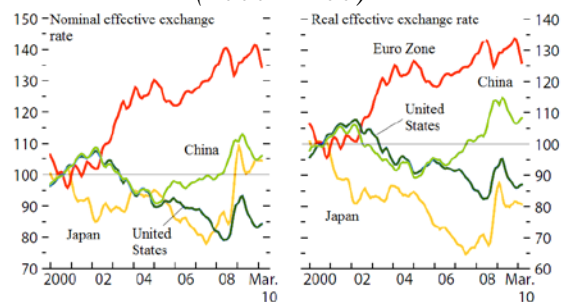
Restore of the U.S. economy compared with the European Union and Japan reflects a number of differences between the three power centers: the United States, fiscal stimulus has been achieved in considerably larger scale, non-financial corporate sector is less dependent on lending banking, recovering the securities markets and relatively quickly, and Federal Reserve System reacted promptly in implementing policies to counter the crisis.

In emerging economies of Asia already exceeds the production rates achieved before the crisis (Figure 1). In the third quarter of 2009 and some Latin American countries have started to show signs of recovery, although the production level in this area can not be compared with that of Asia, some Latin American economies are still facing crisis.

Emerging Europe and the CIS are other regions where economic recovery slow to appear, while benefiting from economies of Middle East oil demand growth and its rising price. The situation in sub-Saharan Africa is diverse. Most middle-income economies and oil exporters, subject to abrupt deceleration of output contraction in 2009 and begin to benefit from rebalancing of international trade and commodity prices.

Border financial flows seem to recover from the shock suffered in 2008. Key factors behind the recovery include increases in capital flows to emerging economies and their willingness to take financial risks again. State influenced financial flows exchange rates, leading to dollar depreciation and appreciation of their floating rates of other advanced and emerging economies, but if we consider the levels attained before the crisis, the bill changes are reduced (Figure 2).

Figure 2 Evolution of major currencies (2000 = 100)



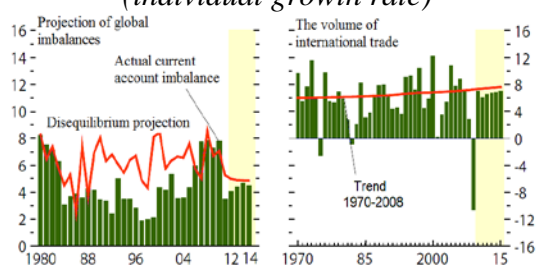
Source: International Financial Statistics, IMF

Regarding major economies, China's current account surplus fell from 9.5% of GDP in 2008 to 5.1% of GDP in 2009, reflecting the contraction of world output and international trade, and an increase accelerated public spending. During the same period, the current account deficit of the United States declined from 5% to 3% of GDP, increased state induced by the collapse of savings and investments households.

International Monetary Fund estimates, however, seem to suggest an increase in current account deficits throughout the period restabilizare international trade (Figure 3).

Regarding the global economic recovery, there are two factors that will continue to support the course of 2011, with financial incentives to decrease gradually in intensity. The first factor is the state of financial markets - it is hoped that the sources of financing (loans) become available again, and rebalance income households can retake consumption.

*Figure 3 Global imbalances
(individual growth rate)*



Source: *International Financial Statistics, IMF*

Overall, it appears that the global economy will enter a recovery phase, but not uniform (Figure 1). Global growth is estimated at 4.25% for 2010 and 2011 (estimates). Economic growth in advanced economies is set to 2% in 2010 and 2.25% in 2011 (estimates) after a 3% drop in production in 2009. In developed economies, their growth is expected to reach 6.25% during 2010-2011, after a modest rate of 2.5% in 2009. Therefore, the return of developed economies will be quite slow. Some European Union countries that have suffered major financial imbalances in the crisis will pass through a difficult period, not falling into forecasts of economic growth, while countries such as Australia or the newly industrialized Asia (which have experienced less impact global

crisis) will describe the most favorable development.

4. Economic recovery requires adoption of coherent policies

For an effective economic recovery can take place, it is necessary to take radical measures, no easy task, since requiring an international correlation. In most advanced economies, but also a handful of emerging economies, we need a relocation application, focused so far on ordinary consumers (public domain), relocation to the private sector, coupled with the consolidation of public

If economies must restore the level of private capital (United States), it requires a balancing and acceleration of financial reform, to help recreate the proper economic recovery. Such a framework would allow to remain lax monetary policy, inflation or coppices in domestic and international stability.

In addition to fiscal consolidation, financial sector reform progress should be considered a priority for both developed economies and the more advanced, whereas the current global crisis has been propagated only by financial market inefficiencies. Given the integrated nature of markets and financial institutions, reforming their synchronization needs worldwide.

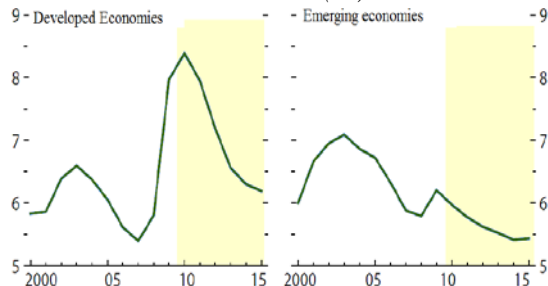
Briefly, efforts will be needed to fix damage from the crisis:

- recapitalization of banks: it needs an influx of cash to absorb the deterioration of credit quality and to support sustained growth in the light of tightening standards on financial markets;
- restructuring of banks: it will help stabilize the banking system and lead to avoid future turmoil from external bodies to support them when leaving the states;
- titrize claims revive markets: although still dependent on the state, have become an integral part of bank lending in most advanced economies.

Looking ahead, a considerable effort will be devoted to restoring order to the markets. This can be achieved only through actions on several fronts: higher capital needs, new financial instruments, reducing the size of financial institutions to be more easily operated and controlled.

Another problem that threatens the economic recovery the unemployment rate is up. In advanced economies, the unemployment rate will reach a value of 8.5% in 2011 and then to decline slightly.

Figure 4 Estimated unemployment rate 2010-2015 (%)



Source: International Financial Statistics, IMF

The problem is much broader than statistics can show. A large proportion of the employed population is engaged in temporary work or work part-time, part of the population and occupied, but able to work, gave up the idea of hiring, so there is included in the statistics. Influence on unemployment showed lower production varied among developed economies.

Retraining programs can help to reintegrate the unemployed into the labor market. Wage flexibility is important in terms of facilitating the reallocation of labor in economies that have suffered strong sectoral shocks. Also, wage adjustment is required to mitigate the effects of salary on the standard of living declines.

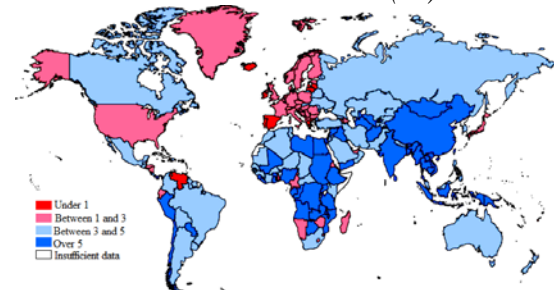
In most developing economies, unemployment was more weighted than in advanced economies. The need to reduce the adverse effects of soaring unemployment becomes an imperative in the entire world economy

5. Regional and global perspectives

While the world economy recovers from its biggest crisis since the Second World War until today, the economic recovery varies greatly by region (Figure 5). In some economies, the average increase expected for 2010-2011 will likely exceed 10%, while in others it will be negative. In addition to major disparities between growth rates, while the figure below shows the potential recovery

towards the optimal level of production for economies to function properly.

Figure 5 Estimated real GDP growth between 2010-2011 (%)



Source: International Financial Statistics, IMF

As regards the United States, is circulated into a recovery phase, but demand remains low. According to the IMF fiscal and monetary easing, and other policies to improve the financial and real estate sector have led to adding real GDP growth rate by 1% in 2009. Thus, real GDP grew at a rate of 2.2% in the third quarter of 2009 and by 5.6% in Q4, the domestic demand while maintaining a level still below that registered prior to the coming crisis.

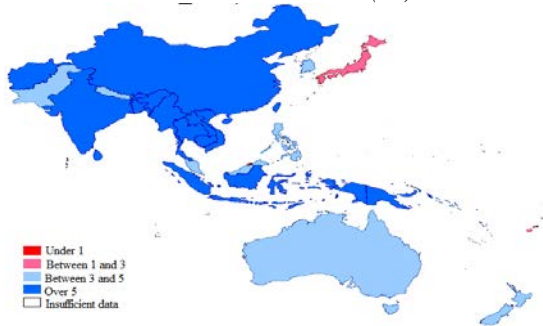
The labor market remains unusually weak. Since the crisis began, more than 7 million people have lost their jobs and 8.8 million working (unwillingly) to half-time. Although job losses decreased in intensity, the number of employment remains negative, the unemployment rate in 2009 decreased 10% and marginal in the first quarter of 2010.

Financial market tensions have diminished, but credit availability is still low. Liquidity spreads and the risk associated with investments have already reached pre-crisis levels. Securities markets recovered from early losses after 2009 and the issuance of shares and bonds have already exceeded pre-crisis levels.

Considering these circumstances it is fair to say that the of the United States economic recovery will take place gradually. Real GDP grew by 3% in 2010, 0.5% more than the estimates in January 2010 and 1.5% higher than the forecasts made in October 2009. But the return will still be weighted by restoring income households, but necessary, reforming the financial sector and the state that make the labor market.

And for Canada, the economic recovery will be slow, reflecting more moderate growth in demand than in the United States and a substantial appreciation of the currency.

Figure 6 Estimated real GDP growth in Asia between 2010-2011 (%)



Source: International Financial Statistics, IMF

Although the impact of financial crisis on many Asian countries was strongly felt at the end of 2008, surpassing expectations, their recovery from the crisis was the just as fast. The low level of public debt has enabled many Asian economies to implement strong anti-cyclical policies.

In China, GDP growth exceeded the government set for 2009, 8% and is expected to reach 10% both in 2010 and 2011. What has so far been sustained economic growth through public investment in infrastructure from 2010 will be translated to the private sector.

In India, economic growth will reach 8.75% in 2010 and 8.5% in 2011 (estimates). Consumption will increase as labor market conditions improve, while being expected investment boom induced a high level of profitability.

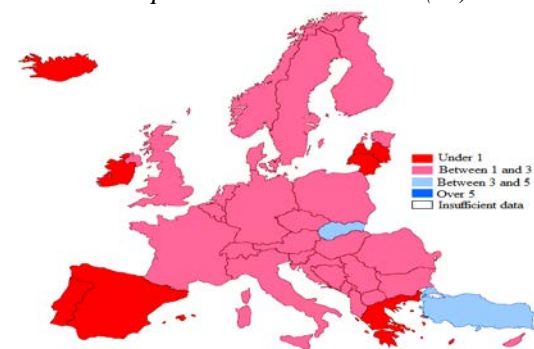
Estimates for the five member states of ASEAN (Indonesia, Malaysia, Philippines, Singapore and Thailand) on economic growth reached 5% for 2010, based mainly on increasing domestic demand. Among ASEAN economies, the most powerful has proven to be Indonesia's production increased by 4.5% in 2009 compared with 1.75% ASEAN media, thanks to low levels of domestic demand and trade dependence.

In Japan, improving the economic situation is supported by exports, but also hampered by the low level of domestic demand. Domestic demand will remain low

because of several factors, including a return to deflation and labor market unbalance.

Both in terms of emerging Europe and the advanced economies in crisis recalls estimates vary considerably. Many macroeconomic stimulus policies have helped the main European economies, although the application has not yet reached a level conducive to economic development.

Figure 7 Estimated real GDP growth in Europe between 2010-2011 (%)



Source: International Financial Statistics, IMF

There are certain forces which remove the economic recovery of Europe. Current account deficits constrain a number out of the recession in the Eurozone countries, producing externalities in the rest of Europe. Solvency and liquidity concerns for Greece continue to threaten financial market conditions normalize.

However, developments in Europe is estimated at more modest. GDP in advanced economies had a growth of 1% in 2010, reaching 1.75% in 2011 (estimates). Increase Europe's emerging real activity is expected to be 3% in 2010, having to grow a further 0.5% in 2011 (estimates). However, these aggregate estimates do not capture the pronounced discrepancies recorded over the region (Figure 7).

In developed Europe, the return is expected to be gradual and fluctuating. Average GDP growth throughout the euro area in 2010 reached 1% in 2010 and 1.5% in 2011 (estimates). The same moderate course will be followed by France and Germany, where export growth is limited by external demand, investment is hampered by credit constraints, and consumption is reduced because of high unemployment. A difficult recovery from recession and will be small

countries, where growth is reduced major fiscal imbalances or current account (Greece, Ireland, Portugal, Spain).

In emerging Europe, forecasts are also variables. The savings have been relatively well through the global crisis-induced shocks (Poland) and others where economic activity has recovered from external shocks (Turkey), will benefit from robust recovery, helped by capital flows and international trade rebalancing.

At the same time, the crisis economies caught with current account deficits excessive (Bulgaria, Lithuania and Latvia) and those with vulnerable fiscal situation (Hungary, Romania, the Baltic countries) are expected to recover harder, in a somewhat because of the prohibitive framework for the implementation of coherent policies.

6. Conclusions

Big financial shock waves that cause existing cracks deepen political, economic and social, and sometimes, a new order replaces the old. In 2010, countries across yet another shock wave, which invariably will lead to changing the current world order.

In the contemporary period, recessions have declined both in frequency and in intensity, while periods of economic expansion have been expanded. However, recessions associated with financial crises have become more severe and prolonged than those accompanied by other types of imbalances. Recovery from this type of recession is therefore much slower and are also associated with reduced domestic demand and acute shortage of liquidity.

Regarding the emerging economies of Europe, significant internal vulnerabilities, and in some cases relatively rigid exchange rates have hampered the application of complicated anti-crisis policies. A number of states marked by fragile banking systems, currency fluctuations and balance of payments deficit have used external financial support from the International Monetary Fund and other official sources.

Vices of advanced economies' financial systems have encouraged excessive lending and therefore inhibited savings, while some government programs and market irregularities in some emerging economies

have a strong impetus. Insufficient fiscal consolidation during periods of economic boom have boosted these effects, like the massive accumulation of official reserves by emerging Asia.

The lessons states of the world should learn from the current global crisis is producing as many as it is clear. The global crisis started in 2007 has demonstrated once again the fragility of the international financial system fragility enhanced by the high degree of globalization of financial markets.

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Monetary Policy Aspects in Central and East European Countries

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Abstract

The monetary policy, as part of the economic policy, represents an absolute prerogative of the central bank. Although all monetary policy instruments are identical in most Central and Eastern European states, the manner and the frequency with which they are used differs from country to country.

At global level, the monetary policy objectives are either unique or multiple. In the past years, more and more states have given a special attention to the inflation objective.

Direct inflation targeting is a strategy adopted by many European countries, among which there is Romania.

The present paper brings to attention the particularities of applying the monetary policy in several countries from Central and East Europe, from the perspective of the inflation and the interest rate.

Key words: inflation targeting, interest rate, monetary policy.

J.E.L. classification: G21, G28.

1. Introduction

The world economy has recorded, over history, moments of economic growth, technological and social progress, but recession and collapse moments, as well. Therefore, states had become more and more preoccupied with providing the optimal economic activity development background, appropriate for promoting economic growth and a stable financial climate. In this context, the monetary authority of each country became an important pawn in reaching these goals.

All these aspects shape up the elements at the foundation of elaborating, developing and perfecting the countries' macroeconomic

policies. We can, therefore, consider macroeconomic policy to be “a deliberate state intervention with the purpose of reaching certain structural or conjectural goals” [1] based on sustainable and long-term constant development strategies.

2. Direct monetary policy strategies: Direct inflation targeting

Over the past years a new monetary strategy has been developing: direct inflation targeting. This theory is related to New Zealand which adopted such a strategy, for the first time, starting with 1988.

Direct inflation targeting represents a monetary policy strategy that requires setting a target for the inflation level over a certain period of time, which must be reached by applying monetary policy measure in order to ensure price stability. [2] Even if the origin of the concept is in practical life, its theoretical development was accelerated over the past period, on the background of this strategy being adopted by more and more central banks. Thus, Svensson [3] defines inflation targeting through its characteristics: (1) There is a numerical inflation target, in the form of either a point target (with or without a tolerance interval) or a target range. This numerical inflation target refers to a specific price index, the experience of the countries that have passed to inflation targeting is taken into consideration, showing that the most frequently used index is the consumer price index.

(2) The decision-making process at a central level is based on its strong independence regarding adopting monetary policy instruments that shall lead to achieving the inflation target.

(3) There is a high degree of transparency and accountability in order to reach the inflation target.

Monetary policy influences, through its instruments, the loan market and important areas of the financial markets [4].

3. Inflation rate evolution

Its evolution shall be analyzed taking into account the levels attained by this index over the past four years and, on this basis, we shall build a series of elements necessary to shape an accurate image of this evolution: charts, recorded average rates, evolution related to target and so on. In Table 1 there are presented the synthesized inflation rates with the levels recorded over the analyzed period.

Table 1- Inflation rate levels over 2006-2009

	2006	2007	2008	2009
ROMANIA	6 %	5 %	6.30 %	4.74 %
POLAND	1.38 %	4 %	3.30 %	3.50 %
CZECH REP.	2.50 %	5.40 %	3.60 %	1.00 %
AUSTRIA	1.70 %	2.20 %	3.20 %	1.00 %

Source: official data analysis: www.bnr.ro , www.nbp.pl , www.oenb.at , www.cnb.cz

The evolution of the inflation rates in Romania, Poland, the Czech Republic and Austria is presented in Chart 1. Based on it, the following analyses can be made:

The year 2006 was relatively good form the inflation viewpoint and Poland, the Czech Republic and Austria had the best inflation levels over the three years previous to the profound manifestation of the financial and economic crisis; the interval 2006-2008, taking into account that the powerful effects of the economic impasse were felt in these countries either at the beginning of 2009 or in the fourth trimester of 2008.

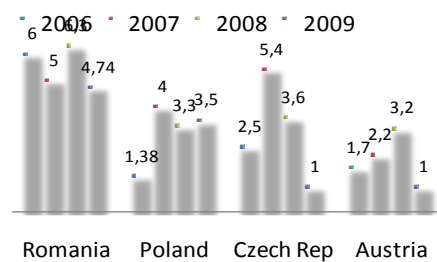
Unlike the other three states, Romania records a much higher inflation level at the beginning of the period but also presents a rather small variation over the analyzed period, therefore having a variation channel with relatively close limits.

For Poland and Austria, we can state that the inflationary process had a quite large leap in 2007 and then reduced in 2008, but the tendency created over 2006-2008 is one of growth of the inflation level in those

countries.

The situation of Austria is an atypical one as it presents the influences of the Euro Zone and if we take into account the inflation target, expressing it in a growth of maximum 2 pp per year, we may state that the monetary policies are efficient and maintain the inflation ration under the 2 pp growth limit, as it is an average of 1 pp over the analyzed period.

Chart 1. Inflation rates evolution



Source: official data personal analysis: www.bnr.ro , www.nbp.pl , www.oenb.at , www.cnb.cz

Over 2009, from the perspective of the inflation, there was a general tendency of decrease for three of the four analyzed countries: Romania, Austria and the Czech Republic, whereas for Poland the inflation index recorded a slight growth of 0.20 pp.

We may underline the average evolution of the inflation index, but based on the 2006-2008 period, in order to speak about a period with constant characteristics regarding economic growth, all countries recorded positive evolutions over the mentioned period.

Table 2- Inflation rate average

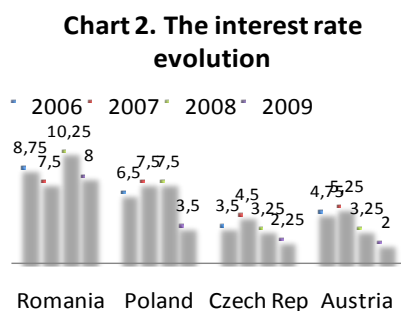
PER IOD	COUNTRY			
	ROMANIA	POLAND	CZECH REP.	AUS TRIA
2006 - 2008	5.76 %	2.89 %	3.83%	2.36 %

Source: official data personal analysis: www.bnr.ro , www.nbp.pl , www.oenb.at , www.cnb.cz

A relevant index may be the inflation rate evolution average. We may notice that the lowest average is 2.36% reached by Austria, and the highest value is 5.76% attained by Romania.

4. Interest rate evolution

An important monetary policy instrument is the reference interest rate. Its evolution over the analyzed period offers information and characteristics of the monetary policy for each individual state.



Source: official data personal analysis: www.bnr.ro, www.nbp.pl, www.oenb.at, www.cnb.cz

By evaluating the interest rate based on Chart 2 above, we notice that, from this index perspective, we may divide the four analyzed states into two groups: Romania and the Austria - Czech Republic – Poland group; this is due to the large difference of value among the interest rates in these states.

We may also notice that Austria, the Czech Republic and Poland are approximately within the same interest rate index variation interval with the higher limit of 5.25% and the lower limit of 1.38%, compared with Romania, which has a separate interval, situated at a superior level, its interest rate varying between 7.50% and 10.25%.

5. Conclusions

The present research reveals the fact that inflation targeting is a hard-to-reach objective for Central and East European countries. Moreover, the world financial Crisis and the fiscal policies of some states did not facilitate reaching the proposed goal in the least. For Romania, raising the VAT to 24% made it impossible to respect the prevision interval for the inflation rate announced in the beginning of 2010.

The monetary policy interest rate has direct influence over the activity of the credit institutions. Thus, the adjustment process of the interest rates in the loans of the banking sector clients is slowly developing, as this is one of the characteristics of the monetary transmission mechanism that the majority of the field research papers have drawn attention to.

This phenomenon is influenced by both the characteristics of the loan contracts, and the variability of the loans' interest rate according to the reference interest rate that sets a certain rigidity to the adjustment mechanism of the new loans interest rates, by the dominant position of the banking sector within the financial system and the absence or the limited accessibility of non-banking financing alternatives, which has as an effect, the decrease of the loan demand elasticity of the non-banking clients regarding to the interest rate [6], to the possibility of replacing the national currency loan with an external currency, to the easy access to external financing and to the banks' expectations as to the reference interest rate evolution and the economy, in general.

The influence of the monetary policy over the companies' decisions regarding investment, consume or saving are determined by the usage degree of this transmission mechanism, especially under the conditions of financial intermediation increase, a process which characterized the Central and East European countries over the past few years.

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The Philosophical and Economical Foundations of the Free Market

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Abstract

The free market represents the most efficient economic system, in resource allocation, trade growth and social development. A liberal economy is not based only on economic aspects, but includes all social phenomena of a nation. The free market depends on a proper framework, based on the rule of law, property rights, liberty of individual choice. This paper will analyze the philosophical and economical elements that offer the context for economic freedom.

Key words: free market, institutions, economic freedom, property rights.

J.E.L. classification.: K11, K12, B15, B53.

1. Introduction

If we look in the history, the nations have the experience of different ideologies. As old as the history of states is also the confrontation between liberalism and totalitarianism. From the point of view of an economist, the basic difference between all regimes is the degree of interventionism in the market.

As it has happened in history, a crisis tends to end a period of economic development. Maybe the great recession in '29 was much worse than the recent one and maybe the latest is more opened for media speculations. Whatever the difference, one effect is important, and that is the return to the call of the state. Governments are seen as a solution of leading the market in a right direction, assuring first that the present crisis will be passed and secondly, that in future a new depression will be prevented.

This paper gives an argumentation against interventionism. As Mises wrote, there is no way that a group of governors can know what is best for the market, simply because

they are not in the market [14].

The free market is not a perfect system of economy, but it is perfectible and until now, it represents the best way of achieving the *wealth of nations*, Adam Smith was writing about. The development of a society depends on economic growth. Prosperity can be obtained only if the nation is based on a strong economy, free, open and flexible to the permanent changes faced by the international trade.

An open society relies both on philosophical and economic fundamentals. The roots of a free market cannot be obtained from virgin soil, invented over night by a glorious mind. The framework was developed from old history, along with the development of human beings and societies.

The institution of free market cannot exist in an absolute vacuum, it will be a utopia. It needs a proper legal structure based on the security of property rights and freedom of contracting. The questions are how should this framework look like and by whom should it be implemented. Is there the need of government to come and give imperative laws or the market itself can form its own rules?

Trying to answer to these questions, the paper will analyze the institutional basis of a free market, dealing with the sense of liberty, the importance of economic freedom in gaining prosperity, security of property rights.

2. Liberty and free market

The first theories concerned with the concept of liberty appeared in nineteenth century, in England and France. But only the first state will get to know the true essence of the term [8]. Two traditions are concrete from these studies: an empirical and not strictly ordered one and a speculative, rationalistic one.

The first opinion underlines the principles of the spontaneous order, as the institutional evolution is based on real needs, appeared in the economic and social life, as a response to the concrete and unexpected situations. The traditions have an essential role, the informal institutions transform into formal laws, under general acceptance. This theory is found in the writings of David Hume, Adam Smith, Hayek and Mises. The Austrians stress the model of the Britannic *common-law*, as the proper legal structure of an open society. The institutions will complete one another and only the good ones will survive. If a rule is not following an efficient function, it will lose its purpose and appliance.

The second theory is based on Cartesian rationalism. Liberty is present, but in the margins of a plan. These view has quickly gained notoriety because, based on logical deduction, it offered specific answers. What is uncertain is not accepted. The French legal history is based on this conceptual view, and has many influences in the Romanian civil codes after Napoleon. Everything is based on a plan, things are predicted and imagined. All institutions are inventions of human for the good of society. Hayek described these authors: "*for them, liberty means chaos*" [8].

Adam Smith opened the road of combining economic theory with institutions. For him, liberty and free market are viable only in the state of law [16]. In his sense, economic freedom means the ability of agents to enter in any form of trade they consider proper, under a general system of law, defending private property. The individual acts on the market as he voluntary wants, without any interference of the authority, majority or other opinion [1].

The free market is more confident in the first scenario, as described by the Austrian economists. The principle of *laissez-faire* appeared in the XIXth century in England. The origins of the free market are, although, much older, going back into the middle ages.

It seems that one basic argument of the free economics lays in the private property. Even Aristotel wrote about this aspect. He observed that individuals tend to take better care about the things they own individually, in comparison with onther comun goods. He also underlines that if everyone would take responsibility for everything, the resoult will be a general confusion [1].

The essence of free markt is that individuals are able to act as they consider for personal benefit and an individual prosperity leads to national prosperity. When acting free on the market, without any disturbances of price ragulation or other boudaries, economic agents meet competition and this will make them improve their production, make more efficient the allocation of resources and dinamisize the transaction with lower costs. To sum up, free market is based on three general principles:

- Liberty of individual choice
- Liberty of contracting
- Security of property rights [6].

Under freedom of human action, complex institutions can evoluate, generating from social and economic needs [9]. But it is also true that human nature is unpredictable and individuals are subject of personal feelings. The general acceptance of rules originating in habits is not always a guarantee that one agent will respect the other. Here it will be the role of the state. Not in the market, but in assuring that property rights are guaranteed for every citizen.

A free market does not exclude a government, social mecanisms and organisation to fuction on behalth of the citisens and financed from public buget. The economy needs a proper governmental attitude in order to obtain groth.

When the state interfierces in the economic process, even if the intentions are goos, it cannot bring solution that on the long term will have assured consequences. Every action in short time will be unpredictable for the future. The fraze „*legislative inflation*” descriebes what happends in the market when leaders fix borders of trade. Entrepreneurs are suffocated, production failes, offer does not meet need and the resoult is not by any means prosperity, but economic regression [13].

3. Private Property

Even if the terminology of private property is knowened in practice from much older periods, a complete literature on the subject appears later in the XIXth century.

Mill distigueshes between production and distribution and includes property under distribution [13]. Schumpeter will argue that in a free society, there is not separation

between these two aspects of the same system. The impulse is primarily found in property of the land owner that will lead to production and on to the distribution process itself. If property is not assured, then neither the goods obtained in production are not under the voluntary will of the owner to change them in trade.

Mises argues that property of production goods is not a privilege but a social liability, as the production must be put at the disposal of the consumer, at a higher level assuring satisfaction [14]. Thinking in this way, Mises starts his arguments for capitalism, based on the supremacy of the consumers.

Private property is a fundamental right in a free market, including two aspects: to control and own the property and the privilege to transfer it to others, voluntarily. The liberty of contract is an extension of the property right [7].

The foundations of constitutions lay in the principles of property rights. Living in a society, it becomes natural the problem that individuals may do whatever they want with their own goods, but there are limits regarding trespassing another's property. American jurists of the XVIIIth century, like John Locke, James Harrington and the British Sir William Blackstone wrote about the limits of governmental power in private property. The state has „a police power” and it must be clear and definite borders. The answer to this issue was a supreme law, the constitution.

When property is assured, the uncertainty degree is lower and the investments grow, leading to economic growth. Huerta de Soto argued that the low condition of the undeveloped countries is the effect of the insecurity of the property rights. Economic liberty does not have any sense if the individuals have no power to dispose of personal goods and fruits of those goods. The states of the West, owe their development to the rule of law, which assures private property [8].

4. Conclusions

Liberty is one of the most precious gifts of life. The only impediment for reaching and maintaining it are people and their actions.

The free market is, until now, the best way of achieving economic prosperity and social

development. With all its imperfections, mistakes and negative aspects, the open society is the answer for wealth.

Even if the free market is a pure economic concept, it cannot be distinguished from the social context it is placed in. Itself represents a way of life, a specific conscience and attitude.

The rules of the economic game are structured around key elements like property rights, liberty of contracts, rule of law and individual liberty. The impulse for efficient allocation of resources comes from property and the will of the owner to realize production for future exchange. Trade will assure that everyone has what is needed.

Assuring property does not mean exclusive right for interventionism. Bilateral will shall be protected under the limit of general rules. The market is able of setting its own rules, coming from a behavior that is common to everyone. If one agent does not accomplish its contractual agreements, it will lose future liability. The market has its own ways of punishment and when competition is fierce, every individual will avoid this kind of mistakes.

The value of economic freedom comes from past experiences, from generations that know what unfreedom means. It is natural that the economic cycle has ups and downs, but to relay the failures on the free market is a fundamental mistake. These moments have their positive aspects also, and they should be seen as opportunity for reinvention and transformation.

The general conclusion is that a free society, based on a free market will be also a prosper one. Economic freedom is the engine for development. The confidence in the free market must be reaffirmed and only the states that will do so will assure a better future for their people.

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Free Market and Prosperity- an Empirical Approach

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Abstract

This paper presents an empirical analysis of the relation between the free market and prosperity. Based on the 2011 report of the indicators Index of Economic Freedom and Economic Freedom of the World, the arguments for economic liberty gain empirical proof. The data presents a powerful source of measuring key aspects of economic life and development of the society, issues that will correlate in a general conclusion about the freedom of the world we live in.

Key words: Index of Economic Freedom, Economic Freedom of the World, free market, prosperity, economic growth.

J.E.L. classification.: O11, O12, O50, C43.

1. Introduction

The advocates of the free market have always been criticised about the empirical part of their science. As any social domain, economy has no definite borders. This field interacts strongly with others, with deep implications in social life, culture, religion, moral values and also real sciences. Because economists cannot have a strong delimitation between their subject and other domains, for them, the empirical analysis is a weak point.

For example, jurists have a very specific language, a way of understanding life, a certain method of judging things. In economy, doctrines are so diverse, and there cannot be found a middle point. Perhaps, the only thing that unites all economists is the final scope of their research. That is, finding the best way in which wealth and prosperity can be achieved.

In the austrian point of view, the free market is, until now, the most efficient economic system that leads in direct relation to economic growth. Also, the concept of

economic freedom deals with many intangible elements and measurement becomes difficult. Hayek and Mises did not reject calculation or statistics, but only believed that these models are, in their nature, limited. It is in the same way that any model is limited, because it means known causes leading to known effects.

However, in recent years, economic freedom found its empirical indicators. Researches founded the Index of Economic Freedom (IEF) and Economic Freedom of the World (EFW), measurements that will add to the argumentation for liberty.

EFW is developed in 1996, by Gwartney, Lawson and Block, researchers at the Fraser Institute. The indicator was used in the empirical analysis of year 2000, and its values proved to be right. EFW takes in consideration five fundamental areas: governmental spending, security of property rights, access to sound money, trade freedom, and credit, labor and business regulation.

IEF was implemented by the Heritage Institute and Wall Street Journal, starting the analysis from year 1995. IEF is based on ten components: business freedom, trade freedom, monetary freedom, government spending, fiscal freedom, property rights, investment freedom, financial freedom, freedom from corruption and labour freedom.

2. Economic freedom and prosperity

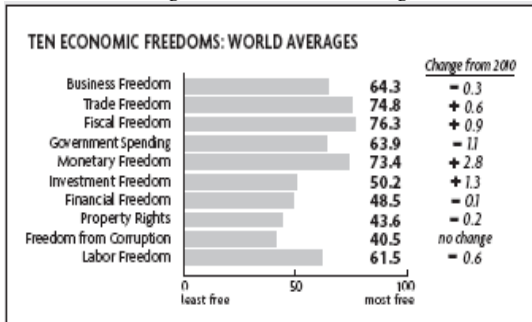
The final reports from 2011 come with great results. If the crisis was a general impediment for marching on the way of liberal economic, the indicators do not show regress. The degree of freedom is still growing, even if in a smaller percent. The world average of growth is 59,7, meaning with 0.3 percent more than last report.

Also, an interesting aspect is that America is not any more in the first five states. This has a major significance, thinking that the anglo-saxon space has always been

associated with liberty [6].

The data in *Figure 1* presents the research for 183 countries, starting from the second half of year 2009.

Figure1-World Averages



Source: *Index of Economic Freedom, 2011*

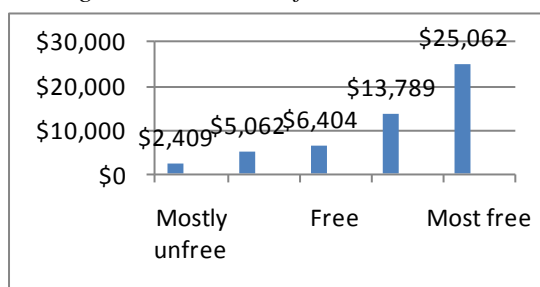
Based also on classical liberalism theories and institutionalism point of view, the indicators follow the fundamentals of economic freedom, most important areas that the free market interacts with.

The statistics contain both quantitative indicators, like GDP, unemployment, and measurements of human development, life standard, poverty, mortality degree, etc.

The indicators show a direct relation between the degree of economic freedom and prosperity of nations. The data correlates freedom with higher GDP values, greater life expectancy, lower mortality rate and lower competition [7].

The citizens from the first five states (Hong Kong, Singapore, Australia, New Zealand and Switzerland) have a GDP average of \$23,450 and a rate of economic growth of 2.56 percent per year. The last five states (Zimbabwe, North Korea, Cuba, Venezuela, Libya) measured only \$2,556 in GDP and a negative economic growth rate of -0.85 percent per year.

Figure 2- Economic freedom and GDP



Source: *Fraser Institute 2010*

The results are justified because economic freedom stimulates entrepreneurs and investment. A strong economy is the foundation of a developed society. The production is not in the hands of government and resource allocation becomes more efficient.

3. Economic freedom and life standards

In a prosper society, where the economy is flourishing, diverse and flexible to novelty, where the market is consistent in high quality goods and services, the life standard cannot be a poor one [2].

Every individual feels the signs of a slow economy, even if does not take part in actual economic activity. The standard of living becomes the reason for immigration, because it is in human nature to seek for a better way of life.

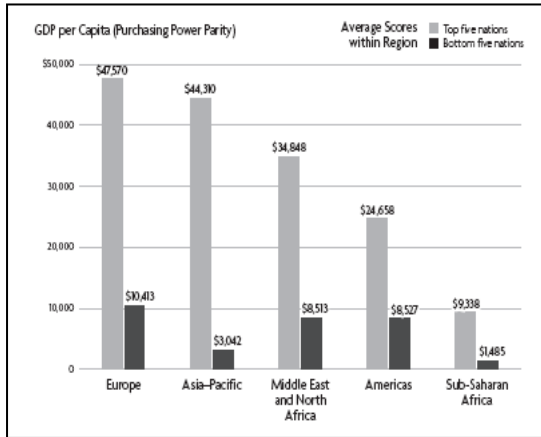
The wealth of a state is nothing when its citizens are living in poverty. The recent example of Arabic countries proof this is true. Not even when religion is very strong, people cannot accept forever unfairness and any form of slavery. The feeling of tolerance represents the meaning of the twenty one century [4].

The indicators IEF and EFW underline the relation between freedom and life quality. *Figure 3* sums up the data in a regional comparison between Europe, Asia-Pacific, Middle East and North Africa, the two Americas and Sub-Saharan Africa. Every region has countries both in the category of free ones and in the second category of less free. The differences are strong. It is clear that living standard is a measurement for a single country, at the level of region being impossible to expand the same characteristics [7].

The quality of life was the cause of blaming the strong differences between the rich west and the poor south. It is clear that in undeveloped countries, capital infusion under the form of help from the occident is not a solution. Where there is corruption, there is a high possibility that the money from foundations will go to specific and not wanted sources. The real help of the west countries is to make a cultural change in those states. The proposed plan from the

European Commission was to increase the imports from these countries, in order to help them make competitive products and do investments in production means [10].

Figure 3-Economic freedom and the living standard



Source: The Heritage Foundation, 2011

In the most free countries, also the life expectancy is higher and in the same way it is the degree of happiness [8].

4. Conclusions

Economic freedom is the way to achieve prosperity. The free market has the means to confer a better future for all nations, that will truly understand that the key is to avoid governmental spending and to let the economy follow its course.

The argumentation for economic liberty has empirical support. IEF and EFW are two indicators that contributed to a solid ground to the theoretical analysis.

The data shows undoubted links between free countries and development. It is not a surprise that also, the countries that faster exceeded the crisis are the most libertarian ones.

Well organized and with an enormous work behind, the two indicators are being taken into consideration in world economic analysis. The World Bank writes its reports on investment climates depending on the data from these indexes.

Maybe all states should take a look on the data and find their place in the ranking list. This would certainly conclude with a second thought in proposing new government policies.

Only the most free states will be able to offer a proper environment for individuals, assure a better future and transform themselves along with the new changes in the international trade.

As John Stuard Mill said, maybe it is the time to weak up, and restore the confidence in liberty, economic freedom and so find prosperity.

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Derivatives Market in the Aftermath of the Lessons Learned from the Crises

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Abstract

From individual investors to corporations and financial firms, derivatives have been used to hedge against, or speculation, changes in prices, rates, indexes, potential defaults on debts. Without any oversight, derivatives market and especially OTC derivatives rapidly became out of control growing to more than \$700 trillion in notional amount. The paper's goal is to analyze the influence derivative market played in this crisis and the main reforms taken to prevent this kind of event for the future.

Key words: financial crisis, derivative market, economic development, global risk

J.E.L. classification: G01, G15, G18, G28

1. Derivatives market and economic development

The potential positive influence of the capital markets on economic growth ([7],[13],[11]) and the question if financial development enhances growth or vice versa ([6],[14]) has been discussed by scholars for many years.

The volatility of interest rate, currency, stock and bond returns and commodity prices have led firms and financial institutions to implement hedging techniques to manage their financial risks. The development of sophisticated derivative instruments has helped improve the allocation of risk in the economy, increased the saving-investment process and enabled market participants to extend later depends on the rate of saving and investments. Derivatives provide a means to

control risk different from the techniques considered in the portfolio theory because allow investors to change the shape of the probability distribution of investment returns [10]. Also one could say that derivatives can enable price discovery because trading in derivatives markets helps market participants form expectations about underlying asset prices and to manage the risks associated with price changes.

Despite this, the recent theoretical and empirical work by Rousseau and Wachtel [17] shows a weakening link between financial sector and economic growth. The question raises, is: Tobin was right when he stated in 1984 that the advent of derivatives markets encourage speculation in the underlying asset markets?

Trying to answer to this question various scholars have extended previous approaches focusing on financial integration and growth ([18],[9],[15]) including the impact of the sensitivity of financial system toward risk ([19]) and stressing the complexities of the finance-growth linkage ([3],[12]). Also there are voices who state that the liquidity level of underlying spot market is a very important factor if we want an efficient derivative market. In a study conducted in 2007, A. Baluch and Mohamed Ariff[1] concluded that "negative relationship between the liquidity level of derivative markets and economic growth in the cases of developed countries indicates that the risk transfer function of the derivative markets is a contribution to economic growth. ...We find the liquidity level of underlying spot market is a crucial factor for the success of derivative markets".

2. Exchange-Traded derivatives versus OTC derivatives

The derivatives market could be divided in two parts: Exchange –Traded Derivatives (ETD) and OTC Derivatives (OTCD. Each of them is serving specific purposes for specific end users (the distinction between these two is very important because of their different contribution to the crisis)

ETDs operate for the benefit of a broad, diverse community of large and small participants from individual to institutional, from trader to hedger. ETD market is currently the best model for operational integrity because of its standards and serve almost all global risk transfer needs at a reasonable cost with speed, accuracy and reliability.

OTCDs operate like a wholesale market for the largest firms with specific exposure requirements addressing to the needs of the world's largest financial intermediaries and corporations. The unlimited flexibility of OTCD is in the same time the greatest source of product innovation for ETD but also a great source of risk.

Table.1.Main differences between OTCD and ETD

Attribute	OTC Derivatives	Exchange – Traded Derivatives
<i>Participants</i>	Limited (~ 30.000).	Expansive (~5.000.000)
<i>End User types</i>	Inter-dealer brokers (5-20), dealer banks (50-100), other banks (2000-5000), other financial and corporations (25.000+)	All of the OTC types plus traditional asset managers and individual investors (~5.000.000)
<i>Product categories</i>	Swap(single and cross-currency), Forward Rate	Vanilla options and futures (>8000 unique

	Agreement (FRA), Swap tion, Basis Swap, Cap, Floor, Exotic swap, Inflation Swap, and others	contracts)
<i>Strategy types</i>	Hedging primary, investment and trading secondary; limited annual turnover range:1-20x	Investment and trading primary, hedging secondary; broad annual turnover range:1-100x
<i>Outstanding Notional</i>	\$625 trillion (210e)	\$80 trillion (210e)
<i>Notional turnover</i>	\$1,7 quadrillion (2010e)	\$2,0 quadrillion (2010e)
<i>Annual transactions/trades</i>	~16.000.000 (2010e)	~3 billion (2009)
<i>Regional breakdown(2010e)</i>	N.America:2 3%;APAC:1 6%;EMEA:6 1%	N.America:48 %;APAC:12 %;Emea:40%

Source: The global risk Transfer Market: Developments in OTC and Exchange Traded Derivatives, TABB Group Study, 2010

3. Did derivatives cause the financial crisis?

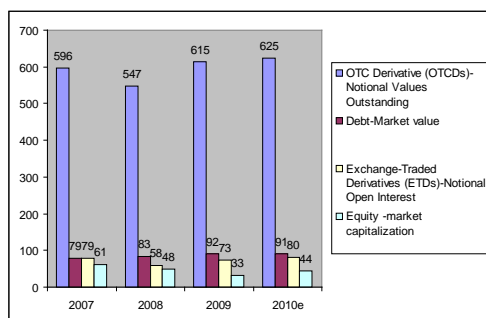
In 2002 in the annual rapport of Berkshire Hathaway the American billionaire Warren Buffet called derivatives clock bombs, mass destruction weapons due to the large losses they could cause if the underlying instrument has an opposite evolution compared to the forecasted one.

The emergence of derivative market, the associated structural move from regulated to more unregulated market determined a expansion of risk spreading abilities, the increase in risk bearing and the apparition of new intermediaries with rising risk appetite. All this determined a higher sensitivity of the

financial sector and finally of the economy to shocks and financial crisis. This could justify the Rajan statement from 2005 [19] "under some conditions economies may be more exposed to financial-sector-induced turmoil than in the past".

We described in the last paragraph the main differences between the ETD and OTCD markets. The increased risk associated with the OTCD market along with the growth in the last one (see the chart 1 below) represents one of the crises determinants. Due to the off-balance character of derivatives transactions (especially OTC traded derivatives), assessments of the creditworthiness of the counterparties become more difficult. Derivatives' trading facilitated financial integration but also allowed shocks to be transferred to other sectors. Oligopolistic structures in the derivatives segment encouraged the building of risk concentration along with possible domino effect if the most important market participants default. More than that liquidation of large derivatives positions overburdened the global liquidity of the markets.

Chart 1. Mainstream view of global financial markets in US\$ trillions



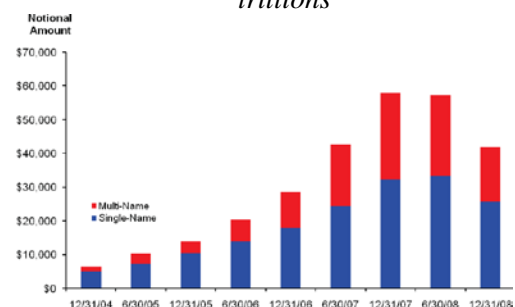
Source: Bank for International Settlements Quarterly Review, December 2010

Despite to the fact that credit risk is not much a problem for derivatives traded on organized exchanges because contracts are almost always honoured, this represented a real problem in OTC market where parties negotiate a derivative contract specific to their needs.

Credit default swap (CDS) contracts played a very important role as a crises determinant. Despite their social benefits the social cost are also huge as even Alan Greenspan concluded. He stated that whole intellectual edifice" which underlies the use of credit derivatives and complex financial instruments"collapsed in the summer of last year" because of risk management mistakes offers strong testimony that the costs associated with credit derivatives have to be taken as seriously as their benefits.

Why one could consider that credit default swaps contributed to the crises? In the first place one could notice that the credit default swap development allowed the credit boom which ended in a credit crises. The second argument is that the trillions of dollars in credit default swaps positions have created systemic risk. These massive exposures have necessitated the indirect bailout of Bear Stearns and the direct bailout of AIG which cost taxpayers billions of dollars. The Bank for International Settlements (BIS) reported that size of the credit default swap market at the end of 2008 was \$41 trillion. When the BIS started keeping track of CDS contracts, single-name contracts were 80% of the market; at the end of June 2008, these single-name contracts were only 58% of the market. Chart 2 shows the evolution of the size of the CDS market

Chart 2 Credit default swaps notional amount outstanding, 2004-2008, US\$ trillions



Source: BIS bi-annual derivatives survey

Not in the last place, all this generated an important imagine crises considered responsible for the fall of Bear Stearns and Lehman. In a non-transparent market, market participants lost confidence because they

have been left guessing how much banks might have to pay on credit default swaps. In this circumstances some financial institutions appeared to be more financially weaker than they actually were and threatening the soundness of the financial system.

4. The reformation of OTC derivatives market

The recent financial crisis demonstrated that the over –the-counter (OTC) derivatives market shows numerous weaknesses which contributed to the build-up of systemic risk. Nevertheless some of the OTC derivatives market continued to function well during the crises, a large contagion potential of the OTC markets was shown by the latest evolutions, due to the interconnectedness of OTC derivatives market participants and the limited transparency of counterparty relationships.

For this reason in September 2009, G-20 Leaders agreed in Pittsburgh that: *all standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. None centrally cleared contracts should be subject to higher capital requirements.* [4].

Starting for these decisions, at the initiative of the Financial Stability Board (FSB), in April 2010, a working group led by representatives of the Committee on Payment and Settlement Systems (CPSS), the International Organization of Securities Commissions (IOSCO) and the European Commission was formed to make recommendations on the implementation of the G-20 objectives.

The 21 recommendations enclosed in it are concerning in synthesis the following points: standardisation, central clearing, exchange or electronic platform trading, and reporting of OTC derivatives transactions to trade repositories.

Standardisation: the proportion of the market that is standardised should be substantially increased in order to further the G-20's goals of increased central clearing and trading on organised platforms, and hence mitigate systemic risk and improve market transparency. The report sets out recommendations for authorities in order to increase the standardization through introducing incentives and, where appropriate, regulation.

Central clearing: the recommendations specify the factors that should be taken into account when determining whether a derivative contract is standardised and therefore suitable for clearing as well as address mandatory clearing requirements

Exchange or electronic platform trading: the recommendations suggest some possible actions needed to achieve the commitment that all standardised products be traded on exchanges or electronic trading platforms, where appropriate.

Reporting to trade repositories: in order to maintain the financial stability, the recommendations help achieve this objective, including that trade repository data must be comprehensive, uniform and reliable and, if from more than one source, provided in a form that facilitates aggregation on a global scale.

5. Concluding remarks

The recent trends in capital markets and in the all world's economies have showed that the libertarian strategy countries adopted to increase their development in the last decades did not generate the expected results. The increased financial innovation combined with deregulation and the lack of transparency in the OTC derivatives markets seems to be a very hard digestible cocktail for the globalised world economy where all the shocks are easily transmitted from one part of the world to another. The role of the derivatives market in increasing the systemic risk and in crises contagion was no doubt very important. A more regulated and transparent derivative global market could determine an increase in the social benefits

the derivatives markets bring and a change in the relation between its social benefits and social cost.

6. Acknowledgement

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Exchange Traded Funds – A New Way of Dealing With Risk?

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Abstract

In the context of the financial innovation of the last few decades, when we were faced with an important diversification of the financial instruments used on the capital markets, the ETFs are revolutionary financial products with a strong impact on the global investment environment. The unique creation and buyback process along with characteristics such as transparency, liquidity, flexibility, reduced costs and diversification have transformed ETFs into the financial products with the biggest growth rate, products preferred even during crises.

In the present paper, we try to analyze the world of ETFs (evolution, dynamics and special features that can respond to the complexity of needs portfolio investors have while deciding on the structure of their investment portfolios.

Key words: investment funds, financial innovation, benchmark, tracking error.

J.E.L. classification: G11, G 12, G 14, G 15, G 23;

1. Introduction

The amplitude of the innovation process as well as the continuous development of the financial markets has generated the evolution of the instruments available for investments. This can be explained through practical reasons such as higher efficiency, lower costs and better protection against risks.

Richard Ferri defines the ETFs as "baskets of titles" that are traded like individual shares through a broker's company on a certain stock exchange (Richard Ferri, 2009: p. xvii). As a hybrid form of the mutual funds, the ETFs invest in portfolio of shares or bonds that copy the structure of a certain index or

reference point with the purpose of reproducing the performance of that index or reference point.

The ETFs offer investors the possibility to diversify their portfolio by simply buying a unit of ETF and getting this way exposure on the whole market, but also allow focused investments on many markets, in different economic sectors or geographical areas, in both cases without the effort needed for an active supervising of the portfolio.

The knowledge over different investment sectors, the anticipations regarding asymmetrical evolutions of the market, the expected efficiency, the diverse objectives and investment strategies, the different preferences investors have for certain assets, have led to the foundation of a large number of ETFs' sorts: index ETFs, ETFs on commodities, ETFs on bonds, ETFs on currencies, sector ETFs, international ETFs, style ETFs, active managed ETFs.

Among the fundamental characteristics of the ETFs', we can enumerate: transparency, liquidity, flexibility, reduced costs and diversification.

The problem of transparency is one of large interest and highly debated because some authors consider that it is against the investors' interests since it offers speculators the possibility to practice *front-running* (Gary L.Gastineau, 2010: p. 9). Authors like Chen, Noronha and Singal (2006) have shown the costs involved in changing the components of an index and that important indexes as S&P 500 and Russell 2000 do not represent an efficient model of a portfolio for long-term investors. Portfolio managers of the ETFs that follow indexes with a transparent structure are confronted with problems in changing the components of their portfolio as these changes are known before they occur. When transparency brings a profit out of arbitration due to practices of

front-running of the fund's policies, transparency is undesirable. Therefore, Gastineau offers as a solution for increasing the performance of the ETFs, the use of *silent index*. They offer the confidentiality of the changes that were operated in the structure of the portfolio.

ETFs rely on a „basket of shares” that ensure a good **diversification**. According to Markowitz's portfolio theory, at a certain level of risk, a systematic diversified selection of financial instruments would lead to better efficiency. This way, instruments cannot be strongly correlated, and therefore they cannot generate massive losses in unfavorable cases.

2. Competitive advantages and risks

ETFs can be used in different models of assets' allocation (*Strategic Asset Allocation, Tactical Asset Allocation, Dynamic Asset Allocation, Integrated Asset Allocation, Constant-Weighting Asset Allocation, Insured Asset Allocation*), in sophisticated hedging strategies and cash-flow management strategies, being the optimal solution for making investments fluid in times of transition of the portfolio (*transition management*).

Among the strategies that are frequently associated to the ETFs, the core-satellite ones are very important. ETFs can be used as core of the portfolio. This way, they can offer a better diversification on different kinds of assets and an expected efficiency close to the market's average. At the same time, concentrated investments can be done (for example in a certain field or country) building this way an independent satellite portfolio that involves less capital allocations than the core portfolio and has a higher risk but also an expected efficiency above the market's efficiency.

The financial innovation process has allowed an unusual diversification of financial products and led to complex and attractive combinations such as the ETFs on futures or futures on ETFs, generating harmonization of the involved instruments' characteristics, even if the ETFs and futures are direct competitors. Another competitor is represented by the swaps on indexes that are attractive for the portfolio administrators and the institutional investors as it allows the

portfolio diversification. Still, swaps are not negotiated on a regulated stock exchange market and therefore they face a higher risk of counterparty.

Another instrument that offers exposure on the entire market or on specific segments through one transaction is the option contract on indexes. It has the advantage of investing an initial capital that is small and limited to the paid bonus, and the risk that it includes is known ex-ante. In this case, one buyer cannot lose more than the price of those options and of the paid bonus if the stock exchange index doesn't have the expected evolution.

One of the reasons of the accelerated increase of ETFs in comparison with that of other instruments refers to the fact that while futures, swap and options contracts are qualified as derivatives, ETFs are more secure instruments (*fully funded*). In times dominated by a more cautious attitude of the investors and an increased interest in the protection against risks, ETFs have been preferred especially by conservative or medium-size investors.

Still, investors in ETFs should take into account potential risks too. Beside the market risk, the counterparty risk and the liquidity risk that occur in the case of other investment funds too, ETFs present a specific risk (there are cases when their performance does not follow the performance of the index it goes after). In this case, the difference between the efficiency of the ETF and that of the index is known as **tracking error**. According to a study by Morgan Stanley, the tracking-error associated to the ETFs has registered a considerable increase in 2009 when factors like market's volatility, requests of diversification, optimization strategies and capital fluctuations in the companies with low capitalization have contributed in the failure of the ETFs in reaching the benchmark performance. While in 2008 it was 0.52%, in 2009 the associated tracking error of the listed ETFs on the American market reached 1.25%. The explanation of the tracking error could be the proliferation of the ETFs that trigger particular kinds of investments, in less liquid markets. Also, this can be generated by the way portfolios are created.

3. ETFs' market: Dynamics and structure

Even if ETFs are not risk free, the institutional investors, especially European ones, use these products more and more often. We consider this kind of products an excellent solution for the crisis we are going through.

In 2008, the administrated assets connected to the ETFs listed in Europe have increased with up to 11 % while in the USA, they have decreased with 14.39%. Of course one would wonder what has generated the different trend in the two markets. Besides the fact that USA was the first to be affected by the first signs of the crises, we can notice the market volatility reflected in the sinuous movement of the exchange market indexes, the S&P 500 index for example having daily fluctuations of over 5%, 18 times in 2008 (this has only happened 17 times in the last 53 years). The reduction of the assets held by the American ETFs becomes explainable, while the European markets, where the instability was felt later due to the contagion effect, continued to grow.

Another reason is that in the USA, ETFs are used more often by the individual investors that in turbulent times prefer to keep their money into bank accounts and to avoid the exposure of the ETFs. On the other hand, in Europe, on the ETFs market we find many institutional investors that have withdrawn the capital they had in certificates, swap contracts and other structured products and have used these resources in ETFs, considered more secure.

Even if the assets administrated by the European ETFs have increased, they represent less than a third of the actives administrated on the American market, that holds the first place according to this criteria (over 800 billions \$). The american market is much more homogenous and liquid than the European one, where we can find a certain degree of fragmentation, even if we have a unified legal frame (UCITS IV), and the hedging funds that are the main users of ETFs in USA have just started to look at ETFs in Europe, where they prefer the over-the-counter market.

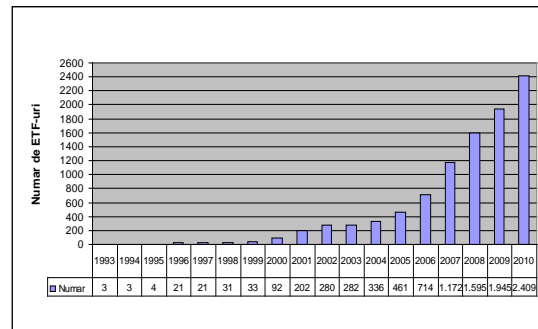
At global level, the assets administrated by the ETFs went down with 10,74% in 2008, followed by a spectacular increase in 2009,

from 711,1 billions \$ in 2008 to 1.036 billions \$ in 2009 and to 1.239 billions \$ in October 2010.

Regarding the number of ETFs, the ascending trend continued during the crisis both in Europe and in USA. In 2008, the number of existing funds on the market increased with 36,09% in comparison with 2007, in October 2010 the number of ETFs being of 2409.

Looking back, it is interesting to mention that the annual compound ratio of increase of the number of ETFs from 1993 (when they were introduced) to the end of 2007 was of about 53%, while the compound annual ratio of increase of the number of mutual funds was of only 4%.

Graph 1: The number of ETFs at global level



Source: data processed after BlackRock, Oct. 2010

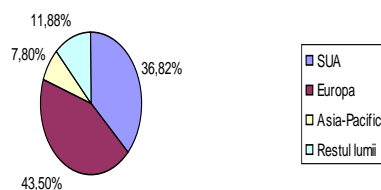
If we take into account the dynamics of the ETFs' market in the last year on regions, according to data at the end of October 2010, in Europe the rhythm of increase of the industry is higher than that of the American market. This can be due to a set of factors that influence the decision of the fund managers regarding the location of the ETFs: the existence of specialized personnel in the field, the favorable fiscal legislation, rules and formalities regarding new products. For example, due to the favorable fiscal legislation, Ireland has become an important player on the European market, with a market share of over 28% of the total European ETFs.

Also, we can notice the increase in the number of ETFs in Asia and Pacific where, even though the ETFs industry consists of only 188 such funds, the development potential is very high, about one third of the

Asian financial institutions using already the ETFs in the investment strategies.

These conclusions can be backed up by the next graph that presents the analyzed market shares. In the "rest of the world" category we have included Latin America with only 26 ETFs and Africa and the Middle East with 29 such funds.

Graph 2: Market share according to the number of ETFs



Source: processing of data after BlackRock, Oct. 2010

If we were to make comparisons regarding the volume of net capital invested in the ETFs industry, as seen from the statistic data for the first 10 months of 2010 in USA, this was of 85,9 billions \$, more than the double of the amount for Europe. Regarding the net capital invested in the Asian ETFs (except Japan) this is of 9,5 billions \$.

The ETFs market has seen a spectacular development, mainly in the last 10 years, still undergoing a process of financial innovating. If the financial engineering process is more selective and constructive and offers solutions that come to eliminate risks and weaknesses of the ETFs' structure, we agree that the ETFs can become the most important financial instrument at global level, indispensable in investment strategies of any kind.

Still, first, the ETFs industry (especially the European one) must respond to the new challenge of the funds that name themselves ETFs, but do not offer the transparency of the basis portfolio or the real time publicity of the intraday values. As Deborah Fuhr explains, there is the risk of getting away from the traditional virtues of the ETFs such as transparency and clarity which are absolutely necessary attributes that can help investors understand the structure, mechanisms and rules involved in the usage of ETFs.

Another challenge that the industry of ETFs is facing is that of the incertitude regarding the new rules in the financial field, the way they are going to be implemented and the associated effects. A first example is that of *UCITS IV*- the European Directive voted by the European Council on the 22nd of June 2009 and must be included in the national laws of the member states before July 2011. It brings changes in the rules that apply to the European investment funds.

The second example refers to the new rules proposed by the UK Financial Services Authority through the *Retail Distribution Review*, program that is going to be fully implemented in 2012. Its anticipated effect is the increase of the ETFs use at retail level – sector that represents only 10-15% from the European market, while in SUA is 40-50%. In Australia, where the ETFs industry has followed the global increase trend, the government has announced its intentions to adopt some reforms in the financial services sector. The most important change regards the commissions of the financial consultants and shall stimulate the request for ETFs.

In the USA, the new fiscal regulations imposed through the *Foreign Account Tax Compliance Act*, which is going to be fully applied by 2013, shall have a significant impact on the financial system. They include a 30% tax over the gains of the foreign financial institutions from a large list of American financial titles.

In the case of Asia, it is anticipated to have an important increase in the investors' interest in the ETFs, but this is hard to quantify at regional level as many investors from Asia-Pacific are still going to choose both products listed in Europe and USA and products listed on the local stock exchange. Unlike Europe, where we have a very clear procedure regarding the registration and *cross-listing* of ETFs organized according to UCITS IV, in Asia we do not have such regulations. Therefore, the fragmenting of markets and the absence of a regional standard regarding the ETFs makes the listing of European ETFs on the Asian stock exchanges raise less problems than the listing of ETFs that are located in Asian countries on other stock exchanges from Asia-Pacific. For example, on the stock exchange of Singapore and Hong Kong, the listing of

European and American funds is easier than the listing of Asian funds.

For 2011 we expect an increase in the number of private and institutional investors, of covered indexes, of strategies based on ETFs, of stock exchanges that plan to offer ETFs and of new suppliers of such funds. There are plans for new 1.038 ETFs at global level. In the center of attention we'll have Europe and Asia and we expect that by the end of 2012 the administrated actives of the ETFs in Europe are going to be over 500 billions \$. So, in 2011 we expect that ETFs are still going to be in the center of investors' preferences.

4. Conclusions

In order to conclude, according to the presented aspects, we could say that ETFs represent the most important financial innovation of the last decades given its spreading and the interest of investors in selecting ETFs as priority investment alternative. The simple way of diversifying the portfolio and of reducing the risks as well as the harmonizing of aspects regarding efficiency and risk add up to the main argument of investors preferring the ETFs: by their structure, the ETFs combine the advantages of a mutual fund with those of a traded share.

Transparent products, very simple, they are less risky than a derivative product over the index and offer access on the shares market, bonds market, foreign currencies market, merchandise market, in different sectors and industries, in international regions and countries, using different strategies and investment techniques. The ETFs industry is a dynamic one, undergoing continuous changes. Still the new ETFs bring along new risks and challenges making important the fact that the investment decision should be based on extremely good knowledge regarding the mechanism, the structure and risks related to each ETF.

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Situation of Workforce in Albania and Moldova - Evolution and Trends

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Abstract

This study aims to attract attention to the phenomenon of employment in two countries, Albania and Moldova, which are not members of the European Union. We intend to study this phenomenon, because of the importance it has on individual countries and at European level. We know that all European countries should harmonize their regulatory framework for organizing and operating statistics to EUROSTAT requirements. The studied statistics indicators are the following:

- Working population
- Employment rate
- Unemployment rate.

In the study both countries have been analyzed; statistical yearbooks, surveys of employment and labor market performed in Albania in 2009.

Key words: working population, employment rate, unemployment rate, inactive population

J.E.L. classification J; J2; J2.1.

1. Introduction

The Republics of Albania and Moldova are European countries located in the south-east of Europe, but they are not included in the European Union.

There are many similarities between the two countries:

- Albania has a total area of 28,748 square kilometers and Moldova has a total area of 33,843 square kilometers;
- Moldova has a population of 3,567,512 and Albania one of 3,619,778;
- Both countries are members of the UN (Moldova was accepted as member of the UN on 27 August 1991, when it became independent) [1] and NATO

- Albania was a potential candidate for EU accession in January 2003 and formally applied for EU membership on April 28, 2009 [2]. The Republic of Moldova is also a potential candidate aspiring for membership in the European Union; the political structures of these two neighbors have established a cooperation agreement designed to improve and expand relations between them;

Figure 1. Map of Albania



Source: <http://www.nationsonline.org>

- Albania is divided into 12 provinces (counties) and in 36 rrethe (districts). Besides the capital city of Tirana, which has 800,000 inhabitants, the principal cities are Durrës, Korçë, Elbasan, Shkodër, Gjirokastër, Vlorë and Kukës- Moldova is divided into 32 districts, 3 municipalities (Chisinau, Balti and Comrat) and two regions

with special status - Gagauzia and Transnistria (with statute in dispute) [3].

Figure 2 Map of Moldova



Source: <http://ro.wikipedia.org>

2. Materials and methods

In the study we have documented on the on the economy and employment situation in both countries.

I have consulted for this:

- Statistical Yearbook of Albania elaborated by the Institute of Statistics (Instituti I Statistikës) and Labour Force Survey conducted in 2009;
- Statistical Yearbook 2006 and 2009 versions.

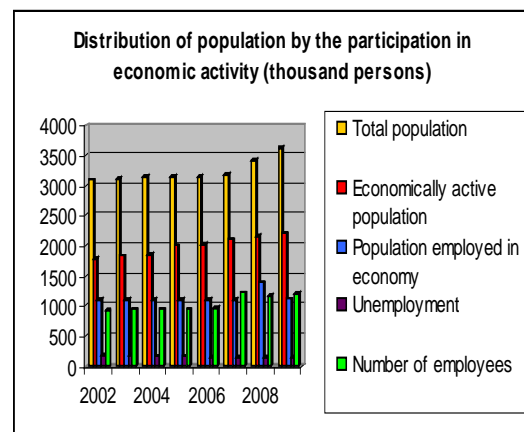
The information and data were translated (where the case) in order to be processed and to be brought to a common denominator (where the case). The methods used were those specific to statistical research: observation, grouping, processing, presentation and analysis of data.

3. Results and discussions

In this study the indicators were grouped as it follows:

- I. *Distribution of employment by the participation in economic activity*
Economically active population, Population employed in economy, Unemployed, Number of employees; (Figures 3 and 4).
- II. *Distribution of Employment by forms of ownership;*
- III. *Activity rate, Employment rate and Unemployment rate.*
- IV. *Distribution of employment by economic activities;*
- V. *Registered unemployment at Employment Agencies, by gender, age and level of education;*

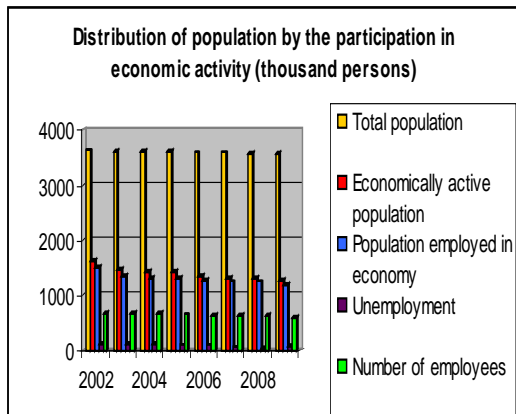
Figure 3. Distribution of population by the participation in economic activity in Albania



Economically active population comprises all persons aged 15 years and over, providing available labour force for the production of goods and services; it includes employed population and ILO unemployed.

Employment includes all persons aged 15 years and over, who carry out an economic activity producing goods or services of at least one hour during the reference period, in order to get income in the form of salaries, wages, or other benefits.

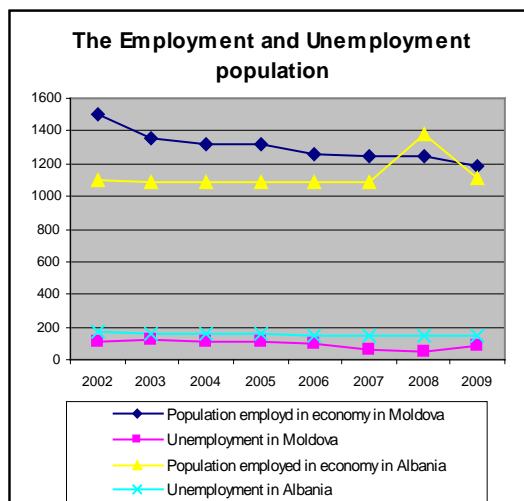
Figure 4. Distribution of population by the participation in economic activity in Moldova



Unemployed, according to the International Labour Office (ILO) criteria, are persons aged 15-74 years who, during the reference period, simultaneously meet the following conditions:

- have no job and do not carry out any kind of activity in order to get income;
- are looking for a job, using different active methods to find one;
- are available to start work within the next two weeks.

Figure 5 The Employment and Unemployment population in Albania and Moldova



- We can notice from the graphs:
- the evolution of the active population registered a decrease in Moldova and an increase in Albania;
 - the employment has the same trend, decreasing in both countries;

- unemployment tends to increase during the last two years, being higher in Albania;

Distribution of Employment by forms of ownership (figure 6) shows the high percentage of private sector both in Moldova and Albania.

Figure 6 Distribution of Employment by forms of ownership in Moldova

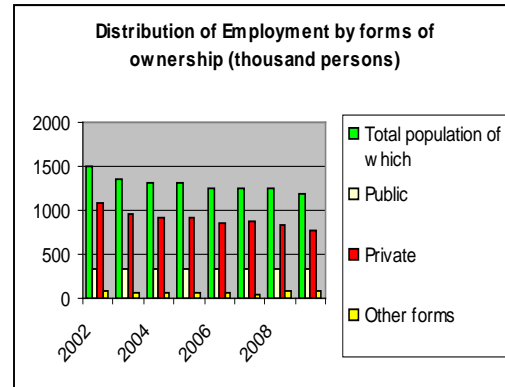
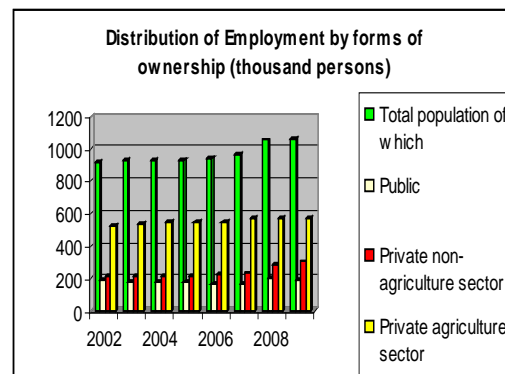


Figure 7 Distribution of Employment by forms of ownership in Moldova

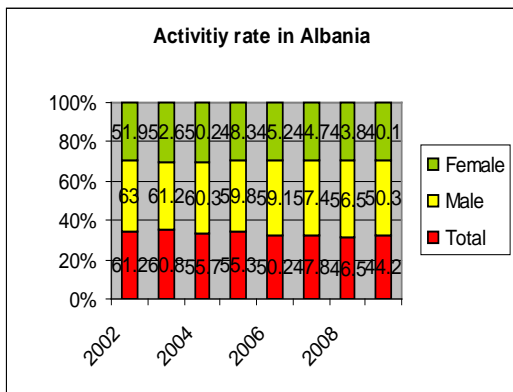


Albania has kept the same trend. Here the private sector is divided into two categories: private non-agriculture sector and private agriculture sector. The chart shows that private sector agricultural development is better than non-agricultural.

Activity rate represents the ratio between active population and total population aged 15-64 years expressed in percentages (Figure 8 and 9).

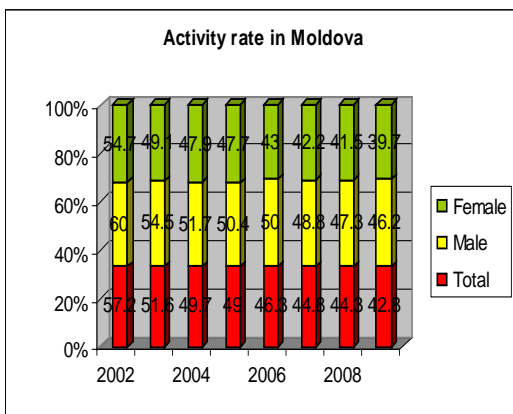
Employment rate represents the ratio between employed population and total population aged 15-64 years expressed in percentages (Figure 11 and 12).

Figure 8 Activity rate in Albania in period 2002- 2009



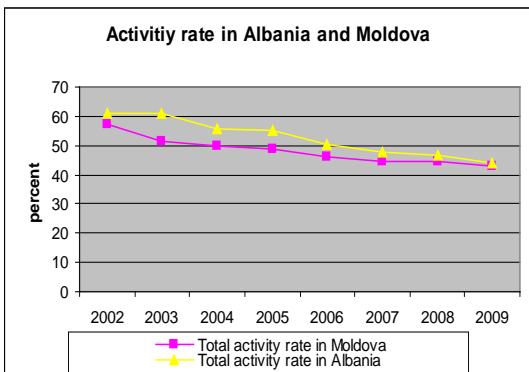
The activity rate for men is less well represented in Albania, but it follows a downward trend in both countries.

Figure 9 Activity rate in Albania in period 2002- 2009



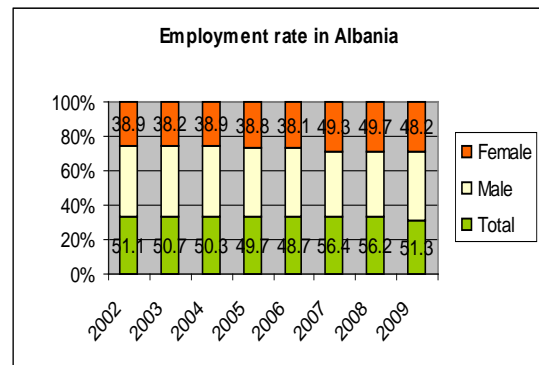
The activity rate for women is higher in Albania than in Moldova.

Figure 10 Total activity rate in Albania and Moldova in period 2002-2009



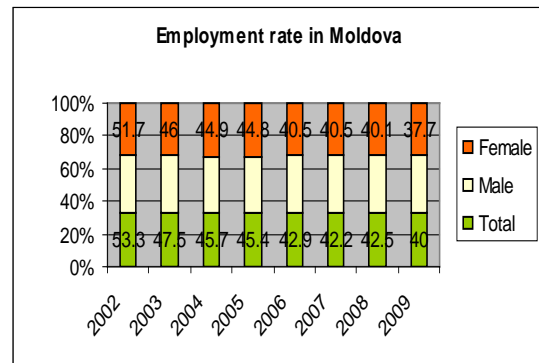
From the graph one can see that the rate of activity is better represented in Albania.

Figure 11 Employment rate in Albania in period 2002-2009



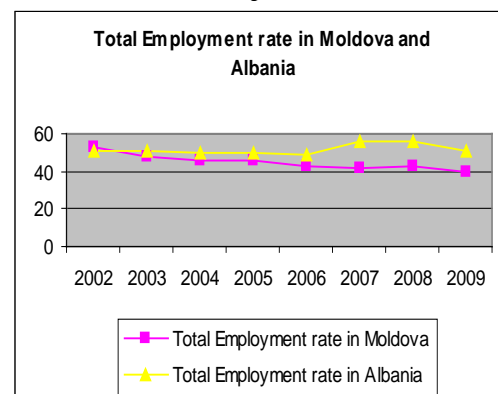
The employment rate for men increased more in Albania than in Moldova. It even registered an increase in the past four years.

Figure 12 Employment rate in Moldova in period 2002-2009



The employment rate for women decreased more in Albania than in Moldova.

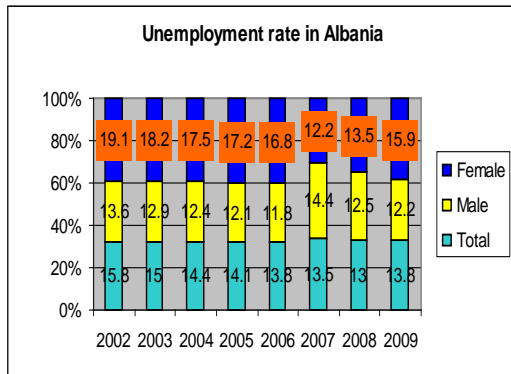
Figure 13 Total employment rate in Albania and Moldova in period 2002-2009



The graph shows that the employment rate in Albania is slightly higher than in Moldova. Unemployment rate represents the ratio between the number of ILO unemployed and

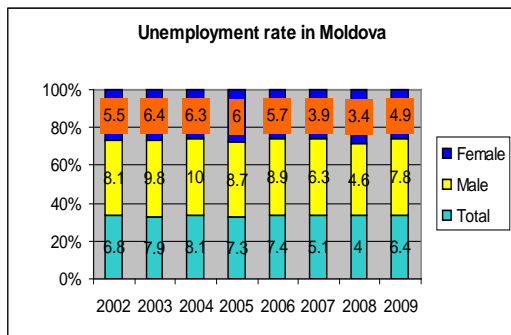
the active population expressed in percentages (figure 14 and 15).

Figure 14 Unemployment rate in Albania in period 2002-2009



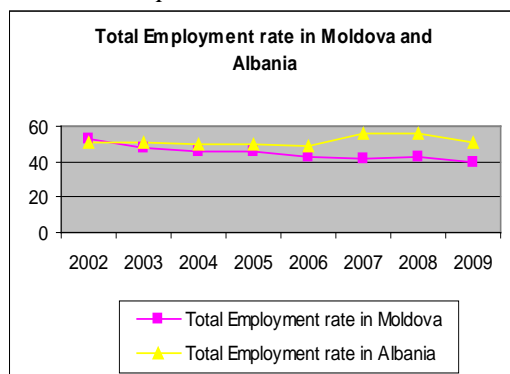
The unemployment rate for women is high in the two countries.

Figure 15 Unemployment rate in Moldova in period 2002-2009



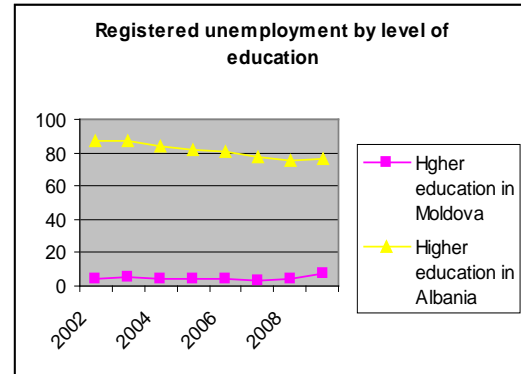
The unemployment rate for men has increased over the past year in both countries. Figure 16 shows that unemployment was higher in Albania (especially in the last four years) than in Moldova. Unemployment rate is almost double in Albania than in Moldova.

Figure 16 Total unemployment rate in period 2002-2009



The distribution of employment by economic activities has revealed the high share of agriculture in both countries.

Figure 17 Registered unemployment by level of education in Albania and Moldova



From the graph one can notice the higher percentage of unemployed persons with higher education in Albania than in Moldova. In both countries the most affected age segment is that of 21-49 years, and women are the most affected.

4. Conclusions

Albania and Moldova, are two countries with about the same area and population.

They are countries with a developing economy in which agriculture predominates. Agriculture attracts a large part of the workforce in both countries. Thus, employment in agriculture was 56% in Albania in 2002 and 47% in 2009, while in Moldova the employed population in 2002 was 49% and 28% in 2009.

The industry is underdeveloped in both countries, although Albania has some deposits of oil and natural gas [4] while Moldova is energy dependent on Ukraine and Romania. Employment in industry is low, it was 8% in Albania in 2002 and 10% in 2009, and in Moldova it was 11% in 2009 and 13% in 2009.

Albania and Moldova depend a great deal on foreign investors, fact that can determine their economic growth.

Services sector has experienced a large increase in Albania and Moldova, which has attracted the workforce here. Employment in this sector was 22% in Albania in 2002 and increased to 27% in 2009, and in Moldova it

was 32% in 2002 and increased to 45% in 2009.

Both countries face with population migration. Albanian population is considered to be relatively young by European standards [5], with a medium age of 28.9 years. Moldova is currently in the process of demographic aging.

Albania remains a poor country by Western European standards.[6] Its GDP per capita (expressed in PPS—Purchasing Power Standards) stood at 26 percent of the EU average in 2010.[7] Still, Albania has shown potential for economic growth, as more and more business firms relocated there.

Although it is blessed with a favorable climate and fertile land, Moldova is the poorest European country today, with an annual GDP per capita of only €2,000 [8].

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From Internal Marketing to Human Resource Marketing. A Conceptual Framework of the Human Resources Marketing

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Abstract

The paper focuses on shaping a conceptual framework of the human resources marketing, having as starting points the interactions between internal marketing and human management resources at the organisation's level. The concept of internal customers, belonging to internal marketing and referring to the employees, can be taken in the human resources marketing as focus of the specific processes.

Key words: internal marketing, human resources management, human resources marketing

J.E.L. classification: M 12, M31, M 51

1. Introduction

We are already entered in such era in that the employees are choosing the companies, according to personal perceptions or rational analysis. The firms are in the position of marketers for finding the adequate skilled people for their business. The deficit of skilled workforce is a today's problems, companies being constrained to focus their human resource management to attract, motivate, satisfy and retain employees. In the practice of romanian companies is underestimated the fact that the potential of the employees attitude in their customers relations and the behavior of the sales work force have a great impact on the value offered to the customers.

2. Internal marketing theory: a summary

Due to the increasing importance of the recognition of the employees' in business performance, especially in services, the

internal marketing theory is developed in last years.

The employees are treated as customers, ensuring in this way higher satisfaction and a more customer-conscious, market-oriented and sales mind workforce(4)(5). Initially, the internal marketing was seen as a solution for delivering higher quality of service. Today, the concept is discussed as management tool for meeting and exceeding the customers expectations (8), (9), (10), (11), (12) In the definitions of internal marketing, the central idea is that the employees are treated as internal customers."The internal market of employees is best motivated for service-mindedness and customer-oriented behaviours by an active marketing-like approach, where marketing like activities are used internally"(2). Bekkers and Van Hasstrech (1) define internal marketing as "any form of marketing within an organisation which focuses staff attention on the internal activities that need to be changed in order to enhance external market place performance". Rafiq and Ahmed define internal marketing as "a planned effort using a marketing-like approach to overcome organisational resistance to change and to align, to motivate and inter-functionally coordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through the process of creating motivated and customer-oriented employees".

By satisfying the needs of the internal customers, the company it is in a better position to deliver satisfaction to the external customers. The logic of this approach is that the satisfaction of the employees needs enhances employees motivation and retention. Further more, a higher satisfaction of employees is related to a higher possibility to achieving a higher external satisfaction and retention.

Over the past several years "the internal customer" concept essentially revolved around the idea of "satisfying employees needs and "offering value". These notions are comparatively more tangible than intangible elements (salary, physical environment). The same stood for external customers, as "customers needs" and "value" were comparatively more related to the elements of quality, technical standards, etc, rather than abstract notion of value. Theoretical research shown that for external customers that has shifted and the contemporary marketing increasingly relies on Perception Management to create and sustain abstract notion of value. These are notions that find fertile ground in the minds of customers who seek to satisfy ever higher order needs. The correlation is natural as the higher those needs are, the more tangible they become and their satisfaction is achieved through intangible elements. A more nuanced contemporary perspective on the internal customer not only accepts the association between internal and external customers, but in fact states that they, for all practical purposes, are the same, and should be treated in the same way, within the management and marketing context. (13)

3. Objectives and processes in the internal marketing

As a conclusion of the above theoretical review, the aim of internal marketing is to promote the marketing as internal way of thinking, through an employee focusing, in order to achieve the market goals of the organisation. In the internal marketing the employees are the target audience or "internal customers". They are subject of marketing activities planned by the management of the organisation in order to achieve the marketing and the business goals of the organisation.

The main objectives of the internal marketing are:

- employees' customer orientation consciousness (norms, values, principles of customer-oriented thinking way);
- employees' motivation;
- employees' satisfaction;
- employees' engagement and loyalty;
- employees' know-how and competencies;

- employees' retention;
- acceptance and adherence to the organisations' goals;
- a friendly work climate.

In correspondance with these objectives, the main specific activities in the internal marketing are:

-human resources policies (personal and professional development, career development, job satisfaction, motivation, status symbols, job rotation, work conditions, social facilities etc)

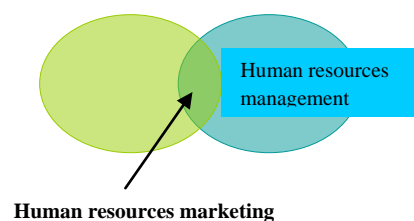
-marketing practices (employees attraction and retention, internal communications, relationships etc).

As a process, the internal marketing consists of the following components: attraction and recruitment; selection, integration; motivation; retention and loyalty.

These processes of internal marketing are belongs partly to marketing practices (attraction, retention and loyalty) and partly to human resources management (recruitment, selection, motivation, integration).

As we can see, internal marketing and human resources management has a common part, the human resources marketing. (Fig.1)

Figure 1 The human resources marketing between internal marketing and human resources management



Human resource marketing entails not only internal activities focused on existing employees but specific efforts to attract people skilled, as well. In this view, internal marketing and human resource marketing the target audience has two components: internal (existing staff) and external (possible to be hired). In this logic, the human resources marketing has two kinds of

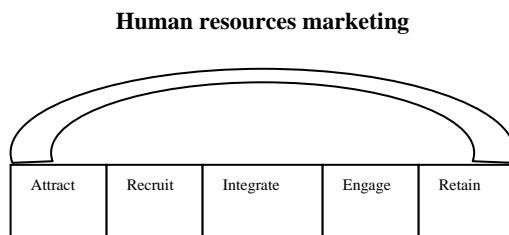
objectives: internal(integration, retention, loyalty) and external (attraction, recruitment).

In the relation employer-employee, the human resources marketing considers the staff(permanent, temporary or potential) as customers, in the noble sense of the word(Liger, 2007, pp.10).The employees, as internal customers, are acting in the internal organisation environment and are influenced by its structure(organisational culture, resources, capacities, organisational architecture, management and leadership, policies and strategies etc).

4. A conceptual framework of Human Resource Marketing

The components of human resources marketing are presented in the Figure 2.

Figure 2 The areas of human resources marketing



The processes corresponding to main actions specific for human resources marketing and the factors influencing them are presented in the Table 1.

Each action and the corresponding processes are influenced by various factors acting at the micro- and macroeconomic level.

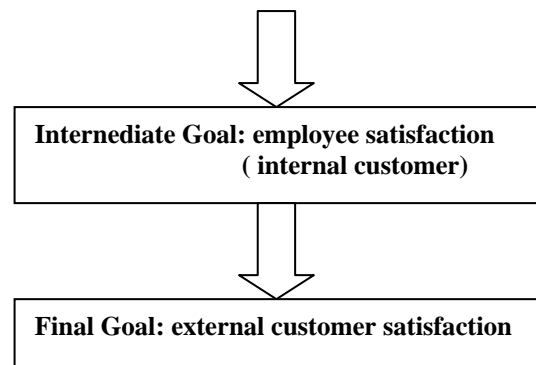
The attraction of candidates is influenced by: economic context, labour market trends, human resources strategy, marketing strategy, marketing environment, organisation's mission and goals.

The recruitment, selection and staff planning are carried out within the human resources policies of the organization.

A successful integration of the employees is depending on: leadership; human resources management; type and consolidation level of organisational culture; internal communications system.

Table 1 Actions and processes in the human resources marketing

Actions	Processes
Attract	communication and promotion dedicated to organisation external environment employer branding
Recruit	recruitment and selection staff planning
Integrate	socialization participation internalization of core values of the organisational culture adhesion to the organisation goals
Engage	engagement empowerment for a customer-oriented attitude and behavior of the employees
Motivate, retain and loyalty	work and tasks systems rewards(monetary, status, position in the hierarchy) work conditions work climate personal and career development, on the job training, upskilling assessment of human capital internal communications developing individual and long term relations with employees social benefits(life, health and unemployment insurance etc)



Engagement of employees, seen as the extent to which employees' commitment, both emotional and intellectual, exists relative to accomplishing the work, mission, and vision of the organization, is influenced by:

perception of job importance; clarity of job expectations; career advance opportunities, regular feedback and dialogue with superiors, quality of relations with peers, superiors and subordinates; perception of core values and norms of the organisation; rewards to engage

perception management; personal communication of managers, internal communication system, word of mouth communication.

The processes of motivation, retention and loyalty are depending on: human resources management; leadership; human resources policies; human resources strategy; internal communication system; social dialogue.

5. Conclusions and further research

The idea of the paper is that the companies are treating their employees as internal customers being possible to adopt the marketing techniques and tools to human resources.

It is needed to investigate the relation between internal marketing and employer branding and the role of latter in the effectiveness of the human resources marketing.

The paper aspires to lead researchers towards a new conceptual framework of the human resources marketing and stimulate further discussions and exchange of ideas on the subject.

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The Impact of the European Employment Strategy on Romanian Employment Policy

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Abstract

The paper examines the mechanisms through which the European Employment Strategy influenced the Romanian employment policy. The influences may take the forms of: peer pressure, strategic use of EES and the europenisation mechanism. The impact of EES is present in the content of employment policy due to the compliance with the accession criteria and integration requirements. In the process of policy shaping the impact of EES is low.

Key words: European Employment Strategy, impact, employment policy, Joint Assessment of Employment Priorities

J.E.L. classification: J 08, J 21, J 68

1. Introduction

The European Employment Strategy (EES) was created in 1990, aiming to coordinate the various attempts of member states to address the more or less persistent high levels of unemployment and low employment rates. The main instruments used in the strategy are: Employment Guidelines for member states' National Action Plans of Employment (NAPs), the EU answer to these in the form of the Joint Employment Report, including country-specific recommendations. In 2003 and 2005 the EES was revised but the principles remain the same. These instruments working in a cycle have an impact on the employment policies of the member states. In general lines, in a evaluation conducted by European Commission in 2002, the conclusion was that EES had: strengthened national policy frameworks and focused attention on targets and deadlines; started a process of convergence between member states' employment policies

towards prevention of long-term unemployment; supported the process of convergence; ensured that policies had been maintained and reshaped in line with the strategy in member states where active labour market policies were already in place; inspired employment policy reforms in some nations; impacted policies other than active labour market policies; improved interministerial coordination and involvement of regional authorities, social partners and NGOs(5).

As states Mikkel Mailand(10), according to the experts, there are two kinds of impact of EES on national level employment policies: *as content* (the employment policy programmes and the economic resources spent on them) and *as processes* (the level coordinating governmental departments, consultations with social partners, NGOs, and regional governments, the use of evaluation and statistics).

2. Theoretical framework and methods

Mechanism through which EES might influence national policy

There exist several ways in which supranational institutions can influence national-level policies.

According to Mailand(10) the main mechanisms through which EES might influence national employment policy are: *peer pressure, strategic use of EES by national actors* and other indirect forms of impact (such as: learning, socialization, creation of discourses).

Peer pressure refers to the pressure that European institutions put upon member state to reach common targets. This works through written recommendations produced at EU level (Joint Employment Reports, meetings of European Commission or Council's Joint Employment Committee)

Strategic use of EES by national actors means the possibility to use EES by national governments for external legitimization of unpopular measures or reforms.

In the literature of europeanization, we can identify other forms of influencing the national employment policies by EU's institutions, named generally as *europenisation mechanisms*. In this paper europenisation means processes and mechanism through which EU institutions may cause changes at domestic level.

Regarding the impact of EU on the national policies, Christoph Knill and Dirk Lehmkuhl(8) state 3 mechanisms: *positive, negative and framing integration*.

In the *positive integration*, European policy-making may trigger domestic change by prescribing concrete institutional requirements with which member states must comply; that is, EU policy „positively” prescribes an institutional model to which domestic arrangements have to be adjusted. In the *negative integration* European legislation may affect domestic arrangements by altering the domestic rules of the game. European influence is confined to altering domestic opportunity structures, and hence the distribution of power and resources between domestic actors. In the third form, European policy neither prescribes concrete institutional requirements nor modifies the institutional context for strategic interaction, but affects domestic arrangements even more indirectly, namely by altering the beliefs and expectations of domestic actors.

According to Börzel and Risse(1), europeanization can cause three different degrees of domestic change:

-*Absorption*: member states are able to incorporate European policies or ideas and readjust their institutions, respectively, without substantially modifying existing processes, policies, and institutions. The degree of domestic change is low.

-*Accommodation*: member states accommodate Europeanization pressure by adapting existing processes, policies and institutions without changing their essential features and the underlying collective understandings attached to them. One way of doing this is by "patching up" new policies and institutions onto existing ones without changing the latter. The degree of domestic change is modest.

-*Transformation*: member states replace existing policies, processes, and institutions by new, substantially different ones, or alter existing ones to the extent that their essential features and/or the underlying collective understandings are fundamentally changes. The degree of domestic change is high.

In this paper I will investigate the presence of peer pressure, the strategic use of EES and the europenisation mechanism in the romanian employment policy.

Hypotheses on decisive factors for EES impact

According to Mailand(10) the literature on EES includes few hypotheses on explanations for its impact.

The most common hypothesis is "the compliance hypothesis" or "the level of fit hypothesis". This hypothesis predicts that the more a member state's employment policy, including its institutional set-up, was in line with the EES prior to its introduction, the less impact the strategy will have. The EES could be expected to have the strongest impact in cases where the level of compliance was low, simply because peer pressure in these cases would be probably the strongest(4).

Within the strategic use of EES at the national level, it can be used the "europenisation hypothesis". This hypothesis is referring to the impact that European policies in particular and European integration in general have on national policies.

Methods

The data sources for this article include: (a) reports and documents from EU institutions; (b) various government publications; (c) academic texts analysing the impact of the EES at the national level in terms of employment policies.

This article focuses on the period from 2002 to 2010.

3. The EES in Romania

Employment policy in Romania: a 20 years history

Employment policy has a short history in Romania, the concept of "unemployment" being introduced officially in 1991, by the law regarding the unemployment (Law no 1/1991 regarding the social protection on

unemployees and their professional reintegration).

The employment policy in Romania covers various areas such as: labour legislation, work conditions, gender equality, social protection, work protection, fight against discrimination, fight against exclusion, social dialogue at the company and national level.

During the period of preparation to be EU member (2003-2007), Romania has been involved in ongoing dialogues with European Commission to ensure the candidature is able to implement the employment element of Amsterdam Treaty and is ready for financial support from European Social Fund.

The Romanian government focused its efforts to harmonize the Romanian legislation and to ensure the compatibility with the community acquis.

It was agreed that Romania and the European Commission, as first step, should analyse the key challenges for employment policies in a Joint Assessment Paper (JAP). The employment was considered as priority number one for the implementation of EES in Romania. As a result, in 2001 was conceived the first National Action Plan for Employment (NAPE), transposing the 99/312/CE Resolution regarding the employment guidelines.

In March 2002, was approved a new law unemployment benefits, in a modern European vision (Law nr. 76/2002). The new law focuses on active labour market measures and proposes different measures to stimulate employment at level of companies and direct beneficiaries. The provisions of the law are related, as well, to the creation of statistical indicators for labour market at national and local level; modifications to the Classification of Occupations in Romania; diversifying the active employment measures etc

In 2002, the National Commission for Employment Promotion is established and the first Joint Assessment Paper is finalised. The Commission has a specific role in monitoring implementation of the National Employment Plan.

According to the JAP Romania's short-term employment and labour market policy priorities are determined by the following challenges: *restructuring still far from being*

finalised, will continue to have a negative impact to employment; some areas/regions will be more affected by high and increasing employment in agriculture; negative trends in labour market participation and employment in general and in industry especially; insignificant job creation in services; Insufficient development and contribution of the private sector to employment; unemployment located mainly in urban areas; high long term unemployment (half of total unemployment) and youth unemployment rates, especially for low qualified people. Other issues presented in the document are: low participation and high drop-outs in upper secondary and post-secondary level of education (especially for population living in rural areas and Roma), a wage policy which obstructs job creation and drive people into the informal labour market due to high social contributions and tax-wedge.

The recommendations of European Commission were referring to: efforts to ensure that all children can access and complete compulsory education and broaden access to upper secondary education; a strategy for continuing training in close co-operation with the social partners; a wage setting system that can be supportive of economic and labour market reforms; measures to reduce the income tax and examine further ways to reduce the tax-wedge; review the funding arrangements and the level of resources for active policies; better integration of ethnic minority groups, in particular Roma, on the labour market; implementation of the legislation and measures to ensure equal access to the labour market for all persons; progressively develop bipartite dialogue and ensure that tri-partite co-operation; efforts to strengthen capacity building in the administration and develop an appropriate institutional framework for regional employment policy and for the implementation of pre-accession and ESF support in co-ordination with the other structural funds.

For the alignment to the revised EES, the Romanian government conceived NAPE for 2002-2003 and 2004-2005.

In 2004, Ministry of Labour, Social Solidarity and Family was appointed Project Management Authority for Sectoral Operational Program Human Resources Development.

In 2006, Romania prepared the Strategic Operational Plan for the ESF funds. The main priorities of the SOP are: education and training in support for growth and development of knowledge based society, linking life long learning and labour market, increasing adaptability of labour force and companies, modernising the Public Employment Service, promoting active employment measures and social inclusion.

During the year 2007, in order to improve the administrative capacity and assure access to the labour market, there were envisaged: the increase in quality of services offered by the Public Employment Service, the strengthening of social partnership principles and assurance of quality in developing specific institutions in the fields of employment and vocational training (setting up of the National Observatory for Employment and Vocational Training of the Labour Force, development of the National Authority for Qualifications), the setting up of new institutions in the social sector (the National Agency for Social Benefits, the Social Inspection and Social Observatory).

To ensure development of policies promoting equal opportunities between women and men, through GEO no. 67/2007 regarding implementation of principle of equality of treatment between men and women within the framework of social security professional schemes, it was established the legal framework that stays at the basis of modifying all dispositions against the principle of equality of treatment.

During 2007 progress were made concerning: developing the inclusive labour market, flexibility and security on the labour market(modernization and updating of the Labour Code); the extension of active life(revision of the legal frame of the anticipated and invalidity pensions); employment in the rural areas(employment caravans);reform of early and inclusive early education; promoting lifelong learning.

In 2008, the recommendations of the European Commission concerning the employment policies in Romania were regarding the improvement of the quality and labour market relevance of the education and training systems, including lifelong learning, reduces early school leaving, and facilitates

the transition of young people into employment, including through work-based

training. One of the main problems identified during 2005-2008 was the high level of the youth unemployment rate(around 20 %, among the highest in the EU).

In 2008, the Action Plan in the framework of Lisbon strategy for growth and jobs has as general objective to *implement an integrated approach to increasing employment, activity rates and productivity levels, especially by accelerating reforms of the education systems to respond better to labour market needs, by reducing early school leaving, by significantly increasing adult participation in education and training, and by transforming subsistence/semi-subsistence farming into sustainable employment..*Subsequently, the Action Plan within the National Reform Programme was including the *strengthening the institutional capacity of Public Employment Services.*

The Community Employment Guidelines for 2008-2010 stated as priorities: *attract and retain more people in employment, increasing labour supply and modernising the social protection systems; improve adaptability of workers and enterprises; increase investment in human capital through better education and skills.* A new National Plan was conceived according to these Guidelines.

Institutions with tasks in employment policy

The Ministry of Labour and Social Solidarity has the overall responsibility for elaborating employment and labour market policies, programs and national plans and to prepare the draft budget for the Unemployment Insurance Fund on the basis of proposals from the National Agency for Employment, to control its execution and the implementation of employment policies, strategies, plans and programs done by the National Agency for Employment and by the National Training Board.

The National Agency for Employment is the main implementing body for labour market policies and programmes. The Agency established in 1998 as an independent public body, managed by a tripartite board started to function in January 1999 taking over an administrative department of the MoLSS as well as the existing network of county-level and local employment offices. The Agency is

responsible for job-brokerage as well as for managing active labour market programmes and organising adult vocational training programmes. It has also the responsibility of collecting the contributions to unemployment insurance to the Unemployment Fund and of administrating the Fund and to pay the unemployment benefits.

The National Adult Training Board, a tripartite, autonomous body set-up in 1999 (has a consultative role in promoting adult vocational training strategies and policies. It became operational in February 2000.

The National Commission for Employment Promotion is a new advisory, tripartite body set up by the new law on the unemployment insurance system and employment stimulation.

4. Main findings

The impact of EES in Romania took the form of the *peer pressure mechanism*. Some facts proving the presence of this mechanism are: creating the Agency for gender equality, the National Council Against Discrimination; elaboration of National Employment Strategy, Joint Assessment of Employment; transposing of several european directives in romanian legislation.

EES was used strategically by the romanian government as justification for the extension of the pension age limit.

The impact of the EES is expressed as well as a *content* of the employment policies and as a *process* as well. Concerning the *content*, the romanian authorities (ministry of labour and national agency for employment) elaborated national employment strategies and plans within the national reform programme, according to the Employment Integrated Guidelines and the Broad Economic Integrated Guidelines. Regarding the *process*, the impact is lower, due to the lack of transparency of the policy procedures. No consultations with social partners and public debates are absent prior the adoption of a new policy measure.

For accession as member state and to implement EES, Romania had to create new labour market institutions, according to the european legal frame and conceive programatic and strategic documents (National Reform Programme, National

Action Plan, National Employment Strategy National Employment Plan). In this case we refer to a *positive integration mechanism*. It is, as well, an *europenization through adaptation*, concerning the adaptations and completions of the romanian legislation in order to be in line with the european law.

The *negative integration* is present in the case of the romanian administration wich is responsible for specific priorities inserted in the Operational Programme for Human Resources Development. The romanian Governemnt decide the structure of authorities responsible for management of the European Social Fund. The romanian authorities are responsible for projects selection financed by ESF, generating a new distribution of power, opportunities and resources between national actors.

Concerning the effects of europenization, in my opinion, the positive integration creates the effect of *transformation*. Romania created several institutions that doesn't exist before its accession and elaborated programatic documents regarding the employment policy at the national level.

The first hypothesis, regarding the *compliance with european acquis* is confirmed because, prior its accession, Romania had to create an institutional frame, that doesn't exist before, able to implement EES. This were created during the accession time (2002-2007). The hypothesis is confirmed after the accession, as well, the ongoing process of european integration requires *compliance* of romanian employment policies with EU's regulations, directives and recommendations.

The second hypothesis, of *europenization*, is confirmed as well, the mechanisms of *positive integration* and its effects are expressions of europenization of institutions, procedures and actions operating on labour market.

5. Final conclusions

The main features of the impact of EES on the romanian employment policy are expressing the positive integration mechanism, under the pressure of accession to the EU and to comply with the european legislation and procedures. Generally speaking, the impact of EES in Romania is the sign of the europenization.

Further studies are required in order to investigate comparatively the impact in other eastern and central european countries new and old member state.

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The Economic Role of Activities in the People Process of the City of Pitesti in the Post-Revolutionary Period

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Abstract

The post-revolutionary period is, in our country, the period after 1990, when there was a change of regime. This change has had remarkable consequences on the economy both at a national and local level.

As to the definition of this science – economy – it represents „ all human activities deployed in production, distribution, trade and consumption of material goods”[2]. Economic base consists of companies, businesses and firms that operate in the production of goods and services.

In the city of Pitesti, the economy has been an important factor with implications for the local development, generating the migration of population from surrounding towns or villages to the city of Pitesti, which influenced the growth of total population. After 1990, restructuring measures have been developed for certain industrial establishments. Production capacity and the default number of employees have been reduced, which has led to a reduction of the total population.

Key words: economy, production, restructuring, layoffs.

J.E.L. classification: O1, O18

1. Introduction

Many authors wrote in their papers about Pitesti city, the researches having various aspects of geography, history, economics, architecture, urbanism and others. Thus, in „History of Pitesti city”, the authors treat with the city’s history and issues of landscape, climate, hydrography, population and economy [3]. Emilia Greceanu discusses in her book „Urban ensemble medieval Pitesti” and some references on population and economic life of the urban settlement

Pitesti. Another scientific paper in which the author mentions in a subchapter, information on the city economy, both before and after year 1990, is „Water resources in the High plain of Pitesti and Pitesti city water supply” (Rozica Posirca, 2004). Also in this work are treated aspects about the city’s population. Important data on the population and economy’s Pitesti city’s, are outlined in various studies such as General Urban Plans from the years 1994 and 2009, Local Agenda 21 and Integrated Plan Urban Development.

2. Materials and methods used

The materials used from this study are represented by the statistic and economic data on economic activities and population trends in the analyzed period, these data were provided by the Direction County of Statistic Arges and Pitesti City Hall and various studies on urban economy. Like methods used in the current study may be mentioned: the method of collecting statistical data on economy and population, method of examination the information, questionnaire method and the explanation method.

3. Case study

Located in the county of Arges, at confluence Arges River with Doamnei River, Pitesti is the most developed urban center, both economically and numerically, compared with other cities in the county. The rhythm of development undertaken in a shorter time, compared with the other localities that belong to the county, was due to of certain causes, of which the most important are: city location at the crossroads old transit roads (trade routes) and its location at the contact between two different geographical and agricultural areas, plains and hills, reason why trade was practiced with products from different areas.

The first economic activities in the city were those of crafts and trade [6], those practiced at the intersection of trade routes, the place where merchants and craftsmen came from different places for the exchange of products from different geographical areas.

Over time the economy has evolved, economic sectors have diversified and at the beginning of the socialist period, the industry has represented main branch of economy. The political regime of the socialist period has put great emphasis on the industrialization of all localities in the county, including the city of Pitesti. Were set up the new industrial units with different profile, some factories have been equipped with new equipment and were created new departments within them for increasing production capacity, the reason for which were created new jobs, both for the population of Pitesti city and for those of neighboring cities, or other localities. The industrial development was an important factor for the numerical evolution of population. The growth in the number of inhabitants was recorded after 1950, when the population was about 30.000 inhabitants and until 1990, when the population reached value 174.790 inhabitants. In year 1990, the population was approximately six times higher compared with its value since 1950.

Post-revolutionary period or the period from 1990 until now, is different compared to the socialist period, or that was until year 1990. The process of industrialization ended, the units that existed until year 1990, it remained the same in first decade, due to privatization and „according to Law no. 15 of august 8, 1990, the production profile, number of employess and spaces previously built, must be maintained for a period of time” [4]. After being approved the low, had passed to a mass privatization and existing industrial units have been converted into joint stock companies. Following this measure, some industrial units have been renamed, thus „Aggregate Technical Rubber Products was called „*Rolast*”, Aggregate Wood Processing – „*Alprom*”, Textila Enterprise – „*Novatex*”, Factory Fabrics Argeşana – „*SC Argeşana SA*”, Shoes Factory – „*Argesin*”, Beer Factory – „*Pitber*”, Progresul Enterprise – „*Subansamble*”, Bread Factory – „*Spicul*”, Polygraphic Enterprise –

„*Tiparg*” [4] and not least Dacia Enterprise, located in the city of Mioveni, but belonging to the city of Pitesti it was incorporated by the French Company *Renault*.

The industry, until the beginning of the restructuring had a location in the three cardinal points of the city, differentiated to a certain extent, of the industrial profile, but also of their location, both inside and outside or the edge residential areas [5]:

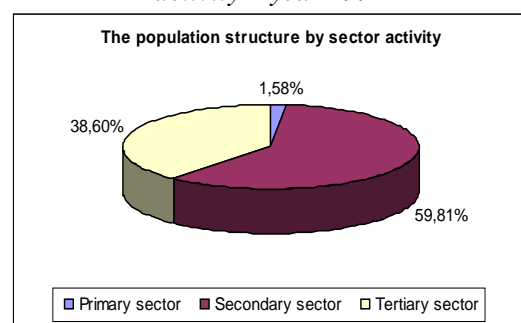
-Northern Industrial Platform Pitesti, grouped along a traffic artery, are included the textile, footwear, wood processing, chemical industry, food, rubber and plastics;

-Eastern Industrial Platform Pitesti, situated in Stefanesti locality, was formed of mechanical engineering industry and „Ana-Imep enterprise of micro-engines, a unit of electrical industry” [5] from Arges county;

-Southern Industrial Platform Pitesti, is located mostly in the locality Bradu, was specializes in processing crude oil, but, they within it was included and industrial establishments situated in the area station C.F.R. South Pitesti, it is the case the Enterprise Precast Concrete and Steel Bridges.

According to available data, both in the census conducted in year 1992 [10] and the General Urban Plan from year 1994 [9], the population structure of the economic sector is represented in Figure 1.

Figure 1. The population structure by sector activity – year 1992



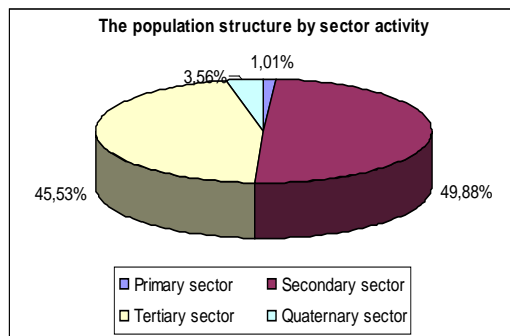
Source: Census of population, 1992

Analyzing figure 1, it can be observed that the largest share of the population is grouped in the secondary sector of activity where manufacturing industry owns the highest proportion of population, respectively 59,81 %.

The tertiary sector of activity occupies a second place with a share of 38,60 % and third place is occupied by the primary sector with a value of 1,58 %. It should be noted that the average total number of employees in 1992 was 88.045 people.

For year 2008, according to data from Department of Statistic from Arges County [7], share of employment in the sectors of national economy present the following situation (figure 2):

Figure 2. Population structure by sector activity – year 2008



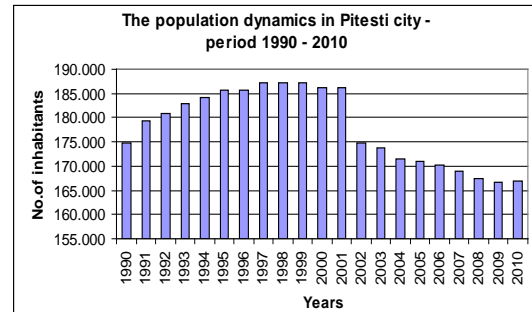
Source: Direction County of Statistic Arges

Figure 2 highlights the changes in population structure by sector between years 1992 and 2008. A new industry emerged is observed, the quaternary sector, in which included the scientific research activity, its share of being 3,56 %. Compared with the activities sectors of year 1992, in the year 2008 changes occurred in the three sectors. Thus, the primary sector decreased by 0,57 % compared with year 1992, reaching the value of 1,01 %, the secondary sector decreased by 9,93 % and for the year 2008 the value was of 49,88 %, and the tertiary sector grew by 6,93 %, the amount recorded in year 2008 being of 45,53 %. This increase of the tertiary sector is due to the trade which „represent the most important sub-sector of activity from the tertiary sector” [8], and now this sector „is the most important sector of the economy from Pitesti city” [11]. In year 2008, the average total number of employees was 70,020 persons, with 18,025 persons less as compared to the number of employees registered in year 1992.

The decreased of number of employees was due to the reduction of existing jobs at the municipality level, reason for which influenced reducing the number of people.

For the period under review, the dynamics of the number of people had an interesting trajectory, characterized by three periods of deployment (figure 3).

Figure 3. The population dynamics in Pitesti city – period 1990-2010



Source: Direction County of Statistic Arges

Analyzing the figure 3 we can delineate three periods of development of population, as follows:

- growth period, between years 1990 and 1997, the population grew by 12.391 residents, from 174.790 inhabitants registered in year 1990 to 187.181 inhabitants in the year 1997;

- period of stagnation, presents a short duration, between years 1997 – 2001, the population stands at around 187.000 inhabitants;

- period of population reduction, between years 2001 – 2010, stands out by reducing the population to 166.669 inhabitants in a nine year period.

The upward trend of population until the year 1997, was due to the Law No. 15 of August 8, year 1990, which prohibiting the termination of employment contracts of employees. The period of stagnation is due to imbalance of industrial units and curbing immigration, and the third period, the massive reduction in population, is based on massive industrial restructuring, the reducing of production, and thus, the number of employees, and in the final stage those units are closed. Following the closure of certain industrial units, the people who left without work, „ a large proportion of the population sought a job abroad, and some smaller part retreated to rural areas” [1].

The year in which the local industry was started downturn, it was in 1998, this period and currently remains. In some units have been registered difficulties, and finally

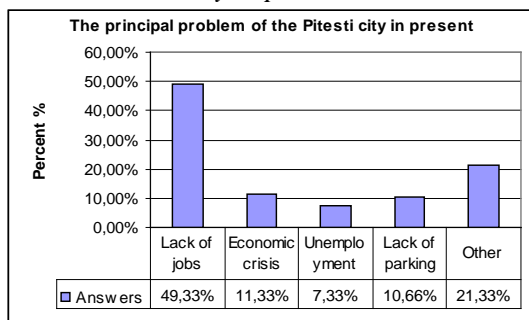
ceased the activity, and among them are:

- „Rolast”, ceased the activity in 2007,
- „Argesana” has changed the industrial profile, from at syntetic fibres to manufacture auto electrical wiring,
- „Novatex”, „Argesin”, „Pitber” have ceased the activity,
- „Alprom”, market due to competition, it was forced to close the work in certain units,
- „Textila”, changed the owner, and since 2008 belongs to a French firm.

These are just some of the industrial units which after 1998 have been faced with problems that could not be resolved, thus reaching at the stage of liquidation.

A widely used method in recent years by researchers, is the questionnaire method, which has been applied to the analyzed population, in this case. The questionnaire was applied to 150 people aged over 18 years, who working in different fields. For this study we selected only one question, what referring to the main issue of the Pitesti city in present (*Which do you think is the main problem facing the Pitesti city in present?*). After analysis results of the questionnaire, I made a chart (figure 4), highlighting the city's main problem from terms of its inhabitants.

Figure 4. The principal problem of the Pitesti city in present



The most people who were questioned, consider that the principal problem of the city is the lack of jobs (49,33%). Other problems noted by the city's residents are: the economic crisis (11,33 %), unemployment (7,33 %) and lack of parking (10,66 %). Some of the respondents (21,33 %), gave other answers to this questions.

In conclusion, for a locality, the economy is a very important aspect that should not to be out of control. According to the General Urban Plan of 2009, „business view is that

economic development is the development of the whole sector companies” [9].

4. Conclusions

The conclusions to those aforesaid, about the privatization of industrial companies from the city of Pitesti, is that, in ago to application of the privatisation law, after the grace period, several companies have implemented restructuring measures, the production level declined and a part of the productive force it was dismissed. Some companies have permanently ceased activity, because of the inability to compete nationally, cause that to influenced the growth unemployment and reducing local labor. The major reduction in population that occurred after year 2001, is mostly due to economic restructuring, cause that influenced the residents migration in abroad.

Some measures should be adopted in future for development of economic activities that to remedy problems, of economically, that occurred in the city.

5. Acknowledgement

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Real Estate Market Situation in Romania in the Context of Economic Crisis

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Abstract

It is estimated that the real estate market of 2011 will enter into a so-called real estate crisis, their prices reaching those in 2005-2006 when in Bucharest you could buy a studio comfort I with prices between 15.000 and 20.000 euros, 2 bedroom apartment comfort I could have bought at that time with 20.000 to 25.000 euros and 3 bedroom apartment comfort I could reach 35.000-40.000 Euro. Considering that in Europe and the U.S.A. the price per square foot constructed does not exceed two average wages in the economy would have said above come true, one square meter built in old buildings should not exceed 500 euros.

Key words: real estate, crisis, mortgage

J.E.L. classification: M21

1. Introduction

During 2000 - 2008 were ended around 64.400 homes, according to INS, mostly 3-room apartments.

According to NBR, the chart analysis of housing loans at the end of 2008 shows that 42% of those who took a loan are in Bucharest and 58% of the rest of the country.

In April 2009, the central bank provides a credit report that housing debt of the Romanians circulation of almost 5 billion euros and that 92% of respondents have credit in foreign currency (euro or Swiss franc).

It seems that the market began to know a significant growth in real estate transactions in summer and autumn of 2007, a slight drop in August 2008 and a plunge in August to October 2009. In 2009 the State has earned

60% less money from the real estate taxes owed and taxes, over the same period last year, for example, in July 2008 the price of an apartment which was 100 000 in the same month in 2009 its price has fallen 80 000 and in the same apartment in April 2010 reached 65 000, are still declining, estimated somewhere between 15% and 20%.

The real estate market of 2010 comes with a pretty significant decrease in price per square meter for apartments both old and for new ones, leading to close some deals between the two types of apartments (old and new).

However, the desired market decreased to less than half last year due to economic crisis has led banks to not lend as easily as before and many private companies have failed in freeing functions many employees.

It is estimated that the real estate market of 2011 will enter into a so-called real estate crisis, reaching their prices in 2005 - 2006. [1]

2. The situation in Romania

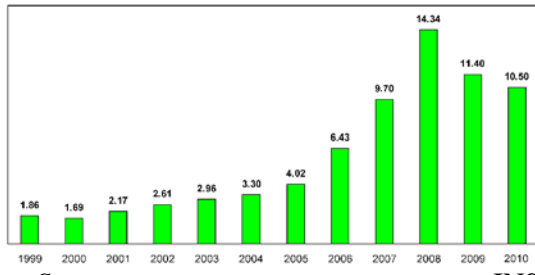
Romania was the champion on the increase - between 2000 and 2008 we went from a share of construction in GDP of 4.9%, a share of 10.7%.

During this period, the construction sector increased by 750% and 287% of GDP. For comparison, increases in second place among the ranks of Lithuania, the construction sector increased by 364% and 177% of GDP and Latvia came in third place with a percentage of 284%, 178% respectively. Estonia follows the rankings (280%, 155%) and Bulgaria (279%, 139%), while last place is Germany with a decrease of 9.7% of the sector, an increase of 18.3% GDP. Note that the share of construction in GDP

has declined in Poland, Hungary and Czech Republic respectively in countries with which we compare the most.

In 2000, the value added generated by construction activities was 1.7 billion euros, the amount increased to 14.3 billion in 2008, followed by a fairly steep decline, the achievements for 2010 is approximately 10.5 billion euros.

Fig. no. 1 - The value of construction sector – billion euros



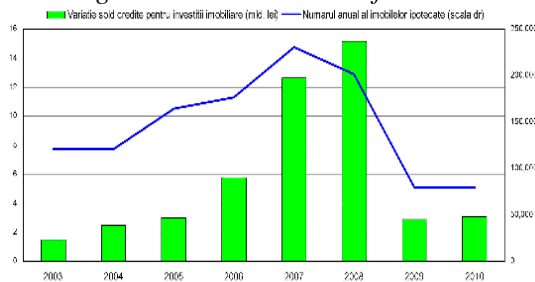
Source:

INS

If we strictly refer to residential buildings, the value of construction works increased from 363 million in 2000 to 4.2 billion in 2008 (1050%), of which 2.4 billion euros represents the value of individual buildings (houses) And 1.8 billion euros the amount of apartments built in blocks.

At the same time, banks have invested heavily in this sector, such as loans for real estate investment balance has grown to more than one billion lei in 2002 to 41 billion in December 2008 [2] and increased the number of mortgaged homes from 120,000 in 2003 to 200,000 in 2007 and 2008 [3]. At this point there are probably over a million homes mortgaged, banks having exposure to approximately 11 billion euros on the construction sector.

Fig. no. 2 - The balance of loans



Source: INS

The crisis has made grants in 2009 and 2010 are extremely rare, the growth of the balance of loans decreased dramatically - from an extra 15 billion lei in 2008, an addition of only 3 billion in 2009, but much of the growth recorded in 2009 was actually due to devaluation of the "leu" against the euro [4].

International economic and financial crisis has affected the Romanian industry, which took effect in November 2008 in a rapid and marked decline. However, if you do not take into account the seasonality, we can estimate that the first signs of international crisis occurred since the second quarter of 2008. The analysis of comparability in terms of seasonal shows at the same time the positive aspect of integration of the Romanian industry single European market. It seems that, at least for the industry, there is a big lag between changes in the Romanian and European industry, which may constitute an important prerequisite in the assessment of future recovery.

Even if the level of 2008 industrial production was located in a slight increase (+0.9%), have noted the contraction recorded in the last quarter, which exceeded 10 percentage points.

The tendency to reduce the workload has continued in the years 2009 and 2010. An analysis of gross index of industrial production series, the structure of 2005 [5] (a fixed base year 2005 = 100), according to NACE Rev2, published by the National Institute of Statistics, indicates reaching a maximum level in October 2008 Monthly Industrial production for 2000 - February 2011.

It is also the start of decline in industrial production, marking the largest month following the contraction of industrial activity. Decreased production in January 2009 was 37 percentage points compared to October 2008.

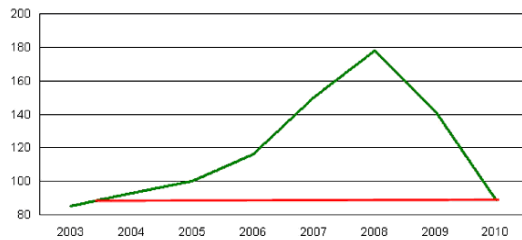
In 2009, the Romanian economy has recorded its first significant drop in nine years, ranging from 8% to -7.1%. Analysis of the data series published by the National Institute of Statistics go to some common conclusions:

- Change occurred in the evolution of the upward trend in industrial production, whether minimum point was in December 2008 or January 2009;

• The return of industrial production to a level comparable to that achieved in 2008 has a slow dynamics compared to the speed of contraction occurred in late 2008. In structure, the Rev2 CANE amid financial crisis reveals a different response of industries to determine factors influencing the demand contraction. And this time, they took into account trends from analysis of both unadjusted data and adjusted to the number of working days and seasonality. This has led grouping industries according to their evolution into three groups: industrial activities of any general difficulties which the production decrease can not be placed solely on account of the effects of the crisis, affected by the industrial activities and activities not were affected by the crisis.

Real estate market in Romania is in deadlock. The number of transactions dropped significantly but not drastically, and the supply and demand do not seem to want to meet.

Fig. no. 3 - Evolution of residential construction sector



Source: INS

3. Conclusions

In an area so closely related to macroeconomics, such as in real estate, business plans are hard to do. Everyone is working with several backup plans and calculate their turnover by taking into account the worst case possible.

Real estate agencies believe that in 2011 will sell best with small apartments, so that lower price. Also, benefits would be owners who fail to understand that they must seek a fair price, market adjusted, if they want to sell their home.

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Features Regarding the Proportion of Online and Traditional Business Environment

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Abstract

If you look at the Internet strictly as a business, we can practically say that it is a place where you can bring your business into the homes of hundreds of millions of people who have an internet connection, but not just that. . On the Internet, everyone has an idea can put online and can receive feedback almost instantly. In traditional business is more difficult to get this feedback, because it is more difficult to transmit information to and from the people. Some businessmen, however, prefer to do business face to face.

Key words: online business, traditional business, internet, online costs.

J.E.L. classification: M10.

Romania, regarding investments made in online business environment in Romania, (<http://www.startups.ro/stiri/studiu>) shows that 68% of small and medium company representatives said that their company had made decisions to invest online.

The two parameters, number of customers on the Web and product information intensity, can be combined to provide a straightforward model (Table 1) for determining which companies should be using the Internet. Organizations falling in the top right quadrant are prime candidates because many of their customers have Internet access and their products have a high information content. Firms in the other quadrants, particularly the low-low quadrant, have less need to invest in a Web site.

Table 1. Internet presence grid[1]

		Information contents of products	
		Low	High
High	Number of customers with web access	Office supplies	Industrial products
	Low	Food and beverages	Consumer electronics

Source: Electronic commerce – the strategic perspective.

1. Introduction

Along with other environmental challenges, organizations face three critical strategic challenges: demand risk, innovation risk, and inefficiency risk. The Internet, and especially the Web, can be a device for reducing these risks.

The comparison between Internet and traditional businesses, where it refers to the start-up can be done in terms of cost. An Internet business can be done with fewer financial resources, requires less capital and will operate on some low cost, compared to a traditional business. Internet business can be very flexible, because the costs are actually variable, whereas in a traditional business problem appears very high fixed costs and very flat. In the economic recession is very difficult to apply and effectively restructured a traditional company, while an Internet company that can adapt, being more flexible in such a situation.

According to a study by E_Invest in

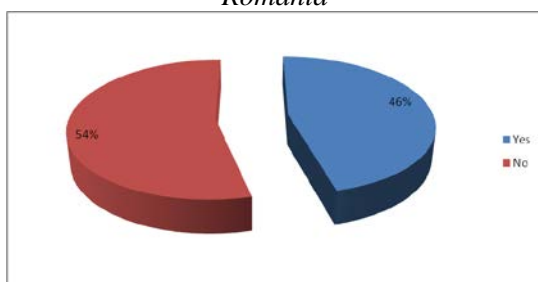
2. Movements from offline to online commerce

Over time, online commerce has progressed continuously. They appeared very strong new companies operating solely online, but traditional companies operating both in traditional media and in online business. And now and in future, some consumers will remain for certain kinds of products and in certain circumstances, which would prefer to buy only from traditional

trade. At the same time, it is clear that there is a significant move from traditional commerce to online trading. Almost all retailers, when they switched from traditional area to online area, or if they went directly online, they must understand and adapt to this new reality. From this point of view, traditional retailers and consumers who understand the market, consumer preferences have already or will have a representative presence on the Internet, even if they continue to develop in traditional retail networks.

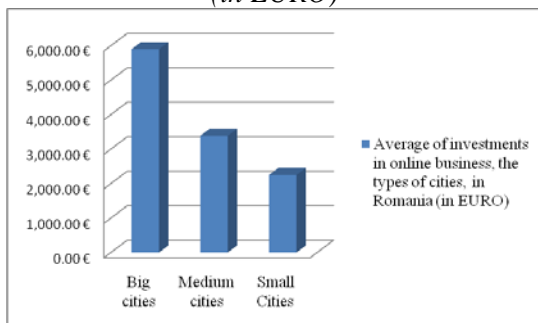
In the study organized by E_Invest (<http://www.startups.ro/stiri/studiu>), 46% of respondents said they had already invested in business activities on the Internet.

Figure 1 - Investments moved from traditional to online environment, in Romania



Grouping the cities situated on the first cities in the "investment company", with an average of 5898 Euro of investment which would be made, followed by medium cities, with an investment of Euro 3385 and small towns with an investment of Euro 2250.

Figure 2. Average of investments in online business, the types of cities, in Romania (in EURO)



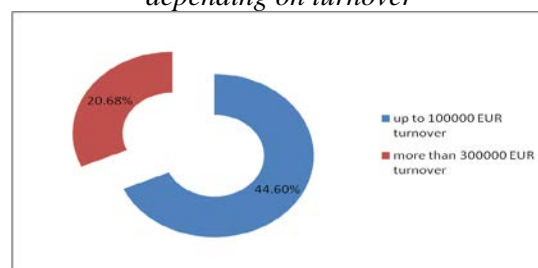
In terms of geographical distribution on, the amount of money invested in online business module, Moldova leads to an average of 8185 euro, followed by

Transylvania located averaging almost half of the amount spent by companies of Moldova (4422 euros) and Wallachia with Euro 3437, says the survey data cited. When asked "What would it take to address the online business environment", the respondents indicated as important financial resources (at a rate of 91%) and creating a site on the Internet (82%). The main institutions identified as those which should help companies to try to conduct business online, there are associations of employers (63%), EU (62%) and government and government agencies (59%).

Main ways in which government institutions could help companies trying to conduct business activities online are: providing funds and grants (27%), providing tax incentives, exemptions and tax reductions (19%), legal and regulatory policies market (11%). An online presence is considered important, 54% of SMEs representatives analyzed with a companion website. A percentage of 40% of firms interviewed representatives must, in large or very large extent, the business activity carried on may be carried out online, and 35% are still undecided in this respect. Zone Muntenia - Bucharest has supremacy in terms of percentage of business activity taking place online, with 48.3%, followed by Transylvania with 30.5% and Moldova with 25.4%.

According to group turnover, the share of the company that runs online activity is greater in companies with smaller turnover. Thus, companies with turnover below 100,000 euro a share the company owning 44.6% of the company's activities. And those with a turnover of 300,000 euro, it operates at a rate of 20.68% online.

Figure 3. Percentage of activity, held online, depending on turnover



According to the study cited, 31% of respondents believe that 50% of their company business activity will be held online, over the next five years. At the same time, most (49%) believe they will be held online between 11% and 50% of the activities of firms.

The main advantages of launching an online business activity have been identified as the gain of time, efficiency (23%), better and more efficient communication with customers (22%), lower costs (19%), coverage of this environment, great opportunities to attract new customers and partners (18%) and visibility offered by the company, it can become known (15%).

SMBs are considered less reliable in running an online business that could make accessibility (5%), increased sales and turnover (6%), development of e-commerce expansion market (6%), better organization of data (6%). The main disadvantages are considered to be the lack of direct contact with customers, with products (14%), difficulties in management (9%), low information security, data (8%), communication problems (6%).

The less important disadvantages are considered to be addressability (2%), lack of experience in IT staff (2%), reduced access to the Internet (2%). At the same time, 21% of respondents believe that running a business online would not bring any disadvantage. The main areas, in which the companies participating in educational research, are consulting, training, commerce and manufacturing. A 95% majority of the companies have Romanian private capital, and 5% - foreign private capital.

3. The consumer behavior in online commerce

Among various founded statistics, analysis and conclusions, one aspect particularly attracts attention: the fact that the average time which have the owners of websites to attract attention, is 8 seconds. In eight seconds, an online consumer will decide if the website is interesting or not, if he found what they are looking or not, you still deserve to browse or search for something better. In this very short time he has available, the owner of a website needs to

attract attention and arouse interest of people (perhaps future clients, partners, sponsors, etc.) who visit the website for the first time (<http://www.zooku.ro/blog/2010/01/comportamentul-consumatorului-online>).

Customers from online environment are more demanding, their requirements are higher than they expect to trade some superior performances of traditional trade online. They are better informed, more educated, more affluent, for the simple fact that they are very familiar with the Internet than other customers who buy only from traditional trade. Therefore, to live up to such expectations, it's not always easy.

From a certain point of view, there is a denial rate for items purchased online in Romania. This rate is the same level of denial in Romania compared to more developed countries, if we refer to the typical problems that customers have to say: the inadequacy of a particular product with a specific functionality or technical problems, even new products. From this point of view, Romania is on a par with Western Europe. But there is a higher return rate in the West, in more developed markets than in Romania, in terms of returns unjustified. Romanian consumers are more fair to those who sell their products, meaning they do not return, refuse or ask for money back for some products, unless they have a real problem with that product. Otherwise, the mature markets like the U.S., it often happens that a client seek to benefit from using a product for a certain number of days, then return it and try to take the money back. That is a really important issue, which is the law.

Taking into account the desires of consumers over time, one of the largest online electronics stores in Romania, Emag, opened in major cities also traditional shops. This is because, activating in electronic equipment operating area, customers want to have quickly access to warranty and post-warranty services. In other areas, such as delivery of gifts or flowers, for example, online stores have kept operating solely online.

4. Online promotion vs. classical promotion

The most important aspect of a traditional marketing strategy is understanding the consumer. In online marketing, the entire process of developing a keyword strategy is based on questions like: What do consumers? What consumers look for? What consumers want?

Before starting an online marketing campaign or traditional marketing must understand what the customer wants and what expectations may have from us. The client needs to understand what services the company offers but also what results you get if you use the services of the company (<http://optimizare-site-google.blogspot.com/2010/html>). Good ideas almost always formed the basis for a successful business. Whether creating a new product or market a product promotion strategy, original ideas are little secrets behind starting a successful business. Online Marketing great ideas often plays a key role in promoting more efficient online business. Take the example of the Facebook platform, first launched in 2004 as a university network to shut down and later extended to companies like Apple and Microsoft.

From the standpoint of channel promotion, many professionals are focused only on TV or magazines only, although there may be more effective than other platforms. Successful companies are those who figure out what channel and what channel combinations are best for their audience. In online marketing can opt for PPC (paid links), Social Media Optimization or Organic Optimization, etc. A PPC campaign can be effective for a client, but not for another.

Methods of measuring ROI (return on investment) are in the traditional marketing, varied depending on particular promotion channel (TV, print). In online marketing, it can demonstrate to the customer the effectiveness of a campaign by detailed charts the evolution of traffic on site and submitted sales during a certain period.

Many large companies turn to two, three or four different advertisers, so it is difficult to reach a common denominator in terms of promoting the product or company. In Online Marketing are cases when it is better to resort to the same agency for creating the site for

SEO. An SEO and Web Design agency will know best how to create a website that would be up to the expectations of customers and at the same time to be better indexed by search engines. Surely many business people are wondering how they can promote their business through online social platforms.

For example, social network Facebook is a dynamic environment that allows interaction with other members, keeping up to date with news and events contact group in particular, change of information and finding out their opinions about products or services.

Facebook is a simple, transparent and practical system, which allow to create in minutes their own networks of friends, share photos, documents, videos... From the start up has been created to share information. Initial access to the site was limited to students at Harvard, and now has over 500 million active users. Social networking platform Facebook can be a very useful tool in promoting a business. Thus, there are a few tips on promoting a business or start-up, traditional or online:

a. Create a Fan Page on Facebook. User page allows a maximum of 5000 friends. To successfully promote your business on Facebook, must have created a page for the Fans (Fan Page) customized according to the own website.

b. Launch of Buzz Marketing campaign, which would:

- competitions with prizes that launched a new product or a service fee to attract prospective customers;
- Information about a contact group organized by you or an event that will participate. By creating a group event, you will receive confirmation of this;
- Publish news or links to articles or products on your site. Moreover, interest is also published news on the "wall" (Wall) of its group members. This helps attract new contacts;
- Placing an icon on own website or blog to allow visitors to access the company profile and add up the list of contacts.

c. Analysis of profile members of their group.

Friends of friends are the friends of the company. Facebook allows members to find groups and their activity domain folds.

d.Launch of surveys or questionnaires. Social networking helps to obtain relevant opinions about products or services. Up help and to test various concepts before putting them into practice.

e.Recruitment of staff.

Information displayed on a member's profile is a mini CV which enables the company to know and to select personnel for a job.

f.Publication of sponsored ads.

Launch up advertising campaigns based on products or services ads are another component of online promotion. This is achieved according to targeted users' typology and budget.

5. Short conclusion

A manager can decide the proportion that will work in the online environment based on several criteria: core business, which targets to be met, business trends, market potential, budget. To achieve a mix of these criteria is a goal of every entrepreneur. Whether he worked long traditional business environment, be it a business start-ups, whether it decided to work only online, an entrepreneur will decide to conduct online activities. And this is happening and will happen for most entrepreneurs, even though they hold only a simple presentation website.

In Romania, there is a perceived tendency for smaller companies to move their online activities. Larger companies, or are more rigid in this regard, either already have such an important market share that online presence they need in a smaller proportion. Looking globally, it is observed that small companies "bite" of the market of the larger companies, because they are online present in a greater proportion. The decisions of entrepreneurs to move a part of business from the traditional environment to the online environment can make the difference between keeping a larger market share or lower.

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The Credit Activity Impact of Small and Medium Enterprises on the Economic Recovery of Romania

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Abstract

The economic sector of small and medium enterprises is one of the most important areas in the Romanian economy. However, granting loans to these companies is not at the same level as the importance they have in the economic sector, the banks being more cautious to granting loans to this kind of enterprises as opposed to loans to big companies. The financial law and the banking excessive prudence are only some of the causes of this situation. In this way, reduced or no financing has seriously affected the activity of small and medium companies and their decline has significantly influenced the overall economic developments of the last period of time.

Key words: banks, credit, risk, influence, liquidity

J.E.L. classification: G21.

1. Introduction

The lending activity in the Romanian economic sector took place under the influence of macroeconomic shocks and distortions such as: inflation, the constant reduction of gross domestic product and of the production level, its balance of payments, the level of foreign exchange reserves, as well as the disturbances in the financial and banking system, respectively the budget deficit interest rate, the payment mechanism and also a lack of diversity in the loan portfolio. All these require a redefinition of the role of the banking system, whose vulnerability to the global financial crisis proved to be a decisive factor in the process of economic decline.

The banks' operating system should be done at a reasonable level of efficiency, based especially on the maximum financial prudence. In the current economic conditions, banks' functions should be adapted according to the market needs, being acknowledged the high vulnerability of money transfer in the banking sector. The role of banks in the economic system is given by one of their main functions, namely the allocation of cash by providing credit to the real sector of economy. Therefore, the nature of credit transactions, the size of credit resources and the risk assumed by banks, makes them become the most "informed" segment in the socio-economic field, with a huge potential in transferring information to their customers in order to minimize business costs and maintain a more effective ratio between the funds saved and the ones invested in the economy. From this point of view, we can estimate that the banking reform should be conducted in accordance with the reorganized activity of the economic agents.

2. The impact of risk on credit standards

During the fourth quarter of 2010, lending standards have undergone significant changes in accordance with previous expectations of the banks. For the beginning of 2011, credit institutions have tried a relative relaxation of standards for short-term loans and a tightening of standards for long-term loans for businesses in the SME category. Crediting terms have not experienced major changes, both in the sense of relaxation, by reducing the spread from 1M ROBOR, as well as getting a little worse by increasing the risk of premium and collateral claims. In the fourth quarter of 2010, the demand for granting loans by non-financial companies

has returned to a positive territory, being supported by the short-term loan demand. According to the banks, the demand for long-term loans will continue to decline during 2011, a trend already registered at the beginning of the year. In the opinion of the banks, the risks related to the companies are growing in all sectors except the energetic and the industrial ones. The risk perception towards the small and medium enterprises has been and it is still increasing.[1]

The main factors which led to an additional tightening of the credit terms have been the changing ratio of nonperforming loans in banks' portfolio and the weighted expectations regarding the overall economic situation. The risk associated with the industry where the company is operating, and the one associated with the collateral, have returned to the attention of some credit institutions (net percentage below 10 percent), although they had a neutral position in the last quarter of 2010.

According to banks, credit continued to diminish for companies operating into the energy sector, while for those in the industry, the situation does not change significantly. Constructions and real estate sectors remain, in the fourth quarter of 2010, in the category of the riskiest areas of activity, in terms of credit risk.

The credit risk associated with small and medium enterprises is still seen as an ascending trend, namely for the small companies and for the micro-business segment. For corporations, the situation remains unchanged for the last three quarters of 2010.[2]

According to financial data published by the National Bank of Romania for 2010, the crediting activity dedicated to economic agents registered a relative recovery with a plus, especially beginning with the second half of 2010. Regarding the small and medium enterprises, financial data is presented rather differently from the general trend.[3]

If, in the case of long-term loans granted to SMEs, such activity has stopped declining since the beginning of 2010, the short-term loans granted to small and medium-sized companies are still on a downward spiral. However, the tendency of these long term credits is to stop the decline, being expected

a rebound in this sector, starting with the middle of 2011.

The credit granted to the private sector, especially to the small and medium companies sector, has significantly diminished its growth rate, starting with the last quarter of 2008. The annual growth rate of these loans, in nominal terms, fell from 33.7% in December 2008 to 0.9% in December 2009, so that, from January 2010, for the first time in the last 10 years, being placed on a negative level (-3.5% in January, February and -3.7% - 1.6% in March 2010). The compression tendency of the growth rate of granted loans, characterized both components of small and medium enterprise sector, both in RON and in foreign currency transactions. In terms of value, most of the loans granted to the small and medium enterprise sector are long-term loans.

The financial sector continued to expand in 2009-2010, but the growth rate was significantly reduced due to financial international turmoil, that has contaminated the financial markets and the internal economy. The risks have remained high and infusions of capital were needed, as well as a restructuring of costs and a better management of liquidities so that the financial system stability not to be affected. The internal financial sector is strongly connected to the external sector and particularly to the European one, through relations of equity or of financing. In this way, its development and the risks' evolution depend, significantly, on the international financial system. The level of financial intermediation, as a share of our country's gross domestic product, increased in 2009 and remained at approximately the same level in 2010, changes being favored by the economic contraction, and the net assets of the financial sector have not registered significant increases. The internal financial system is dominated by credit institutions, but the insurance and investment sectors on the equity markets have a high potential for development, with the growing convergence of the domestic financial markets of the European ones.

The financial sector is characterized by a high sensitivity to adverse events, because it attracts short-term financial resources and carries out medium and long term investments. This principle of operation is

not homogenous in all credit institutions, but it is defining for the activity of financial intermediation, to a certain extent. The influences on the domestic financial system were both exogenous, induced by external financial markets and by real economy, and endogenous. Endogenous influences can be produced at the level of one or more participants and can be spread within the financial sector by pure contamination, or by balance and non balance sheet exposures, with the effect of the depreciation of assets, withdrawal of funds, payments or assuming losses from equities.[4]

The deepening economic decline in the 2009 activity, rising unemployment, tightening credit standards and terms, in the context of the rising volume of nonperforming loans, and the risk associated with guarantees, are inhibitory factors that impact on the demand and supply of loans into the small and medium business sector.

3. Problems of financing the small and medium enterprises

Small and medium-sized companies are a major player in the economic sector of Romania, they play the main employer role and they are the largest contributor to the country's gross domestic product. The financial crisis has fully affected these companies, and reducing the internal and external demand, reducing market liquidities and more demanding credit conditions have led in many cases to bankruptcy. In order to save themselves from bankruptcy, these companies have resorted to various cost reduction measures, such as layoffs, wage cuts or reducing the administrative costs. In addition to all these, there is also an acute need of financing from external sources, the vast majority of SMEs registering, in this period of time, a shortage of funding. These companies resort to this type of financing, through credit, and avoid financial blockade, but the possibility of conducting investment is extremely limited under these conditions.[5]

In spite of the flexibility of these companies, however, they do not provide the same degree of security for banks as large corporations. This is explained by their low financial power, and hence fewer

opportunities to guarantee loans. It should not be overlooked the fact that, small and medium enterprises are the engine of economic growth, they currently contribute with almost 70% to the GDP in Romania, being the major employer, providing approximately 60% of the total employment. Although the small and medium enterprises sector is of systemic importance, the present legislative framework creates a major problem for SMEs and the overcrowding, registered among the organisms which are precisely established to help and support these businesses, leads to a difficult implementation of the appropriate measures.

The alternative of investment funds of banks, within the retail banking, offers, in relation to granting loans to small and medium enterprises, the advantage of lower costs and risks. Regarding this last point, it is noted that the inadequacy of the mechanisms used by banks to analyze and monitor SME loans determined, on one hand, high operating costs, and on the other hand, high costs of provision. Therefore, the classification of a loan granted to a small or medium newly created company depends both on quantitative and qualitative factors. If banks do not have proper information systems and adequate decision assistance, they will qualify the customer, not just by virtue of a prudent approach, but also as a result of the impossibility to identify a more real risk category, the E category, thus generating a maximum cost, determined by provisioning.

At the other extreme is the situation when, unjustifiably, the client classified in the A category does not initially generate any regulatory cost, but later, through its financial inability, affects the bank's profitability. It results therefore, that the development, by the banks, of loans' granting to SMEs, requires, on their part, first of all, the assumption of initial operational costs, generated by the implementation of some informational systems, and of assistance with the performance decision, adapted to the specific sector of these companies. The covering of these costs is accompanied by the enlargement of customers' portfolio so that the profitability threshold is exceeded and it is able to generate more profit, in line with the risks assumed.

Another problem, located at the level of demand, is the fact that the largest share in the small and medium companies, is owned by the microenterprises, whose low volume of activity, which determines the demand for financing, both for the support of current business (treasury loans) and for investment loans, is directed mainly to small loans, below the threshold of profitability of banks. Therefore, the credit necessary for small and medium enterprises can be satisfied only partially by banks because they need to create a portfolio to ensure the overall profitability of lending in this area.

Banks are still facing a lack of information regarding the business conduct of their customers, a situation mainly caused by the absence of a history of the relations they had had with various creditors. In order to remove this obstacle, it should be considered, on one hand, the CIB modernization of the National Bank of Romania (extending the reporting requirements for financial institutions, including information related to groups of debtors that have economic connections with each other, providing consolidated information both for credit history and for the incidence of payments to borrowers and also providing information on credit card fraud) and, on the other hand, the development of the credit bureau activity so as to include in its database all the information on the history of the relations of small and medium sized with the banks.[6]

It is imperative for the state, together with the banking system, to find a solution for small and medium enterprises to access loans faster and at lower costs. Because the state borrows from the banks, they prefer to put money in value vouchers in loans to the state, so money do not get at all, or get in very small amounts to SME loans, that are hardly granted. SMEs also face the difficulty that the state hardly grants the state aid forms approved and even recommended by the European Union. Until the minimum level of state aid will not lower to at least 50,000 euro, the situation in which only a few companies in Romania will benefit from state aid will continue. The threshold decrease would result in the access of thousands of SMEs to the legal forms of state aid, in order to find the necessary financial forms. The simplification and generalization of loan procedure is especially necessary given that

the debts of companies (mainly small and medium enterprises) to banks reached a record level, and most probably will increase during this year. The share of overdue loans, in the total loans granted to SMEs, increased from 1% to 10% over the past two years, according to NBR reports.[7]

Although loans to small and medium enterprises were mostly those granted to microenterprises, however, the share of these loans is relatively low compared to the share of this category of companies in the total of SMEs (90%). Besides the general causes that restrict SME credit market (higher interest rates and required guarantees, the lack of training of applicants, etc.), in the case of microfinance there are specific breaking factors, such as information asymmetry. This refers to the inability of small enterprises to be perceived by creditors as potential creditworthy customers, both because of their small size, as well as the use of traditional techniques for assessing the credit records, by the banks.

Another shock, small and medium enterprises fully felt, in the context of the economic crisis, was the substantial increase of the length of time of the debt collection. In the first half of 2009, it increased with 30 percent for SMEs, while for the corporations, it only increased with 15 percent. However, it is worth mentioning that, in terms of access to financing for SMEs, there are also some positive developments. Thus, the National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM) granted, in 2010, guarantees of 490 million euro, 26 percent higher than in 2009. The guarantees offered by FNGCIMM were designed for bank loans that amounted to EURO 950-980 million. It is also true, however, that just barely over 20 percent of these loans were for investment.[8]

There should not be omitted certain aspects of the granting loans process. So far, the volume of loans granted in Romania is 50% of the gross domestic product, which is a significantly low figure, compared to the European average, respectively 72%. Of all these, at the end of 2010, loans granted to economic agents were RON 40,060.5 million from a total of RON 77,030.3 million and foreign currency loans granted to economic agents were RON 65,606.2 million from a total of 132,340.4 million. There is an

approximately equal distribution between the volume of loans granted to individuals and those granted to businesses.[9]

The values provided by the National Guarantee Fund are still quite low compared to the total of credit granted to economic agents, especially to large companies. Thus, reporting the small volume of SME loans to the gross domestic product, this is in contradiction with the high share and the contribution that small and medium companies have to the GDP. We can say that the decrease of loans granted to this type of business since 2009, plus the relative stagnation in granting loans to this sector in 2010, is a key factor of the economic progress recorded in Romania over the past two years.

Therefore, Romania's gross domestic product declined with 7.1% in 2009, followed by a smaller decrease of 1.3% in 2010. Furthermore, during the second quarter of 2009, the credit demand of these companies is on a strong downward slope, respectively 50% - for short-term loans and 77% - for long-term loans.[10]

These decreases were determined, on one hand, by the strengthening of crediting conditions implemented by the National Bank, but also by the significant increase in the number of bankruptcies, which has seriously affected the small and medium enterprises sector. By making the access to bank financing more difficult, serious problems have been developed, these companies facing a shortage of necessary funds, primarily in their current activities. As the reports presented by the National Bank of Romania reveal, a small share of the funds intended for crediting small and medium enterprises, were directed for the finance of new investments or development operations.

4. Conclusions

Given the importance of SMEs to the economy, these issues were fully reflected in the evolution of the main macroeconomic indicators of Romania. This must necessarily be taken into account, especially since the importance of crediting to these firms is slightly reduced compared to that of large companies and as the lack of financing for small and medium companies had a significant contribution to the economic

decline of Romania, registered in the past two years.[11]

Loans granted to the population cannot advance at a very fast pace, but corporate financing is an area that has a high growth potential. Therefore, banks should be aware of this potential growth and understand that supporting the SME sector, ensure precisely the future development of their business.

All these situations offer a clear picture of the importance of granting loans to small and medium enterprises and of the influence this has on the domestic economic development.

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The Refinancing Loan as a Compromise Factor Between Costs Widening and the Insuring of the Financial Stability of Individuals

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Abstract

The refinancing loan has represented until recently, for individuals, a complicated, expensive and risky way to finance current financial needs. Until the outbreak of the economic and financial crisis, banks were offering more credit alternatives, refinancing being relatively sidelined in the loan portfolio both for businesses and individuals. The deepening and the continuation of the crisis, plus a slight increase in the rate of overdue and doubtful loans, have determined the banking environment to look for other ways to slow down this phenomenon. Promoting refinancing loan, not only at the inter-banking level, but also in relations with non-bank customers, may be a way of recovery, in this context many persons being unable to pay outstanding rates.

Key words: refinancing, conditions, warranties, fees, rules.

J.E.L. classification: G21

1. Introduction

Currently, a loan refinancing may be an option for many of the banks' customers that hope to get more favorable conditions for an amount they have already borrowed. Refinancing can be obtained at the same credit institution or at a competitor, depending on the conditions. By 2010, this type of loan was not an advantageous method of financing in relation to regular loans, banks not being interested in the refinancing activity, but in attracting as many new customers or in concluding new crediting contracts with their actual clients.

In order to make their refinancing offer more attractive, at a lower cost, banks may

provide various facilities, like eliminating various fees. By favorable refinancing, thousands of euro savings can be obtained, which make it worthwhile. This should be treated, however, with the utmost attention by the customers, because an incorrect or careless calculation can bring a new long-term credit, more damaging than the first one. The essential criterion is the total cost, which is the client's responsibility following this procedure, comparing it after a rigorous calculation, the amount that has to be reimbursed to the former credit with the amount refunded by a new loan, plus all the taxes and fees involved in refinancing.

2. Steps

In general, refinancing a loan implies going through several stages both for the customer and for the crediting institution. As a first step, the bank where the original loan was contracted, assesses the client and establishes financial guarantee requirements. When refinancing a mortgage, this bank establishes a first rank mortgage on the property. In the next stage, the first bank grants an initial loan to the customer. Subsequently, the refinancing bank evaluates the customer that wants to refinance the loan, conducted by the initial crediting bank. This second bank also establishes specific conditions for the refinancing loan guarantee. In the case of a mortgage these specific conditions represent a second rank mortgage over the property. Furthermore, the refinancing bank transfers the credit in the loan account of the initial bank. In these circumstances, this bank will close the original loan and will remove the security established for the original amount. Finally, the refinancing bank will establish financial conditions specific to an initial credit.[1]

3. Establishing the value of the prepayment fee

One of the most important aspects that complicate the access of individuals to refinance a loan is represented by the value of the prepayment fee, which, depending on the bank and on the type of credit requested, could reach up to 5%. In fact, during 2009, the three largest banks in Romania registered the highest fees for early repayment of a consumer loan or a mortgage. The prepayment fee was, in fact, a primary condition of withdrawal, for the customer, to the original loan conducted in favor of the new refinancing loan. Thus, this criterion constituted, even before the refinancing credit contraction, a significant additional cost which reduced or even canceled the benefits of cost entailed by the new loan.

In the conditions when a loan interest is variable, the bank may increase it, according to the market fluctuations and does not take the risk of fixed interest. Prepayment fee, in the case of this type of loan, has no justification. Such a fee can be justified in the case of fixed-rate loans, because banks risk for a customer to refinance with another bank when the interest drops. However, the higher value of fixed interest and fees, charged by the credit institutions in Romania, in the case of these credits, significantly reduced the risk margin and also the possibility of potential losses in case of refinancing a loan in favor of another crediting company. At EU level, this financial situation was already covered, the early repayment fee being established only in the case of fixed-rate loans with a maximum of 1%.

Presently, what constituted an impulse for customers towards the refinancing segment was, essentially, the limitation of the fee payment in advance to a maximum of 1% for the loans with fixed interest and its removal for the loans with a floating rate. This was determined following the application of the Emergency Ordinance no. 50/2010[2], which standardized the loans' fees that have become more affordable. The income reduction, the decrease of interest rates starting with 2010 and the foreign currency appreciation are the real reasons for a client, who has especially contracted denominated loans in euros or Swiss francs, to refinance debt.

4. Refinancing traps

The most common requests for refinancing refer to the consolidation of all debts (loans, credit cards, leasing, overdraft), to personal credit card loans and to mortgages. For choosing the right refinancing formula, refinancing of one or more credits, it should be compared the amount to be paid to the value of the new loan, plus the refinancing costs.[3] Refinancing costs include, in general, the prepayment fee, the issue of a guarantee letter, the fee for handling the file and the fee for granting the credit, only in case of approval. Most individual customers, who want to reduce borrowing costs, ask for additional amounts, being very small the percentage of customers who want a refinancing only in order to move from one bank to another, for the same amount. But even if the customer qualifies for a loan, greater than the debt that has to be reimbursed, the additional amount is blocked until the redemption of the original loan. Anything additional is blocked in the customer's account at the refinancing bank until the issuing of the document confirming the liquidation of the loan.

The problems that might be encountered by a customer who wants a refinancing are the declining revenues over the past two years, the negative payment history, the collapse of property prices (for mortgage loans) and the customer classification according to more conservative norms, compared to the period previous to the recession in our country. In choosing a refinancing loan, customers must take into account the type of the loan refinanced, the amount of the guarantee, the number of refinanced loans and the personal situation. The financing opportunity is calculated based on the total amount of the maturities paid plus the loan granting costs and the total to be reimbursed, which should be smaller than the amount to be refunded. Otherwise, refinancing will not get the cost reductions for the client, but will significantly increase the final amount to be reimbursed.[4]

In general, a lower monthly rate does not automatically mean a lower cost. If you take a loan of 7,000 euro for a period of five years you will pay higher monthly rates, but overall loan costs would be significantly lower than if the same loan, of 7,000 euro, had been

taken for a period of seven years, paying lower monthly rates.

A credit category that may face refinancing problems is the loan in Swiss francs. The first one is, of course, the very large difference between the Swiss franc and the euro. This means that in order to refinance, now, a loan in Swiss francs, granted three years ago, it takes more euros than then, the rates associated with the new refinancing credit, being still high. The second major issue is that refinancing also requires the guarantee revaluation, which in most cases is a property. These customers no longer fit to actual interest rates in euro or RON which are higher than those in Swiss francs at the time they were contracted. We can add to these the unfortunate development of the Swiss franc - RON - Euro exchange rate, which makes today's equivalent of the credit balance in euro higher than the euro equivalent of the original loan, contracted according to Swiss franc - Euro exchange rate at the time.

Another possible disadvantage of the loans in Swiss francs is that this type of loan can be refinanced only in euro or in RON. In the case of loans in Swiss francs, it is preferable for the new refinancing loan rate to be at least one point percentage below the original rate. Even so, in converting from Swiss francs to euros, customers will have an unpleasant surprise due to the deeper appreciation of the Swiss currency. In this context, for a loan contracted in Swiss francs, for an amount equivalent to EUR 40,000 in 2008, the payment balance, presently reported at the current rate, would be greater than 50,000 euros.

Refinancing is recommended for the restructuring of several loans into one loan and the restructuring of a much higher interest than the one that can be obtained by refinancing. There can be gathered, in a single package, mortgages, consumer loans or even credit cards. It is true that for larger amounts, mortgage guarantees are required, including national assessment costs or home insurance. However, much lower interest and longer granting period, allow the achievement of a more diminished rate, which ensures the amortization of the refinancing cost within ten months. The current financial and banking conditions do not recommend the refinancing of loans that

have already passed half of loan repayment period, when, the main share of the monthly rates begins to match and even exceed the share of interest and fees. Also, the banking environment favors refinancing loans to RON and euro as interest rates that are at a minimum, at the moment, at a lower value than those prevailed before the outbreak of the global crisis.

If a loan refinancing is not possible for a particular type of loan, or refinancing costs are higher than those of the original loan, customers can choose the path of rescheduling the reimbursement, which would offer them lower monthly rates. National banking practice offers two ways of rescheduling a loan, by providing a grace period or by an extension of the repayment period. Rescheduling automatically assumes that total borrowing costs increase, but it has the advantage of protecting the customers from a too high monthly rate. Customers also receive a positive payment history (without delays), which gives them the possibility to contract new loans if necessary, depending on how much their income will allow them at the time.[5]

Presently, the refinancing offers on the market are not related to the banking regulations, but with the fact that different banks, in the context of the economic crisis, have smaller or larger difficulties to protect exposures. The real reason behind this opportunity offered to individuals, is that, it is difficult for banks to protect exposures, which determines them to be very reserved in crediting. In these circumstances, customers are looking for refinancing solutions in other commercial banks.

At this time, for a mortgage in euros, the best annual interest percentage fits around 6% - 7%. The effective annual interest rate depends primarily on the loan amount and on the reimbursement period, but many banks have eliminated the granting fee, have dropped other fees and added various bonuses (preferential interest in special conditions, free insurance for property, free life insurance for a limited period, notary fees incurred by the bank, free refinancing letter). If the insurance company reduces the costs included in the credit policy, then refinancing may lower the current rate with a few hundred euros.

Another significant problem of mortgage loans is that properties assessment may confuse all these calculations, because housing prices have significantly dropped from the level recorded in 2008. Thus, customers who have opted for a mortgage in euros for the acquisition of a property, assessed in 2008 to 90,000 euro, will face major difficulties if they want to refinance this loan at present. Therefore, a property subject to financing records a value, significantly lower in the evaluation than the one in 2008. This will result in significant differences between the rank 1 mortgage of the initial bank and the rank 2 mortgage of the refinancing bank. Everything depends on the refinancing bank's acceptance to take over the risks associated to the initial mortgage.

These refinancing loans will reduce monthly payments that customers have to pay, but at first they will have to bear additional costs. It should be noted that all property assessment and mortgage changing costs are borne by customers. Mortgage related notary fees are added to these (land book excerpt, proxy checking, notary office fee) and property assessment fees. The refinancing bank sets up a lower rank temporary mortgage, that will become a higher rank mortgage as soon as the bank from which the loan is canceled removed the mortgage entered to the refinancing bank's favor. Finally, the amount financed by the refinancing bank varies between 65% and 90% of the mortgage's total value.

Refinancing the loans in progress, by contracting consumer loans, might reduce the effective cost of the new financing, accessed by individuals. According to NBR reports the average effective annual percentage rate on these loans in euro dropped from 8.43% in December 2010 to 6.55% in January 2011. Personal loans in RON, used for refinancing, have met a reduction tendency in 2010. Therefore, the average effective annual interest rate, reported at the bank level in December 2010 reached a minimum of 10.79%, and in January 2011 slightly increased to respectively 10.89%. From June 2009, the average effective annual interest rate on new consumer loans in RON registered a downward trend from a maximum of 24.70% to 17.47% in January 2011. For the new mortgages in RON, the

average effective annual interest rate decreased with 2.4% in January 2011 versus January 2010. In this way it is explained the 6% share of mortgages, for the loans granted in RON, granted by banks for the purchase of a property.[6]

The sensitive difference between the actual annual interest rate of the refinanced loans compared to the new loans, particularly the loans in euro, represents one of the reasons for which refinancing has an increasingly important role in the bank's lending activity. This cost drop of the loans granted in euro can be explained by the significant impact of the consumer loans secured by property, loans often contracted in order to refinance old debt. According to the National Bank reports, consumer loans also include consumer loans with mortgages. The decreases, recorded by the average annual percentage rate in the banking segment, were registered because, the credit institutions were interested in refinancing and the consumer mortgage is one of the refinancing instruments.

The consumer mortgage loans costs are lower than the loans without property guarantees. This difference is explained by the fact that in the first case, the bank is confident of recovering a significant amount of credit from the sale of the mortgaged property. In addition, mortgage consumer loans allow refinancing of multiple loans both consumer and mortgage loans, by incorporating them into one new loan. There should not be neglected any additional costs that a customer pays for refinancing a consumer loan. So, if banks can no longer charge the early repayment fee of the original loan with variable interest rates, the customer will pay a file review fee for the new credit. Furthermore, in some cases, a monthly management fee for the credit or for the current account is charged. In addition to these, there are, the compensation for early reimbursement, the insurance costs, the interest penalties and the fee for services provided to consumer demand.[7]

According to banking regulations, the consumer loans have an upper limit that usually does not exceed 20,000 euros. So, in the case of this credit category with fixed interest, the prepayment fee paid by the client could reach 200 euros. Before the emergence of the Ordinance 50 of the Law 288/2010[8]

by which it has been approved, this fee goes up to over 1,000 euros in most banks. At the same time, the financial institution that has granted the initial loan can charge a fee of about 30-50 euros for the refinancing letter, price included in the single fee category required by law. The new financing bank may charge the applicant a fee for the analysis of the file that is typically a few tens of euros. Nevertheless, many banks have waived that fee in the battle to attract the competition's customers.

The loans in euro with variable interest are characterized by the fact that the enclosed interest is reported to EURIBOR at 3 months as well as at 6 months. The banking practice has shown that six months EURIBOR absorbs much more easily the economy shocks, while 3 months EURIBOR fluctuates more frequently.

The cost of the refinancing operations represents the cost for standard operations, to which are added only the financial costs determined by the international SWIFT transfer. The maximum indebtedness varies between 50% and 70% depending on the credit institution. There are accepted several types of income and certain banking companies accept up to 3 co-debtors.[9]

As a result of early repayment fee limit, and even its removal in the case of index able interest, the refinancing volume is expected to grow in the future. However, given the fact that, for refinancing operations, customers must on one hand, meet the requirements of solvency, the indebtedness degree, the guarantees and, on the other hand, to bear some additional costs (for assessment of guarantees, notary mortgage costs), this increase will remain within reasonable limits.

5. Conclusions

The refinancing operations initiatives have been prompted by two main causes, namely, the debt consolidation, on one hand, and the protection of liquidities and the optimization of costs, on the other hand. In the near future, this tendency will probably continue, given the flexible criteria to migrate from one institution to another.[10]

This flexibility is compulsory in the registration of a high degree of indebtedness of non-bank customers, and individuals in particular. The number of query requests, submitted to the Central Credit Register, which was placed in January 2011 at the minimum of the last six years, is an evidence of this. Thus, the financial crediting institutions will be required to limit certain fees and interests, or even to proceed to providing facilities for the notary or evaluation fees. In this context, banks will focus on an already existing market, which can be valued to the maximum, namely the market of the already indebted customers.

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Strategic Directions within the Product Policy of the Travel Agencies in Cluj County

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Abstract

In order to become competitive on the national and international tourism market, the entrepreneurs in the field of tourism from Cluj county should adopt within the product policy a series of new strategies that aim at diversifying and upgrading tourism products sold in this county. The main strategic directions for a superior exploitation of the existing touristic potential and for the development of new touristic products, aim at: establishing a network of centers for curative tourism based on the thermal and mineral waters in the region, the affirmation of rural tourism in some areas of the Apuseni Mountains, the development of tourism in the peri-urban areas, the development of the speleological tourism and hunting tourism and the development of specialized forms of tourism: wine tourism, mining tourism, fishing tourism, extreme tourism (paragliding, hang gliding, motocross).

Key words: strategy, product policy, entrepreneur, touristic products, services
J.E.L. classification: M 31 , L 83.

1. Introduction

The policy of the travel agency, in relation to the products offered on the market, is reflected in the product strategy which it applies. In adopting the best strategy, the tourism entrepreneurs from Cluj County should follow the size and structure of the range of touristic products and services they

want to sell, their degree of novelty as well as their quality.

Depending on their available resources (financial, human and material), the travel agencies from Cluj can apply product strategies with regard to the objectives which they proposed. These objectives may include [1]:

- the increase of the market share for certain touristic products which are sold by the agency;
- attracting new market segments for certain products;
- the differentiation as compared to the similar touristic products sold by the foreign competitors;
- a better positioning of the products within the global touristic offer.

2. The Elaboration of the Product Strategy

For the elaboration of the product strategy, the agencies operating in the Cluj tourism business must take into consideration a number of factors such as: the characteristics of the natural and human touristic resources specific to Cluj county, how to exploit such resources, the forms of tourism which are mainly practiced in the area in which the agency is selling its travel products, the features of the market segments to which the travel products and services are addressed, the characteristics of the markets on which the agency activates, etc.

Currently, one of the effective ways for reviving the tourism in the Cluj area is the creation of "attractive tourism products which can integrate and develop around them

a real network of rendering services units" [2]. The Cluj tourism entrepreneurs must take into consideration the marketing of competitive and qualitative tourism products, which can highlight the characteristics specific to hospitality so as to capture the interest of tourists and to address to multiple market segments.

3. Specific types of Tourism Product Strategy

The agencies operating in the Cluj tourism business which activate on well defined markets and aim to consolidate their position gained by continuously adapting their offer of touristic products and services in relation to the requirements of different segments of tourists, adopt a strategy of flexibility. This strategy involves the continuous research of the market and the monitoring of the progress of the touristic demands.

The flexibility of the touristic Cluj offer can be achieved by creating and promoting touristic products which can meet the increasingly higher requirements and demands of each segment of tourists.

The entrepreneurs can adapt their touristic packages, services, animation activities, etc., according to the wishes and expectations of tourists, also in the areas where the touristic offer is relatively rigid. A particularly important role in identifying consumers' requirements is held by the employees who are in direct contact with customers and who should adopt an open attitude towards them.

Currently, in the Cluj tourism, the training and the attitude of workers in the field of tourism is a real problem. Many entrepreneurs employ unqualified personnel and do not train them, therefore their performance cannot be exceptional in any way. It would be appropriate that, after the time of employment, the entrepreneur registers the worker for training courses, supporting the cost of schooling, and then concludes a contract with the latter, according to which the trained employee is employed for a specified period of time, to operate in the entrepreneur's agency.

The quality of the worker's performance also depends on financial motivation. Cluj tourism workers are poorly paid, an aspect which is reflected in their performance. It is

obvious that an employee who is dissatisfied may not have an open attitude to the customer. The agencies that apply this strategy of flexibility should permanently invest in different market researches, in improving human resources and in supporting an active promotional policy.

Many entrepreneurs operating in Cluj tourism choose to adopt a differentiation strategy as they have at their disposal more supporting elements: the touristic package, on the whole, the touristic services included in the product, the tourism workers involved in providing and marketing services, the image of the product, etc.

„The product differentiation is achieved by positioning it within the structure of the touristic offer, by the specific characteristics of the product, by its performance, by the degree in which the special nature of the product assigned to the product concept is met, by the style of the product and the emotional satisfaction that offers, which cannot be imitated by other products, conferred by the originality of the ambiance”[1].

In the process of creating touristic products, the entrepreneurs should start from the originality which is characteristic to the Cluj tourism. In this respect, a superior exploitation of the natural and human touristic resources available to the county of Cluj is necessary, in order to accomplish attractive touristic products, with spiritual values and national singularity, which can differentiate the offer of our agencies from the offer of the competing countries.

For example, rural tourism itineraries in Cluj County, unique for their richness of landscape and fauna, can combine different forms of tourism (recreational, itinerating, scientific, etc..) addressing to different market segments and being different from the offer of the foreign competitors in terms of their natural resources.

The characteristics specific to the touristic Cluj products (the natural picturesque landscape where many of the accommodation structures are located, Transylvanian cuisine, the possibilities of learning customs and traditions specific to Transylvania - pottery, folk, wood and stone carving, visiting historical remains, etc..) determine their positioning in the national and international touristic offer.

The product differentiation strategy, for the travel agencies from Cluj, is in close correlation with the existence, within the touristic offer of this county, „of the unique natural and historical attractions which, besides the fact that individualize a series of products, they also provide successful guarantees on the tourism market on which the competing offers for traditional products often represent restricting factors in attracting certain consumer segments”[1].

Given the particularities which clearly differentiate the market segments, the travel agencies in Cluj County can apply a strategy of adapting the quality of the touristic products according to the needs and expectations of each consumer segment. Strong agencies that have a good market position adopt a strategy of stability, in terms of quality, of the touristic products and services that they sell.

In order to have an advantage over competitors, the agencies operating in the Cluj tourism business can apply a differentiation made by means of the services that are included in the touristic products. For example, some hotel units can organize in their restaurants musical evenings (shows in which known performers attend or singing contests in which the hotel customers can participate, etc.) to which the accommodated tourists have free access, or, for example, the agencies organizing touristic itineraries can offer the tourists who bought that product the possibility to participate, during the itinerary, to some activities related to its topic (visiting historical sites, monasteries, protected reservations or areas, their effective participation to pottery, weaving, gastronomic, folk activities etc.).

The personnel differentiation for the personnel involved in the provision and marketing of tourism services is especially applied in Cluj by those travel agencies who understood the fundamental role of the employee for attracting and keeping the customers [3]. The number of such agencies is not large, but certainly, in order to face competition on the tourism market in the coming years, this strategy will have an increased applicability. Cluj tourism workers should have an adequate training in public relations in order to develop their capacity to communicate with customers, their credibility and helpfulness towards them as

well as their regularity and punctuality with which they provide the touristic services.

The image differentiation is a strategy used by many travel agencies in the County of Cluj. This strategy „involves identifying the possibilities and the opportunity of associating a product, an agency, a touristic destination with many symbols that can be assigned to them by the different segments of tourists, such as to encourage recognition of the agency which made the offer or of the brand under which it offer.”[1]

For example, Cluj mountain tourism entrepreneurs can use as symbols, which are aimed at sending an image that can represent that product or that touristic destination, photographs that capture special landscapes that best reflects the beauty of the area, various luxurious hotel units and restaurants, images that can present aspects related to the cuisine specific to the area, images captured at certain cultural and artistic events held in that area, at certain sporting events, etc.

The differentiation strategy aims at the superior, original exploitation of the natural and spiritual heritage of Cluj touristic areas and at introducing within the offer a multitude of services based on the traditions and customs that are found in each destination individually [5].

Another type of strategy applied by the Cluj tourism entrepreneurs, who wish to satisfy the requirements of as many segments of tourists as possible with their touristic services and products, is the diversification strategy. This means the changing, by the travel agency, of the components of certain touristic products so as to obtain a wide range of new products to meet the expectations of different segments of tourists.

In Cluj county, due to the complex and varied touristic potential, there can be developed and promoted as particular touristic products: mountain and cultural tours, spa tourism, rural tourism, ecotourism, spiritual tourism and pilgrimage, business, tourism, winter sports and other sports and recreational activities tourism, scientific tourism, etc.[2]

Applying this strategy by the hoteliers in Cluj county means to equip and modernize the touristic structures for accommodation and food services, to introduce certain computerized systems for on-line accommodation booking, to create within

their areas certain spaces that have various functions (children playgrounds, national or local restaurants, treatment and beauty centers) [4] etc.

In Cluj spa areas, tourism entrepreneurs should also direct to the creation and marketing of touristic products which can be addressed to other segments of tourists other than those who are suffering from various medical conditions. For instance, there can be arranged recreational areas (parks, sports areas, casinos, day and night clubs, swimming pools, discos, etc.), there can be arranged touristic routes for practicing itinerant tourism by tourists who like this form of tourism, there can be organized trips for tourists who practice scientific tourism (for students, teachers, researchers who want to study some natural phenomena, to study the flora and fauna, etc.).

In order to increase the number of tourists looking for these destinations for curative purposes, the travel agencies from the Cluj spa areas should take into consideration arranging and equipping the treatment centers with facilities and modern medical equipment, hiring qualified medical staff, providing natural healing factors, providing accommodation and food services of higher quality, etc.

The offer renewal strategy is applied by the agencies that appeal to replacing "obsolete" products with new, unique, qualitatively superior ones but which are addressed to the same consumer segments. This strategy is applied after carrying out some studies which aim at analyzing the performance of each product and in particular of those who are in a declining stage. This analysis should provide a series of information about the effects that may occur after the removal of a touristic product and the changes that may occur in the marketing mix that included that product.

After obtaining the information resulting from this analysis, the travel agency will adopt this strategy of product innovation.

The strategic options can take into account: the constant keeping of the range of products and services within its offer; the relative improvement of the offer by including new components within the same offer; increasing the innovation degree of the offer by including other products and services along with the existing ones.[1]

4. Conclusions

Currently, in terms of the conditions imposed by the existence of a competition held on the touristic market, the tourism entrepreneurs in Cluj should appeal to the continuous renewal of their offer, because this is the way they can adapt their products and services to the increasingly demanding requirements of tourists.

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Adjustment of the Macedonian Monetary Policy with the European Union Monetary Policy

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Abstract

Strategic goal of Republic of Macedonia (RM) is membership in EU. That road is apparently long. There are lots of reasons. Among them is the need for adjustment of particular instruments of the macroeconomic policy of RM.

The main instruments of macroeconomic policy in every country are fiscal and monetary policy. For the fiscal policy in RM can be said that in big portion is adjusted to Maastricht criteria. But we can't say the same for the monetary policy.

Sixteen years in row in RM is implementing monetary strategy of fixed exchange rate. That kind of strategy contributes for sustaining macroeconomic stability. From the other side, rates of economic growth were low or with negative values. External trade deficit have permanently upward trend. Unemployment rate is pretty high.

Those results impose the question about adequacy and sustainability of existing monetary strategy or it should be changed with targeting inflation.

Key words: strategies, exchange rate; synchronization; inflation; Euro

J.E.L. classification: E52

1. Introduction

By signing the Maastricht agreement in 1992 conditions for the common European market to grow into a European monetary Union (EMU) emerged. Formation of the EMU followed three phases.

The first phase (01/07/1990) started with removing the barriers for free flow of capital and use of ECU (European currency unit) as a common currency of the European Union (EU). The second phase started on 1 January, 1994, when the European monetary institute was formed, with the aim of setting the groundwork for the future European Central Bank (ECB). The third and the last phase (01/01/1999) encompassed fixation of currencies of all countries that have fulfilled the conditions for change of theirs with a one common currency (the euro), through the system of Exchange Rate Mechanism (ERM II).

Introduction of the Euro allowed the ECB to conduct a single monetary policy in the area of the countries that acceded to that currency (in the beginning it was 12 out of 15 member states). The main objective of the Euro area and the single monetary policy is the maintenance of price stability in that area by the Treaty of the European Community, Article 105 (1). That order of the single monetary policy needs to be addressed by all other countries - EU members and all other countries - aspiring for EU membership, whose monetary policy has ambitions to converge with that of the EMU.

Membership in the EU is clearly and unambiguously expressed strategic interest and goal of the Republic of Macedonia (RM). It imposes the need to harmonize its legislation with the EU, but also the individual instruments of macroeconomic policy of the Republic of Macedonia with those of macroeconomic policy of the EU. Therefore, we can not talk about equal membership and acceptance of economic rules of the game that govern the EU, if the various parts of macroeconomic activity are not aligned in order to follow the dynamics

and directions of development in the EU. In this framework, strategic alignment takes place on domestic monetary strategy with one that operates at EMU.

2. Monetary strategies

The main objective of monetary policy, and virtually to every central bank in the world, is to maintain price stability. It is believed that price stability is a condition for economic agents to act in adaptable and predictable environment as an essential condition for achieving their unfettered economic growth.

The realization of such a goal is possible by applying one of known monetary strategies: limiting the growth of money supply, targeting the exchange rate of the domestic currency, introduction of currency board or limiting the increase in the rate of inflation.

The choice of monetary strategy in each country is, before everything else, empirical rather than theoretical issue. The selected concept for monetary management should be seen as a dynamic category that is subject to change depending on the success of the strategy and existing possibilities of another concept in other economic conditions, to enable more effective achievement of macroeconomic objectives of the country. The most important criteria that determine the choice of a monetary strategy can be: 1) the stability of money demand, 2) openness of the economy, 3) defined goals of macroeconomic policy in the short and long term, 4) the price elasticity with respect to production, 5) the elasticity of wages, 6) length of time delay measures of monetary policy and the like. Moreover, maintenance of healthy macroeconomic fundamentals remain a fundamental prerequisite for achieving the ultimate objective of monetary policy in any chosen currency strategy.

3. Monetary strategy of European Central Bank

Starting from January 1, 1999 the European Central Bank is responsible for implementing the monetary policy in the Euro - zone - the largest economy in the world after that of the United States. The

European Central Bank is currently responsible for the monetary policy of 17 member countries of EMU. Each of these countries transfers the monetary policy control to the European Central Bank. The Bank, among other things, (which is the most important) decides on general interest rates.

Indeed, given the previously eliminated obstacles to international transfer of capital and highly developed and competitive financial market among the countries - members of the EMU, interest rates have not been very different from country to country. However, it is significant that these (somewhat) uniform European interest rates are determined by the major European countries. This implies that smaller member states have no opportunity and power to influence the reduction of interest rates in their periods of economic recession. In other words, Europe has already achieved financial agreement, which almost completely eliminates the possibility of smaller member states to lead an independent monetary policy in the future.

Member states wishing to become members of the EMU and adopt the Euro as currency, must meet the Maastricht criteria. They mainly consist of: a) establishing and maintaining price stability, with their average inflation rate not higher than 1.5 percentage point from the average inflation rate of the three EMU member states with the lowest rate of inflation; b) budgetary discipline, which implies a budget deficit of size less than 3% of GDP and public debt not exceeding 60% of the GDP of a particular country; c) stability of the currency: exchange rate fluctuation of their national currency within the frames +/- 15% within two years without devaluation, d) convergence of interest rates, with the average nominal long-term interest rate not exceeding 2% of the average of the lowest interest rates in the Union.

The primary objective of the monetary policy of the European Central Bank is to maintain price stability. That means an annual increase of the harmonized index of consumer prices in the Euro zone up to 2%.

The European Central Bank does not recommend a specific strategy for conducting monetary policy. The only recommendation is to maintain price stability. The strategies of the EU member states are consistent with this

principle. However, the dominant monetary strategy in those countries is targeting the inflation rate.

The monetary strategy of direct inflation targeting, which was recently applied in some countries, helped their central banks to build credibility and to "rein in" inflation. In the case of Hungary inflation targeting is combined with limited exchange rate flexibility in terms the Euro. Czech Republic and Poland also use the strategy of targeting inflation.

4. Monetary strategies in Republic of Macedonia

In RM, in the period of monetary independence (1992 until today) two monetary strategies have been applied: strategy of monetary targeting (until September 1995) and the strategy of targeting the foreign exchange rate (from October 1995 to date).

Switching from one to the other strategy is due to the importance of the exchange rate in a small and open economy, the unstable demand for money during the period of implementing major economic reforms and high degree of currency substitution, the suitability of the exchange rate as an intermediate target of the monetary policy due to its transparency and the possibility of daily monitoring by the economic entities.

Sixteen years in a row the fixed exchange rate strategy is applied in RM. Such a regime has become intermediate (secondary) goal of the monetary, and thus the overall macroeconomic policy of the country. The results were expected to manifest a permanent reduction in inflation, removal of uncertainty, boosting investment in the country and a significant reduction in banks' interest rates.

The implementation of the policy of fixed exchange rate had achieved only one of the expected goals: reducing inflation, which in time turned into a destructive deflation. General insecurity in the country has been present during the whole period of implementation of the system of fixed exchange rate, making investments (domestic and foreign) at the low level for the longest period of time. The absence of healthy competition among banks, the poor and

underdeveloped financial instruments, inadequate legal and economic systems, extended presence of a restrictive monetary policy (for maintaining fixed exchange rate) have obstructed any significant lowering of interest rates, especially if they are compared with the level the inflation rate in the country.

On the other hand, the opposite goal of the fixed exchange rate has been fully achieved. In a situation of partially reformed and weak economy with low mobility of production factors, defending the currency with low money supply and, consequently, high interest rates led to a low volume of supply of goods and services in the previous period. This results in further problems in the country's trade relations with foreign countries (permanently high trade deficit) and in the social sphere of the country (high unemployment rate, which makes a third of the population below or at the verge of the existential minimum).

5. Synchronization of the monetary policy of RM with the monetary policy of EMU

Such achievements make a part of the experts in the country suggest change of the country's monetary strategy in order to achieve better economic-social results. In favour of this are also the conclusions for inadequate monetary strategy and relevant suggestions for its change, which come from the most relevant international institutions.

Thus, in 2005 after a meeting with the Macedonian authorities, the International Monetary Fund Mission estimated that the monetary policy results of the Republic of Macedonia are unsatisfactory if the achievements of the real economy are taken into consideration. Therefore, the International Monetary Fund Mission has suggested to Macedonian authorities to change the monetary strategy. Instead of maintaining a fixed exchange rate of the denar, the International Monetary Fund has suggested that an intermediary goal of the monetary policy of the Republic of Macedonia should be targeting the inflation rate. But, as it was announced by the International Monetary Fund, this suggestion

had been rejected by the Macedonian authorities.

The European Commission has presented an even more explicit criticism of the monetary policy of the Republic of Macedonia. In its report on the economic situation in the Republic of Macedonia in 2006 it is stated (page 38) that "there is no progress in the monetary policy of the Republic of Macedonia". And further on, it is cited that "the National Bank of the Republic of Macedonia should set another secondary goal (read: a different monetary strategy) that will make the goals of the National Bank of the Republic of Macedonia be adapted to the general goals of the monetary policy which is being implemented in the European Union".

6. Suggested monetary strategy: inflation targeting

There is a rule that has been confirmed many times in most countries in the world: the fixed exchange rate of the domestic currency in short- or middle- term is going to be devastating, leaving behind itself consequences, which in order to be overcome will require a lot of further sacrifices of the economy to be made. Such was the case with the failure of the fixed currencies of the so-called Asian tigers in the middle of the 90s of the 20th century, problems which the economies of Brazil and Argentina had been facing with for a long time due to the fixation of their domestic currencies and so on. As opposed to them, the countries that had chosen a regime of a fluctuating exchange rate for their currency successfully resisted the turbulence of the world economy. The example with Australia and New Zealand best confirms that. Their economy is closely connected with the economy of the Asian tigers. However, the crisis there (in the year 1997-1998) did not affect these two countries that harshly because the exchange rates of their currencies fluctuate.

The inability of resistance to the external shocks while using a monetary strategy of a fixed exchange rate confirms the current experience of the Republic of Macedonia. The Macedonian economy could not oppose energetically to the severe pressure from the import inflation in the last several months of 2007 and the first months of 2008. That made

the domestic inflation rate in the first months of 2008 be substantially higher (10,2% annually) than the planned one (3% annually). The fixed exchange rate of the denar could not resist such a shock, which led to worsening the performance of the domestic economy, especially of the export companies.

The most illustrative indicator of that inability of resistance of the domestic economy to the external shocks is increasing trade deficit. The need for change of the monetary strategy is becoming obvious.

Which monetary strategy is the best for the Republic of Macedonia at the moment?

In such circumstances when the strategy of the fixed currency rate of the denar doesn't give positive results in long-term because of the insufficient mobility of the production factors, and the strategy for targeting the financial nucleus is not applicable due to the unstable demand of money, it appears that the choice for targeting inflation is the best possible solution. Lately this monetary strategy is used by an increasing number of countries: Hungary, the Czech Republic and Poland, which are countries-members of the EU, with an ultimate goal to enter the EMU. This kind of monetary strategy is also used in the USA, Canada, Great Britain and others.

It has been confirmed by the analyses that in the Republic of Macedonia a strategy of inflation targeting (for example, 3-4% annually) needs to be introduced. Provided successful implementation, this monetary strategy will have developing characteristics, will function as a support of the positive effects, which have been announced with the already started reforms in the fiscal policy and will not endanger the denar value stability.

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Macedonian Denar (MKD) Depreciation, Introduction of the New Foreign Exchange Regime or Introduction of the Euro?

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Abstract

Before the beginning of the world economic crisis, countries from Eastern and Central Europe (CEE) had tremendously high rates of economic growth. Their growth was stimulated mostly with foreign investments and huge amounts of loans that came from the Western countries.

However, as a result of the current economic crisis, global liquidity is sharply decreasing. Access to foreign capital gets more difficult. Inflow of foreign currencies from export of goods and services is being reduced. That caused an abrupt decrease of the inflow of foreign currencies and pressure on the exchange rates of the domestic currency. Countries with fluctuating exchange rate experienced depreciation of their currencies. Countries with fixed exchange rate faced the need of significant reduction in their foreign reserves in order to prevent the depreciation of their currencies.

The second scenario happened in Republic of Macedonia (RM). That raised the question whether the devaluation of the Macedonian denar is needed or new foreign exchange regime should be introduced?

Key words: liquidity, currency, rate; depreciation; Euro

J.E.L. classification: E

1. Introduction

Currencies in most of the countries from Central and Eastern Europe were under pressure from the world economic crisis. Some of them, such as the Polish zloty, Hungarian forint, and Serbian dinar and

others, were faced with high depreciation rate as a result of the insufficient foreign currency inflow in the country and the high trade deficit in their economies. On the other hand, countries (one of which Republic of Macedonia), where a currency's value depends on the value of another single currency ("strong" currencies such as the Euro and Dollar) spent high amounts of foreign currencies of their state reserves in order to maintain the stability of their domestic currencies. Both ways for sustaining the current exchange rate regime caused particular problems and costs in the national economies.

In order to stop further increasing of the costs, the IMF recommended to the EU member countries to become members of the Euro zone as fast as they can, or in other words to accept the Euro as their national currency. The often heard message that came from the EU was, "if you want to be safe it is better to be in the Euro zone". But it is not as simple as that. Within the borders of the European Monetary Union there are the Maastricht criteria that have to be fulfilled by any country that wants to introduce the Euro as its national currency.

That kind of message and opinion in the countries which are members of the EU automatically boosts the Macedonian public opinion for introduction of the Euro as the national currency in the Republic of Macedonia in order to protect the Macedonian economy from the negative effects of the global economic crisis. Is this possible and applicable?

2. Crash of the Eastern Europe currencies

Until the occurrence of the global economic crisis, countries from Central and Eastern Europe had high rates of economic growth. Implementation of a large number of reforms as well as membership for most of them in the EU caused high amounts of inflow of foreign investments (direct and indirect) in these countries. The growth was stimulated by a high amount of credits that came from the Western countries. At the end, easy access to fresh capital encourages these countries to finance their economic growth with high budget deficits.

Maybe the largest economic crisis in the history of the world has been happening during the last few years. Global liquidity is lowering. Access to foreign capital from the countries in Eastern and Central Europe is more difficult. Decrease of the GDP and the consumption, and the starting forms of protectionism in the countries from the Euro zone, caused a significant fall in the growth of the economies as well as in the export from the Eastern and Central European countries. Inflow of foreign currencies from export of goods and services has been constantly lowering.

Direct implication from these conditions in the foreign trade was the increasing deficit in the current account of these countries. In some of them (Romania, Bulgaria, Czech Republic, Serbia, Ukraine, and Macedonia) the deficit in the current account reached double digit amount relative to GDP.

On the other hand, the global economic crisis caused a dramatic lowering of the inflow of foreign remittances and foreign direct and portfolio investments, which in the previous years has financed the significant part of the deficit in the current account of the balance of payments. Decrease of the credit rating of these countries became a barrier for access to foreign credits.

All this caused a dramatic reduction of the foreign exchange inflows in these countries as well as a large pressure on the foreign exchange rate of their national currencies. Some of these countries allow free floating of their currencies which caused high currency depreciation in conditions of much higher demand for foreign currencies. Big depreciation (around 50 per cent) of the value

had the Polish zloty. The Hungarian forint depreciated by around 30 per cent, Czech crown by about 25 per cent, as well as the Serbian dinar. At the same time, countries where a currency's value is pegged to the value of another single currency (the Euro or another currency) faced the need of a significant reduction of their foreign exchange reserves in order to stop the depreciation of their currencies.

On the other hand, such reaction created new currency problem in these countries, which was evident in the high amount of credit debts towards foreign countries. In those countries, there was an increasing exposure to the exchange rate risk. What caused the exchange rate risk?

In the past, most people and numerous companies from the countries from Eastern and Central Europe took loans from the banks in the Euro zone or in Switzerland. The credits were usually approved in Euros, US dollars, Swiss francs or some other currencies with significantly lower interest rates than the interest rates of the credits in domestic currencies. People and companies from countries in Eastern and Central Europe who had received credit bought products that came from the countries of the lender banks. That was not a problem until the domestic currencies in these countries were stable and strong.

However, decreasing economies, followed by low export and high deficit in the current account, as well as payments of credit instalments, caused additional increase of the outflow of foreign currencies in the countries, apparently weakening the domestic currencies. The currencies (zloty, forint, crown, dinar....) started depreciating. Depreciation of the domestic currencies during times when the wages remained unchanged caused a unfavourable status for most of the credit users from the West concerning the returning of the credits. Credit obligations towards foreign countries for some of those countries (Poland, Croatia, Hungary, and Romania) increased by many times. In most of Eastern European and central European countries it caused a debt crisis or as some analysts say, "there was an existence of the largest currency crisis in the world that we have ever seen".¹

For most of the countries the rescue was in the International Monetary Fund. They asked for a record amount of credit. The IMF dispatched around 198 billion of US dollars. The credits are now approved through a new flexible credit line which often does not insist on strict accomplishment of certain criteria as it was the case before. With the introduction of the credit line, the IMF approved a high amount of credit to Ukraine, Hungary, Latvia, Belarus, and Serbia.

The question that arose was if that was the way to solve the greatest currency crisis in the history for those countries. The answer itself was very complex. Even IMF seemed not to believe in resolving the currency crisis in these particular countries in spite of the huge amount of money that were used as credit help. Apart from this scepticism, the IMF recommended the countries in Eastern and Central Europe which are already members of the European Union to give up their national currencies and introduce the Euro instead, without formally becoming members of the Euro zone and fulfil the necessary criteria for that purpose. The IMF considered that the act would solve the problem with the external debt, enforce the trust in the national currency and lead them out of the currency crisis.

Of course, it was not that simple. The European Monetary Union (EMU) supports the Maastricht criteria which every country is obliged to fulfil if the country wants to introduce the Euro as its own national currency. The European Commission pointed out to that fact, warning the countries against all negative consequences of the possible introduction of the Euro without fulfilment of the criteria.

3. Devaluation of the MKD: Yes or No?

The scenario of spending a large amount of one country's foreign reserves for the purpose of protection of the domestic currency was happening to the Republic of Macedonia in 2009. Lower export demand drastically decreased the inflow of foreign currency from foreign countries. In the country there were fewer foreign direct investments, compared to previous years. Access to credit on foreign markets was becoming more and more difficult quantity

wise and price wise. Inflow of foreign currencies as a result of foreign remittances from foreign countries that in previous years financed the deficit in the current account of payment was reducing. In such conditions supply was far beyond the demand of foreign currencies. That caused high pressure on the exchange rate of the MKD in the direction of devaluation of its value.

Negative movements in the Macedonian current account and particularly in the trade account are still in place. Such situation regularly enforces the inquiry of the public: Is there not a need for devaluation of the domestic currency? The result would be declination of the dynamics of import growth and rise of the dynamics of export growth, causing the trade deficit of the country to be at a significantly lower level than in previous years and protecting the foreign reserves of the country.

However, it appears that in this period of time devaluation of the MKD will be counterproductive with much more negative consequences than positive results.

The positive effects of the devaluation will be more expensive import and cheaper export (increasing its competitiveness). However in current terms of trading surrounded by great obscurity and challenges from the ongoing world economic crisis, it was not really likely that the positive changes would remain for a long time and would have significant effect on the current account of the country.

On the other hand, threats of the negative consequences from devaluation in current condition can be easily identified and confirmed.

So eventual devaluation of the MKD happens, the purchasing power of the MKD of the firms and households will be lower by the percentage of the devaluation while buying goods with prices determined in foreign currency (cars, houses and similar). This is an implication that their already significantly low consumption will continue to decrease and will motivate negative phenomena in the real sector (decrease in the scale of production, increase in the number of unemployed, etc.).

Eventual devaluation would cause problems for the households and firms that are in debt with credits in banks according to the contract with foreign currency clause. In

that case, everyone should have secured significantly large amount of MKD to return the credits, which will negatively influence the demand and the growth of the economy. Additional problem of the firms will be securing MKDs for buying foreign currencies for repayment of the borrowed credits from foreign countries, which in turn should be repaid in the course of the upcoming years.

The devaluation will jeopardize the balance of the budget of the Republic of Macedonia. For the purpose of repayment of the previously taken credits from foreign countries, the budget should secure additional MKD for buying the necessary foreign currencies for credit repayment. Such process will substantially jeopardize the realization of the planned activities of the RM government, especially the capital investments which are important for stimulating the economy.

The act of one way devaluation of the MKD will cause liquidity problems for the commercial banks. Eventually the increased demand of MKD for everyday transactions will cause proper exchange of the foreign deposits of the citizens in MKD. That, of course, will have negative influence of the bank MKD liquidity and also to the scope of credits for the economic sector. Banks previously indebted in foreign countries should reserve large amount of MKD for buying foreign currencies to repay those credits, the result of which will be worsening of their MKD liquidity. At the same time, for the scale of the eventual devaluation, the founders of some of the banks should provide additional amounts of MKD in order to reach the capital census of the capital adequacy. That, of course, will lower the liquidity of the founders and make the capital of the banks more expensive. That indeed will cause increase of the bank interest rates and will not ensure realization of development activities for the firms, and will lower consumption. That action at this moment is the worst scenario for the Macedonian economy!

Therefore, the act of devaluation should have happened many years ago with establishment and sustainability of flexible exchange rate. Eventual devaluation of the MKD today will obviously be very painful. Because of that the answer to the question whether devaluation of the MKD should be

done in the existing economic surrounding should be: NO!

4. Flexible against fixed exchange rate

The experiences from other countries (Argentina, Brazil, Asian tigers, etc.) confirm that it is not rational to defend something that on the long run cannot be defended! Fixed exchange rate of the domestic currency on a medium or long run will be violent, leaving consequences behind. For overcoming that kind of consequences much more additional sacrifices from the economy will be needed.

Although such rules have been regularly pointed out by some Macedonian experts in the past, they were not accepted by Macedonian authorities. If fluctuation of the MKD had been allowed a few years ago, Macedonia would have now been much more ready to oppose the current situation of the deficit in the current account. Therefore the question for devaluation of the MKD would not have been considered as necessary.

As a result of that, according to the previous solid analysis, in the near future a pegged exchange rate of the MKD should be consequently replaced by flexible exchange rate as a valve for protection and security, and at the same time as stimulation for the future development of the economy!

5. Replacing MKD with Euro?

Recommendation from IMF for introduction of the Euro by the Eastern and Central European countries members of the European Union caused the Macedonian public reviewing the possible one way introduction of the Euro in Republic of Macedonia.

The idea about introduction of the Euro as an official currency in Macedonia should be welcomed and goes in the direction of adjustment of the domestic economy with the EMU economies. On the other hand, the implementation of that idea is difficult and it is correlated with many restrictions and costs.

Legally introducing the Euro by a state legislative is not possible, because the Euro is a foreign currency. The Euro though can be introduced by the means of specific acts that exist in EMU. The approval from the European Central Bank (ECB) is needed in

order for the Euro to be introduced in Macedonia as an official money. In order to get that approval, extensive analysis of the political and economic situation should be conducted, especially of the monetary (and payment) system of the country. ECB would not like the reputation of the Euro to be ruined as a result of an eventual disruption or inconsistencies of the domestic economy in RM. ECB does not influence the domestic monetary policy in Republic of Macedonia, nor does the National Bank of the Republic of Macedonia have an obligation (which is the case in member-states in EMU) to run monetary policy in accordance with ECB.

In case of one way introduction of the Euro as an official national currency, it will be necessary to insure adequate quantity of Euros in order to replace current money in circulation (around 15 billions MKD or 250 millions Euros). Another problem/cost would be menu costs, i.e. changing of the prices in all menus, values in ATMs, auto machines, fiscal machines, POS terminals, documents, laws and many other cases.

In conclusion, one way introduction of the Euro would be related to numerous restrictions as well as costs, meaning that before eventual acceptance of the idea, cost benefit analysis will be necessary.

In conditions of crisis such as the current one, the Euro will help the domestic economy by offering protection from fluctuations as a result of its flexibility. That will affect the international trade, save the deposits in banks (there will be no withdrawals or low withdrawals), which is an important positive assumption for the inflow of foreign investments. Trust by foreigners in the Macedonian economy will be increased to a certain level, even though that automatically will not mean protection of the domestic economy, because in the future the economy will still face negative influences of macroeconomic measures that will be individually introduced by domestic authorities.

One way introduction of the Euro cannot automatically protect domestic economy against inflation. Increase of the prices is determined by the quantity of money in circulation. If (primarily through the influence of the monetary policy) the quantity of money (Euros) in circulation is increased through financial channels, that will

affect the inflation growth, even though at the same time inflation in the other Euro-countries is low. That is the reason why ECB would be concerned.

On the other hand, use of the Euro might arise possibilities of its devaluation compared to other world currencies (dollar, frank, yuan, pound..). However, in that case devaluation does not depend on the domestic economy, but on other world factors (political conditions, economic conditions, changes in economies of the Euro zone, etc.), and on the decisions and measurements that are brought forth by ECB. The exchange rate of the Euro towards the rest of the world currencies is determined on the world exchange markets as a result of the mentioned factors. In any case, if the Euro is in use, the pressure for devaluation will not be present as it is now the situation with the MKD.

In conclusion, the Macedonian economy would most likely want to be in the Euro-zone, but it would obviously not be that simple.

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Best Practices for Developing the Management of a Media Organisation in Romania

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Abstract

This article depicts a best practice guide for management in the media industry on the basis of the comparison between different markets and companies. Basically the empirical conclusions derived from the survey of the specialized literature are stated in a set of rules that managers in the Romanian media industry ought to obey. The paper also provides an extensive personal contribution to the topic of media management, associating managerial, commercial and strategic indications. First part of this chapter evokes the most important media groups on the local market and in the second part these indications are meant to prepare the management of a media organisation in Romania for an expansive development, following the "recipy" of the most important media groups.

Key words: best practices, media management, customer relationship management, online revolution

J.E.L. classification: M10, L82

1. Introduction

The media industry in Romania is mainly consolidated around four main trusts, active on major media channels, but mainly in television, radio, print media, online media and book editing.

Although the Romanian media market is still timid with respect to the great European media markets, it registers a continuous growth and it is characterised by a significant potential expansion and development of local media in South-East Europe, a consequence of the part Romania has played as an economic pole in the area and which it may have all the odds to get in the future.

2. Main media groups in Romania

The Romanian media market is dominated by the following trusts:

- Media Pro Group;
- INTACT Media Group;
- Realitatea-Cațavencu;
- Adevarul Holding.

There are also present subsidiaries of foreign media groups, but the current paper deals with these groups from a managerial perspective.

Analyzing the main media groups in Romania, one can reach certain conclusions regarding their affiliation to the main multinational trusts that dominate the European media market. Even if in most cases these share an impressive history, for many centuries, shedding influence and getting influenced by the great historical events, the various approaches of development of Romanian media trusts generally follow the international pattern.

The post-revolutionary era in media market development has registered an evolution quite similar to the larger markets. In other words, one cannot state that local national media groups are not capable of using the same instruments and obey the same rules in order to develop, such as any corresponding Western group, greater in dimensions and ramifications.

Indeed, for any industry it is true that each player must take into consideration the national specifications of his country, consumers' behaviour, evolution in their tastes and their sensitivity. It is crucial to find out to what degree the public's needs can be adjusted by means of offering new products or by transforming some media products already on the market.

3. Best commercial practices

One of the main goals for such recommendations is first of all the capacity to bring each title, be it books, magazines, newspapers or any print media product to its maximum selling capacity. Second, it is essential that these best practices contribute to the profitability of each and every title for every single publishing house.

Among the basic principles that form the best practices for publishers are:

- All existent information regarding clients must be used (bookstores, wholesalers, retail chains, kiosks etc.), by organizing marketing and promotion plans in order to determine the first print run as accurately as possible;

- The risk for each title must be reduced by publishing an as small as possible first print run, but that should answer to the clients' needs;

- The publishers must let the market decide the potential of their books;

- Each sale opportunity must be exploited, regardless of the client's value or the title's age, as long as there is even a small profit.

Here are some of the best practices for book publishers, from information extracted from professional associations of publishers worldwide [1]:

- On the long term, it is more important to sell to more customers than to sell more copies of the same title;

- The promotion should address to an audience as wide as possible, in order to exploit the full sales potential of the book;

- Good titles need to be kept at key clients for longer periods of time, through careful, detailed and constant analysis of sales performance;

- In general, titles need to be present on the market for the longest time possible, by using alternative sales channels (fairs, events, own initiatives) and thus reducing the costs associated with the returns;

- Every unrealistic hope, dream or expectancy regarding spectacular sales should be ignored, regardless of the initial sales potential of a new title (however, a positive attitude must be kept and nurtured);

- All available market information regarding sales should be used at all times,

never should a publisher take investment decisions based on emotional information alone;

- Most clients and sales representatives can make a rather accurate assumption regarding the number of copies that they will be able to sell, however no prediction is better than the direct response of the market;

- The first print run should be thought out very conservatively, so as to cover initial orders plus a relatively reduced quantity of returns, in order for the total expenses with this particular title to be covered by this first print run;

- Main clients should be encouraged and advised to take a reasonable quantity at first, in conformity with the book's sales potential, so as to avoid large returns;

- The sales representatives should be evaluated also on the number of customers they serve, and not only by the number of books they sell;

- It is better to try to save more on the second print run than on the first, in order not to endanger the reaching of the book's sales potential;

- The books from the back catalogue should be promoted equally intensively as the best-sellers. If in the case of the latter, the bookstores invest at their turn in advertising, promotions and marketing campaigns, it's the publisher's job to ensure that all titles in their offer have the same rotation;

- Assuring an optimal level of stock that can fulfill clients' orders prevents getting the new title on the returns list of all bookstores.

4. Customer relationship management

Specialized literature is more and more pervaded by the idea or the concept of „customer relationship management” in developing a media company. It appears to be necessary from the dynamic flow of new needs among the media consumers. For instance, in 2000, there has been a great deal of talking around unlimited real-time access to information, something that had never occurred in the past decades [2]. Therefore, the public's tendencies cannot possibly be ignored, mainly in an industry in which sometimes existence is conditioned by the

ability of real-time adaptation to market changes.

Some of the recent tendencies of the public are the instant accessibility of information, adaptation and individualization of more sophisticated products and services in accordance to personal needs, especially in terms of alternative media channels (online environment) [3]. Basically, media consumers raise questions and individual issues in order to get more and more sophisticated solutions from information suppliers.

5. The adaptation to the online revolution

According to a survey made by the research department of Deutsche Bank, many of the innovative technologies of the new millenium are changing the modus operandi of media industry. Offering more and more sophisticated products incorporating the latest technologies, such as exclusive online products, interactive media, personalized programme schedules is becoming increasingly spread.

Consequently, the contact between information suppliers and information consumers is getting more close, to the point in which consumers themselves become content creators. In the context of the Web 2.0 phenomenon or of the socialising networks which have led to a rise in the number of blogs from a few hundreds at the beginning of 2004 to over 40 million in mid 2006, according to the same survey, the entire media market reacts to this explosion of new media types, yet each particular player has an individual strategy [4].

6. Electronic editing – a challenge for the management of a media organisation

Media companies, irrespective of their domain of activity, need to stay anchored in this extremely fast changing world, whose jumps are pushed by the latest technologies. This millenium will bring about several changes in perceptions, even if such evolutions will also mean a different way of getting information, therefore the main source of information, the media company,

will be forced to adapt to consumer's increasing demands [5].

7. Conclusions

By observing the local national media market, one can draw the conclusion that all groups that form today's media market, be it incipient, under-developed, and still in its pioneering phase, did not have anything in common with book publishing, so that in the present moment, the mass-media market and the book market are two very different industry sectors in Romania.

Consequently, the affirmation can be made that the local media market has evolved in an atypical fashion, with the main media groups starting with television as the main media channel used, or with high-print run daily newspapers and developing horizontally to the other media.

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Electronic Book – A Threat or an Opportunity to the Management of a Media Organization

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Abstract

Electronic books, or e-Books, are invading more and more any speech on editing, editors, books and the media. Even if most publishing houses are informed that e-Books (and e-Publishing, therefore editing an e-Book) are an inevitable fact in the future of any publishing house and they should precisely be given the attention they deserve from publishers who do not wish to disappear from the market, yet little is known at the present time

Key words: electronic book, traditional book, e-readers

J.E.L. classification: M10, L82

1. Introducing the concept of electronic book from the editor's perspective

E-Publishing, editing electronic books, is getting more and more adhesion among great editors, for various reasons. Here are some of the aspects an editor should take into account and might serve in deciding to publish electronic books: proliferation of reading devices (e-readers), low-cost Internet connections, multimedia assimilation and content creation, access to far-distance markets, permanent disponibility.

Some of the reasons why so far editors have been reluctant about e-Publishing are pirating, copyright issues, limited access to Internet and the price of an e-reader.

Electronic books expansion has allowed an important number of authors to become able to publish their own books. Similarly, several editors, most of The United States and Europe, have published lists of books exclusively in electronic form. These facts

are directly related to the fact that e-Book production gives up a whole series of processes traditionally associated with publishing a book.

The main concern for any editor in a discourse about e-Books refers mainly to pirating. Since electronic books are precisely electronic files distributed on the Internet, apparenatly there should not be any impediment for users to share this file with anyone else, the same way in which they share music and movies, which reads, at least in theory, a sales reductions for printing houses.

Such a major threat has been addressed through a mechanism of technical measures capable of protecting copyrights of the owner (the editor in this case) and are knowkn as Digital Rights Management or DRM.

2. E-Book form the perspective of the final consumer

Any review on the current state of electronic books would be incomplete without including in the analysis a perspective of the final consumer. Internet users experience has givern rise to an expectancy for instant access to information, anytime and anywhere it is necessary. Given that expectancy for digital information, editors, libraries, academical institutes and experts will constantly try to understand the way in which consumers see and interact with e-Books.

Despite the novelty of electronic books as an academical resource, most library users know about their existence and have used an e-Book at least once. In average, the number of users who gets e-Books via Internet is equal to that of users who frequent academic libraries. Thus, libraries now have the oportunity to rise in people's perception as a main source of information for the required

titles. In those institutions that had long adopted e-Books are using them just as frequently as newspapers and online magazines. Other surveys indicate that frequent library users have indicated lack of information on electronic books as the main impediment in e-Books use.

Usage frequency of e-Books varies from country to country, from market to market, but academic environments from institutions submit to analysis state that users read electronic books mainly for research and study, rather than for fun or data storage. Given the vast experience of people using computer every day in search for information on the Internet, research seems to be the most natural reason for using an e-Book.

Another encouraging result is the fact that most consumers consider e-Books useful and they would like to use them more in the future. Most users remember the difficulty of reading information on a digital screen and the emotional preference for traditional books. Given the low level of comfort and the long tradition that consacrated readers have for traditional books, the task of e-Reader producers to render this support easy to handle and user friendly proves to be rather difficult.

While most users consider adoption of e-Books in institutions and individual libraries is going to increase, no one yet states that printed versions will finally disappear. Consumers consider that the transition to electronic books will take place faster in research activities, rather than learning, teaching or fun activities. Moreover, they expect reference titles followed by monographies, textbooks and educational books to switch more rapidly to electronic variants. Such results come to support the conclusion that e-Books are most research-oriented and data oriented.

3. E-Readers: a complete research of the market

This chapter attempts to make a comparison between all important E-Reader devices available on the market in 2010, analysing their technical specifications and further the advantages and disadvantages of each E-Reader in comparison to the others. We have analyzed the following devices: Apple iPad, Amazon Kindle 2, Barnes and

Noble Nook, Sony Reader, Skiff Reader, Plastic Logic Que, EnTourage eDGe. As a conclusion, Apple iPad is a quality step forward, not only for e-Readers, but also for electronic editing in general. The device brings eReader technology to a totally new level and will surely captivate the public's imagination the same way iPod and iPhone did on dedicated markets.

4. Traditional book will not die

All along my research paper I have noticed that the most efferescent debates and most detailed studies related to users perception upon e-Books take place in academic environments, in places where the content is far from recreative aims. At this point, things become very distinct, in the sense that most users of both versions would prefer an e-Book in the case of a precise research. Still, nobody reads a complete book in electronic form, though it takes no risks for one's health. Therefore, it becomes more and more clear that e-Books and traditional books will reserve fundamentally different targets. Traditional books will continue to be read for pleasure, for insight, while electronic books will continue to be read for a precise purpose, to find specific information. Such a differentiation being produced, practically there will be no further argument for the extinction of traditional books, since they are two products which serve different purposes.

Therefore, instead of asking ourselves when and how digital forms will ever replace the print form, we should ask ourselves to what extent an e-Book can improve and enlarge the boundaries of a library in the physical sense of the word, offering readers a series of resources which had been inaccessible until now.

5. Conclusions

In conclusion, we should avoid putting this subject at the crossroads between books and e-Books, mails and e-mails, virtual libraries and historical buildings, or between paper and digital technology... Such concepts get into conflict only when we force ourselves to prove that only one is going to win.

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Greek Economic Crisis

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Abstract

The purpose of this paper is to analyze the most severe crisis of a eurozone country.

After years of overspending, cheap loans and failure of financial reforms, the deficit increased in Greece to 12,7% of GDP and its rating was downgraded to the lowest in the eurozone. As an important part of the revenue increase proposed by the Greek Stability and Growth Programme proved to be impossible to materialize, the rescue plan approved by the European Union/International Monetary Fund was the only viable solution in order to avoid bankruptcy.

The results of the Greek crisis spread to other eurozone countries like Ireland, Portugal or Spain.

Greek economic crisis reflects the existence of a non-uniform Monetary Union, without a central fiscal authority able to correct internal disparities. The difference between north and south within the eurozone seems to be deeper than ever and might compromise even the survival of euro.

Key words: crisis, eurozone, rescue plan, PIIGS, Monetary Union

J.E.L. classification: F01, G01

1. Introduction

In the end of 2009 in many European countries recession seemed to be ended. The global economy started to increase slowly and anti-crisis programs began to work. In early 2010 analysts estimated that a second recession was not going to break but they admitted the existence of an economic uncertainty.

This phenomenon hit Greece whose financial situation has caused concern since the mid-October 2009. The bonds of Greek banks fell by 50% and their stock capacity

depreciated around 24 billion euro. The recession deepened, country's deficit decreased to 12,7% of the GDP, public debt increased to 113% of the GDP and its rating was downgraded to the lowest level in the eurozone. In this context, the Greek government was forced to adopt severe austerity measures that threw the country into chaos.

2. The causes of the crisis

In order to see how this situation became disastrous, we must identify the causes which led to the breaking of the crisis:

- huge economic policy and management errors

In none of the countries mystification at individual and governmental level went so far like in Greece. Money circulate mainly cash, justified documents or taxes are not collected. The figures reported by Athens to Brussels were embellished, reflecting the image of a country with a stable economy. The governors delayed the payment of some debts and turned to investment banks in order "to adjust" the Greek state budget. Goldman Sachs helped Greece to hide the real value of the debt through derivatives called CCS ("cross currency swaps"). CCS allowed governments to transfer the debt in the future and to fit "on paper" only in deficit targets;

- the destabilizing role of the financial markets

Periods of euphoria alternated with depression ones, amplifying movements in asset prices which has nothing to do with underlying fundamentals. In 2009 the sovereign bond markets entered into a bubble that led to record low levels of long-term interest rates in a moment when governments were adding high amounts of new bonds in the market. In a few weeks the situation changed dramatically and bond markets crashed in some countries.

Rating agencies have a central position in the destabilizing role of the financial markets which fail in the provision of crisis. And after the crisis erupt they violently overreact, in a systematic way, intensifying them;

- eurozone authorities - hesitation and uncertainty of the governments in the eurozone and of the European Central Bank. As Greek sovereign debt was lowered to BBB+, this represented a big problem for financial institutions which held Greek bonds and which were threatened by the fact that these bonds could become illiquid. No wonder that many participants on the market dumped Greek bonds precipitating the crisis. Similar uncertainties related to future bond ratings in the eurozone represent a real danger for the bond markets.[1]

3. Fiscal adjustment programmes proposed by the Greek government

Facing a severe economic crisis, the Greek government has proposed since the beginning of 2010 several rescue plans that focused on decreasing the deficit in the next 3 years. This attempt had not the desired effect and financial markets have sent increasingly signals that they have little faith in the capacity of the Greek government to implement the programme.

The analysis of the Hellenic Stability and Growth Programme seems to justify the financial markets' lack of confidence. The key weakness of the budget for 2010 stayed in the fact that it was not credible in such a short time. It contained measures that should have improved the deficit as follows: two thirds coming from revenue increases and one third from expenditure cuts. But the success of such programmes has usually an opposite distribution between revenue increases and expenditure cuts.

From the review of the programme it results that:

- revenue increases based on: unique personal income taxation scale (elimination of exemptions), higher property taxes, measures to fight tax and social contribution evasion, higher excise tax on cigarettes and on alcohol, higher tax on mobile telephony and petrol, fuel tax increase, excise tax in electricity and abolition of tax exemption,

introduction of excise taxes on luxury goods, special levy on high-value real estate, special levy on profitable firms, revenue from bank assistance scheme, revenues from EU structural funds;

- expenditure cuts were based on: public sector wage freeze, 12% reduction in public sector wage allowances, 60% reduction in the public sector 14th salary, 7% wage cut and 60% reduction in the 14th salary in public sector enterprises, 10% reduction in PPC and OTE pensions funds budget allocations, public and private sector pensions freeze, reduction in: short-term contracts, overtime costs, operating costs, hospital costs, the public investment programme, education expenditures in the ordinary budget, military expenditures.[2]

The detailed analysis of the above mentioned measures suggests that half of them are not convincing and are unlikely to have the planned effects, at least not as quickly as planned. The figures of the budget show that the projected revenue increase was impossible to materialize in such a short time while unavoidable cuts were postponed.

The rescue plan of the Hellenic government and its targets to improve the deficit to 8,7% of GDP in 2010 and under 3% in 2012 proved to be unlikely to fulfill. The reaction of Greek population to the adjustment programme of the Greek government was a violent one, ending with general strikes that paralysed the country several times.

4. Implications of the crisis for the Eurozone

Greek crisis gave birth to a crisis in the whole eurozone. It spread over other countries that passed through economic boom based on cheap credit so that their public finance deteriorated spectacularly.

Financial markets found a new term to sum up troubled eurozone countries: PIGS (Portugal, Ireland, Greece, Spain) which, after some opinions, includes also Italy (PIIGS). These countries have huge debt, budget deficit and small economic growth. Within this group of countries, positions are different. In 2010, Greece and Portugal held the weakest position, gross national savings rates of both countries being at the lowest

levels: Greece 7,2% of GDP, Portugal 10,2% of GDP. On contrast, Ireland and Spain with 17 and 19% were much closer to the eurozone average of about 20% that meant both countries could finance governmental deficits from their national savings.[3]

Portugal, with a budgetary deficit of 9,4% in the end of 2009 and a public debt of 85% of GDP, bought back bonds in value of 1 billion euro.

If in 2007 Spain was considered the country with the healthiest economy in Europe, the situation changed in the end of 2009 when the decrease of rating influenced the stock-exchange in Madrid which depreciated significantly. While GDP is 4 times bigger than in Greece and public debt implied any fears (58% of GDP), the working market has been strongly affected, the rate of unemployment being 19,5% of GDP (2 times the average of the eurozone, double than in Greece with 9,8%). While productivity has increased slowly (0,89% during 1999-2007) salaries have increased with 29,2% in the same period of time.

Ireland had a budgetary deficit of 14,3% of GDP and a public debt exceeding 90% of GDP so, it became obvious that an adjustment plan based on 2 pillars had to be adopted. The first regarded the banking system and the second massive cuts in the state budget.

Sometimes PIGS is written with double I, in this case it includes Italy. With a budgetary deficit of 5,3% of GDP, Italy is in a better position than countries previously mentioned.

In Great Britain, the last candidate to a possible bankruptcy, banks rating was decreased and public debt reached 68%.

5. Solutions to solve the crisis

As the recovery plans proposed by the Greek government were not viable, the only possible solution with a view to avoid the financial collapse of the country proved to be external aid. Although the Greek government tried till the last moment to avoid it, finally it had to accept the financial aid of the European Union/International Monetary Fund in value of 110 billion euro (EU 80 billion euro, IMF 30 billion euro). The interest rate of 5% that Greece will have to pay in the exchange of that amount to be

received within 3 years is above the standard interest rate of the IMF but below the interest rate Greece could finance on the external markets. In exchange, Greece accepted to adopt the austerity measures required by financial institutions, measures named as "big sacrifices" by the Greek prime minister.

The new austerity plan consisted in measures like: public sector wage freeze until 2014, cuts in the 13/14th salary for state employees earning more than 3000 euro/month and the freezing of these salaries to 1000 euro for those earning under this limit, increase of VAT already increased in march from 21 to 23%, adjustment of pensions according to the average income obtained by an employee along his career, the impossibility of anticipated retiring before 60 yrs, the gradually increase of the minimum contribution period from 37 to 40 yrs. till 2015, the increase of excises for fuels, cigarettes, alcohol with 10%, increase of the revenue to the state budget by adding new environment tax and tax on licence for games of change or those applied yearly to companies with a high profit.

In a Europe facing a very severe crisis, European Union was forced to announce, in the beginning of May 2010, a rescue plan for the member states in value of 750 billion euro. This amount shared between European Union (500 billion euro) and International Monetary Fund (250 billion euro) going to be granted as a loan; in exchange, the troubled countries will have to adopt a rescue plan consisting in high fiscal adjustments. The bail-out above mentioned consisted in: 440 billion euro from the eurozone governments, 60 billion euro from an EU emergency fund and 250 billion from IMF. In order to support the plan of the eurozone countries, the European Central Bank decided to buy bonds issued by governments in the eurozone as well as private bonds in order to ensure liquidity on financial markets. The troubled countries tried to sell the bonds, especially the Greek ones, low evaluated.

In December 2010, the Greek parliament approved, after several days of debates, the budget for 2011 which involves austerity measures like new expenditure cuts and tax increases, aiming to a budgetary deficit of 7,4% of GDP.

6. Uncertain future of the Monetary Union

Former European commissioner Jacques Delors (one of the Monetary's Union architects) considered the single currency unit a way towards a more powerful union. Those who wanted to speed up the enlargement from 12 to 27 members ignored the high level of corruption and tax evasion in some of the countries. Even the Greek prime minister Georgios Papandreu recognized that the explanation of the financial crisis in Greece is also the systemic corruption, so he had to admit that severe austerity measures have to be taken.

If Greece would have left the eurozone coming back to its national currency, the first step for its monetary policy could be the devaluation of drachma. In the opinion of analysts, this matter might be almost impossible as anyone would accept the return of a currency that aims to its devaluation.

Speculations regarding Greece exclusion from the eurozone would increase Germany's influence in the prejudice of the other countries, as the reconstruction of eurozone involves the increase of the German economy share.[4]

In this context of financial uncertainty, the problems Greece is facing are seen as European problems, even Euro's stability being threatened. Although markets were not against the euro, the European monetary zone has been blocked in a certain way. Greek crisis reflects a non-uniform Monetary Union, without a central fiscal authority able to solve high internal gaps. Crisis proved that Germany (the most powerful economy in eurozone) and Greece can't go further together because realities in these countries are completely different. Gaps between north and south seem to be higher than ever and can compromise even the survival of the eurozone. More and more often we wonder if the refusal of a country to reimburse a debt might lead to the end of eurozone.[5] The real test of the eurozone stays in its capacity to protect member countries in front of the speculative attacks.

Crisis pointed out a structural problem of the eurozone coming from the fact that Monetary Union is not embedded into a political union. The imbalance leads to the

deepening of the disputes among the member states in absence of a mechanism able to correct them. These disputes are the starting point for budgetary disputes and crisis. Eurozone countries should go further into a closer political union but there are doubts it might happen in a certain way in the future. Small steps are however, possible. The first one would be an European Monetary Fund; the other consists in common eurobonds in order to minimize moral hazard. These steps should stimulate the eurozone member countries to intensify their efforts for a political union.[6]

Nouriel Roubini, professor at the New York University, one of the few economists that predicted the recession begun in 2008, thinks that "Greece might be the first country that will leave the eurozone and its "example" could be followed by other countries with weak economies. In order to become competitive, a "real devaluation" of the single currency is needed in the eurozone, especially for Spain, Portugal, Italy. Euro might remain a single currency for less countries with strong economies." Several countries with weak economies might be forced to leave the Monetary Union. Nouriel Roubini has doubts regarding Greece capacity to solve the crisis in the following years, measures that have to be taken being too severe. "Greek people won't be able to increase taxes and cut expenses so much."

Dominique Strauss Kahn, general director of the International Monetary Fund said, in an interview for Euronews that "Europe must take advantage of the actual crisis in order to remodel its own institutions and to strengthen its currency. Euro has not been finalized today. Whether European leaders wish that European Union and the eurozone make progress, they should finish the process begun once with passing to euro." He also expressed his confidence that Greece will overcome all the problems which led to the break of the crisis. "The financial aid granted to Greece created a dangerous example, countries struggling with huge deficits and debt having the feeling that can continue their policies, devaluing their currency and increasing inflation", was the opinion of Joachim Fels, chief economist at Morgan Stanley. Whether it will happen, countries where prices are stable - like Germany -, might reach to the conclusion

that a smaller Monetary Union should be a better solution."

European officials fail to reach to an agreement regarding the future of the Monetary Union. Euro has been a stable, credible currency that has ensured the stability of the zone for over 10 years. French minister of Economy and Finance, Christine Lagarde and German chancellor Angela Merkel had different opinions regarding the future of euro. While Christine Lagarde stated that "euro is in danger to disappear", Angela Merkel said that "in order to save euro the whole Europe should follow the example of Germany." Europe is in danger and without protectionist measures the whole Europe will be in danger, consequences being impossible to be measured. German officials were afraid of a split in the eurozone and of the effects towards the Greek banks. That is why, they decided to ignore the will of German people who voted in a percentage of 57% against supporting Greece. [7]

However, there are common point of views considering that euro is a common good and therefore we must defend it. The French-German disputes came at a moment when Germany shocked the markets announcing that will forbid the speculative sales of financial products. The European Union's lack of trust, especially of the eurozone members to decrease their deficits proved to be the problem that troubled markets. Crisis in the eurozone started soon after the fear regarding a possible bankruptcy of Greece would be possible despite the bail-out of 110 billion euro. Speculation in the market have also put pressure towards the public debt in Spain or Portugal that led, in 2010, to the decrease of euro to its lowest level over last 4 years, involving critics regarding these kind of transactions. The forbidden of speculative transactions occurred because Germans believe that huge discrepancies between financial transactions and real economic activity might appear. Transparency for all market participants is needed; a market can't work if gains and risks are fully unbalanced. Measures proposed by Germany refer to high penalties for countries living over their financial possibilities, penalties that might include: obstruction of structural funds, withdrawal of voting within european institutions or even bankruptcy.

Even the amount of 750 billion euro was granted in order to save the single currency, the eurozone remains under the threatening of bankruptcy, being weakened by the huge debt, different competitive economies, and lack of a common fiscal policy.

Euroscptics think that eurozone problems are structural ones and have been obvious since its establishment. "Financial aid granted for Greece might work for a while but the eurozone has been facing with institutional problems and financial speculators will take advantage of it", said Joseph Stiglitz, Nobel laureate in Economics.

At the World Economic Forum held in Davos/Switzerland in January 2011, French president Nicolas Sarkozy tried to remove fears regarding the possible breaking of the eurozone and stated that, together with Angela Merkel, German chancellor, is decided to defend euro and will never allow its collapse. "This is not only an economic matter but it is also a matter of European identity. Failure of euro would have such disastrous results that we can't even think about it."

7. Conclusions

Greece recovery in the coming years lies in its capacity to assume the huge internal effort required in order to regain a sustainable fiscal position. This target involves the application of severe austerity measures consisting in substantial budgetary cuts and tax increases that the Greek government has committed to implement in exchange for external aid.

As long as there are doubts regarding this matter, the possible domino effect of the Greek crisis towards other countries in the eurozone (Ireland being the most recently example in this way) remains high, despite the conditions of the international rescue plan.

Therefore, we can state that the fate of Greece will be decided in Athens, not in Brussels or Washington.

Until recently, euro has passed only through prosperity. The real test is given now when recession showed the gap between north and south, between rich and poor countries, countries for which the single monetary policy meant cheap credit and

structural deficit that can be solved only through external loans.

Ever before, so many opinions regarding the danger that hang over the euro project have been heard, so the coming years will decide the future of the European Union and of euro as a single European currency.

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Model of Acquisition, Transformation and Usage of Geographic Data Within an Informational System Adapted to Projecting Necessities

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Abstract

The necessity to attach complex information to these graphic entities as well as the possibility to make descriptive and graphic operation analysis on these items caused the GIS systems to take another direction from the CAD system simplifying the graphic representation of these entities and developing graphic processing functions, the realization of topologies and links between graphic elements and the descriptive information stored in complex relational data bases, with client/server architecture.

Key words: GPS, Geographic Information, data base, transformation of coordinates in stereo 70,

J.E.L. classification L15

1. Projection and implementation of optimized acquisition, processing and analysis technological process for the analysis of geospatial data.

By the analysis and comparison of data collection methods that form a support for a GIS a prime objective can be established in the projection and realization of an informational system which is the choice of a method to collect information on the ground so that the ratio information quality / acquisition price to be as convenient as possible. To this end, the Dynascan project proposes the realization of an innovative technology for integrated underwater and terrestrial digital modeling of the relief. The technology is based on the research and development of a solution consisting in a

interconnection of systems used in modern methods for the investigation of the relief: LIDAR scanning (Light Detection and Ranging) scanning with high and low frequency , unifascicle and rotative, positioning on the basis of satellite global systems, the estimation of the attitude of targets in movement and synchronization.

At present there are key solutions for the digital aero-photogrametry, for the static terrestrial scanning and batimetry. However their integration is still in an incipient phase in technological advanced countries. The proposed solution is something new at the local plan.

Practically, the use of inertial platforms combining collection methods of the above mentioned data presents a series of advantages comparing to other scanning methods the greatest advantage being that the acquisition of the laser scanned scenes is no longer done in a static way but in a dynamic one and not involving aerial investigation methods which are expensive and relatively inaccurate. Simultaneously with mapping in the case of riverside arias underwater investigation is carried out both batimetrical and by the penetration in the geological profile.

In this way digital models of the ground are made in highly productive conditions and most secure for the operator.

The result of relief scanning with the proposed technology is a cluster of points within which to each point the coordinate pair (x, y, z) is associated. In the case of a static scanning, a color code could be automatically associated to these coordinates which are subject to some transforming algorithms in order to obtain the coordinates

referentiate in Stereo 70 system, the cartographic projection officially used in Romania.

From the cluster of points acquired by digitizing/scanning old projections and by georeferentiation or from surveyors (topographers, hydrographers) entities of the type node, arch, polygon must be created which gain IDs that can be linked to SGBD.

The second step of the preliminary stage of the projection of the informational system is to find algorithms to transform the coordinates of points acquired by the proposed scanning technology. These algorithms should replace the use of specialized GIS systems like Leica sau Transdat and to remove drawbacks coming either from the limitation of the dimensions of entrance folders from which data that are to be transformed are taken or by errors caused by the small numbers of points compared to the ones by which measurements are done.

2. Stereo 70 Stereographic Projection

The Stereo 70 or Stereographic 1970 Projection represents the official cartographic projection of Romania which replaced the Gauss-Kruger projection. This is a conform projection which does not contort angles permitting the geodesic measurements to be processed directly in the projection plan without calculations of geographic coordinates on condition that previous corrections for the reduction of measurements to the projection plan are applied. Projection contorts arias, function of their distance to the projection pole.

The GPS system uses for the referral of geographic coordinates: latitude, longitude ellipsoid WGS84, different from ellipsoid Krasovsky 1940 used in Romania.

3. Algorithms proposed for transformations

In order to transform the WGS84 coordinates obtained by measurements into Stereo 70 coordinates a succession of three transformations will be applied:

- Transformation of geocentric coordinates WGS84 into Krasovsky geocentric coordinates,

- Transformation of geographic coordinates into geocentric coordinates,
- Transformation of geographic coordinates into Stereografica 1970 projection.

The proposed transformations are done by formulas with constant coefficients in mathematic mapping and they have the advantage, compared to specialized informational systems used in transformations and used currently (Eg. Transdat) that they do not impose limitations to the number of lines in text folders where they are memorized and from where they are taken with a view to transformation. Images scanned with the proposed technology can be detailed, they can be taken in rooms, cities etc. That is why the number of points the coordinates of which are to be transformed is usually big enough which in the case of Transdat leads to a must in the distribution of points in many folders the content of which should not exceed a maximum value representing the number of lines that can be contained in the text folder on one loading.

4. Mathematical elements used for the realization of the algorithm

The mathematical principles for the graphic 3-D transformations used in coordinate transformation algorithms, from one system into another, into an algorithm for the manipulation of graphic objects, in CAD/GIS environment or into a graphical representation algorithm, posting, of geographic elements and of objects in 2-D/3-D spaces have as basis a few theoretic fundamental notions.

These are bound to:

- The general theory of cartographic projection,
- 3-D graphical transformations used to process cartographic objects,
- The equations of the cartographic projection,
- formulas for the calculation of rectangular coordinates,
- formulas for the calculation of geographic coordinates,
- The rotation ellipsoid. The terrestrial sphere.

- The representation of the surface of the rotation ellipsoid the plan,
- The representation of the surface of the sphere the plan.
- The elements of the terrestrial ellipsoid.
- The position of a point on the terrestrial ellipsoid
- Radii of curvature of the terrestrial ellipsoid
- The calculation of 1970 stereographic coordinates depending on the ellipsoid coordinates.
- The contortions of the representation of the rotation ellipsoid or of the sphere in plan. Contortions in the stereographic projection 1970.

5. The realization of algorithms for the transformation of coordinates in stereo 70

The cartographic projection is a mathematical method for the representation of the curve surface of the earth on a plane surface. By this projection, a correspondence is ensured between the geographic coordinates φ and λ on the points on the ellipsoid and the rectangular coordinates X and Y of the same points on the map. The correspondence is realized by the formulas:

$$X = f_1(\varphi, \lambda)$$

$$Y = f_2(\varphi, \lambda)$$

Coordinates of the central point of the Stereo 70 projection are:

-the geographical coordinates defined as follows: $\varphi = 25^{\circ}00'00''$ E Greenwich and $\lambda = 46^{\circ}00'00''$ Nord,

-the rectangular coordinates defined as follows $X = 500\ 000$ m and $Y = 500\ 000$ specifying that the X axe coincide with direction N-S. In the center of the projection we have maximum contortions of the lengths of $-0,250\text{m/km}$ and towards the margin the deformations are $+0.215\text{m}$.

For the realization of coordinate transformations taken from the cluster of points a u algorithm will be implemented that goes through the three steps mentioned above and which will use the following data types.

6. The projection and implementation of the informational system that meets the requirements of the described technological process

This has two distinct components:

- a data base with descriptive geographic information which memorizes the coordinates of the cluster of points the processing of which was presented above.

A program that administrates these data bases offering the instruments for the visualization, management and analysis of the geographical data.

The proposed informational system disposes the following functions:

- The management of complex data bases containing detailed planimetric and altimetric information,
- Visualization of tables associated to thematic strata,
- The filtering of elements,
- SQL interrogations,
- 2-D visualization, posting, increase, decrease integration, editing, creation of new folders in SHAPE,
- The import of data in VPF, DWG, acoperire Arc info, Grid Arc info,
- Posting information GPS receptor,
- Creation of thematic maps,
- 3-D visualization of the interest zone,
- Displacement, increase, decrease,
- Positioning in any point of the model 3-D

Within the application the altimetric digital model represents the basis for the extraction of attributes and characteristics of the ground,

- Topographic calculation,
- The possibility to add symbols and texts on digital maps,
- The interfacing with a GPS receptor,

That can be used as entrance data in SHP folders (from ESRI) containing the coordinates of points determined following the transformation algorithms or another type of folders.

The advantages of Geographical Informational System:

The reduction of routine operations and the automation of decision taking in problems implying geographical data.

The quantified identification of organizational problems and of technical operations with geographical data.

- The objective control of data and operations,
- Diversification of the presentation of products under the form of thematic maps.

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The Impact of Globalization on the European Union

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Abstract

Since its inception the concept of globalization was seen well by some, others take the contrary highlighted the disadvantages.

They appeared even new concepts such as managed globalization, various approaches have emerged, offensive or defensive about globalization.

Extending the conceptual definition of globalization by comparing different approaches aimed at identifying problems applied the so-called building blocks that constitute a pattern applied against the existing realities in Europe and worldwide.

If so far we have seen from outer to inner globalization searching features and contextual factors determining, comparing the concept of globalization with terms like regionalization, globalization, Europeanization, Westernization did nothing but to complete the study of the phenomenon itself, revealing a complex general conclusion, is constantly seeking a self-definition as witnessed by the multitude of existing definitions and approaches in parallel with the complete absence of definitions, generally accepted.

Key words: managed globalization, comparative advantage, emerging economies

J.E.L. classification: F50, F59

1. Introduction

If until recently the globalization was presented more or less under precepts of the Washington consensus, a new concept has now become the key word on the lips of all politicians to say 'managed globalization. Trying to make the transition from

theoretical concept to define the practice, a pertinent question is: what managed globalization actually means? As Jacoby and Meunier said in their studies, the fact that politicians talk about managed globalization does not mean that they are trying to implement it.

Thus it is imperative for the present study an analysis of what managed globalization means in practice managed by comments on EU policies.

2. The concept of management of globalization. Offensive and defensive approach

One of the trends of recent years has been promoting both at European and transatlantic relations and not only the crucial role of Union in the active management of globalization. Specialists, doctrines, and promoters of this policy address two conflicting visions on successful implementation of it, an optimistic and a pessimistic approach.

Actors who support pessimism regarding globalization, hopes the Union becomes a barrier or a buffer or filter to slow down the negative effects of globalization. This type of management is known as a defensive approach.

Offensive approach is based on optimistic view of globalization, the EU is regarded as a platform to exploit opportunities not available from the individual Member States or their firms.

A type of offensive strategy of the Union for globalization is the exercise of regulatory, central approach for the EU to develop its regulatory power in such a way that can shape global governance.

In many sectors that have become liberalized, market competition is ensured through legal institutions. Jacoby and Meunier stated that the Union had become the largest legislative power in a wide range of sectors such as financial services, food, industrial chemicals, and telecommunications.

Another management tool of globalization is empowering international institutions. Using this tool, it seeks to develop an institutional architecture to monitor the "game rules" and to strengthen the capacity of these institutions to apply these rules itself. Like the paradox of this offensive approach, Meunier and Jacoby points out that the same international institutions that seek to strengthen them are promoters of an acceleration of globalization.

Increasing the territorial sphere of influence of the EU. Jacoby argues that part of the management of globalization was the management of Central and Eastern Europe by an approach such as offensive and defensive.

Union as manager of CEE (Central and Eastern Europe) is a tool used by the EU15 Member States, which Jacoby calls "old member states" to manage the new Member States, which Jacoby calls "new member states". It is noted that the Union technique applied is to extend by the concentric waves through remote management practices but not the immediate geographical periphery. In this context, Jacoby sees regionalization, a process by which the Union meets the challenges of globalization.

Redistribution costs of globalization. Managing globalization is not just about building the framework to facilitate trade rules, but also the redistribution of costs and benefits. Although it is a defensive approach to the management of globalization, it has an important role in supporting economic openness, these efforts actually representing the extension of social democracy globally.

Such redistribution involves the use of non-reciprocal trade benefits to improve economic growth in less developed countries; one relevant example is the European Globalization Adjustment Fund.

Legitimization of economic patriotism. This defensive strategy involves countering takeovers of national companies by foreign firms.

3. Management of globalization on the domestic market. Two perspectives

The European Union attempt to manage globalization on the domestic market requires an analysis from two perspectives.

One is the Union focus on the European continent and the former colonies of EU member states, which make Alberta M. Sbragia to consider in her work of EU trade policy, the Union could impose its own conditions.

A second perspective involves confrontation with the U.S. initiatives to shape globalization to their own interests. This second dimension can be seen as a global dimension to the management of globalization implies competition, and a symbiotic relationship with American business strategy.

This American trade strategy, said Sbragia, forced the EU to shift to Latin America by concluding bilateral treaties and interregional cooperation.

4. The impact of globalization on EU Member States

To check the implementation of globalization policies managed at European level will examine below in relation to the development of Member States both export and import trends and indicators at EU level exposure to globalization as they were identified by D. Rae, M. Solla.

As an indicator of exposure to globalization Solla Rae tries to find answers to questions like: Which country is facing its greatest competition from emerging countries? What State has the most profitable industry and the fastest growing industry? Which countries are specialized in the export of ICT? Which country won the most by outsourcing? What state has the highest labor force qualified? Which state is best suited?

4.1. European export trends

According to the paper "Globalization and the European Union" as opposed to the U.S. and Japan, the European Union has maintained more or less its share of global exports over recent years. According to international trade statistics yearbook 2009 of the UN at the European level of exports registered a value of 4.73556 trillion dollars.

Table 1. Developments Imports - Exports at European level

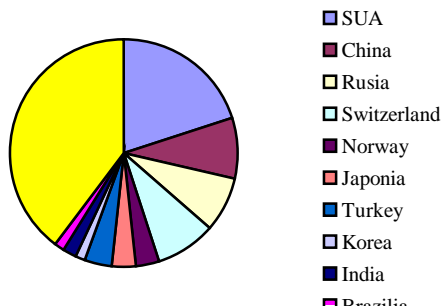
	Import	Export
2000	2535965	2516756
2001	2504616	2544025
2002	2611966	2713561
2003	3143741	3227891
2004	3786043	3846516
2005	4144083	4158314
2006	4768234	4712719
2007	5572670	5486882
2008	6223785	6099480
2009	4707811	4735560

Source: International Trade Statistics Yearbook, 2009, Comtrade, UN

In terms of market share, EU15 enjoyed some stability while the EU12 has increased its share in international trade of goods but has not progressed in terms of services.

In terms of destination of European exports, Rae and Solla observed relatively constant rate in terms of exports to the largest markets in Europe, U.S. and non-OECD countries, unlike China and export to neighboring countries of the Union, which accelerated.

Figure 1. Exports to the EU27 and the main partners in 2009



Source: Eurostat, 28/2010, EU-27 Extra tradefalls by 20per cent in 2009

4.2. Competition with new emerging economies

One of the solutions identified in the literature to determine the level of competition in trade relations was the measurement of comparative advantage. Rae and Solla argument that a claim is based on Balassa's findings about the comparative advantage which apparently can not be observed but can be found by current trading patterns when observed long enough to not be influenced by unbalanced behavior. Rae and Solla studies are based on calculating the index proposed by Balassa comparative advantage that actually observed is a measure of a country's export share of each product compared with the global export share of that product.

$$RCA^* = \frac{X_{k,j}}{\sum_j X_{k,j}} * \frac{\sum_j X_{w,j}}{X_{w,j}}, \text{ where } X_{k,j} \text{ is}$$

the export good and the country k, and w refers to the world (excluding the country k). By normalizing the relationship becomes:

$$RCA = \frac{RCA^*_{k,j} - 1}{RCA^*_{k,j} + 1}$$

Based on these relationships, Solla and Rae were calculated RCA for 1033 goods and 11 categories of services they record the results the following observations:

- At EU15 level are found strengths in engineering, pharmaceutical products and services and services, but the new Member States (U27-U15) focuses more on manufacturing with low and medium technology and forest products.

- RCA values can be used to analyze witch country is a more direct competitor with emerging economies. Thus, in terms of export trade specialization most high-income OECD countries (including EU15) use globalization as an opportunity rather than a threat. Unlike the other new Member States (after the waves started with the 2004 accession) and poorest OECD countries have a similar mix of Asian exports (meaning China through Asia, India, Chinese Taipei, Hong K Ong, Indonesia, Malaysia , Philippines, Singapore and Thailand) found a direct competition. However, even Italy.

Greece and Portugal are found in direct competition with dynamic Asian textiles in the clothing industry. Trade between the 15 member countries is dominated by intermediate inputs and semi-finished products in Asia which is specialized and dynamic.

In the EU, trade could fall back as emerging economies increase their market share in terms of intermediate and semi-finished products.

EU15 countries are affected by a similar process of globalization and Europeanization as there is an internal direct competition between the new Member States and the EU15 in terms of manufacturing and jobs for average qualifications.

Table 2. RCA's for different categories of countries

	1	2	3	4	5
UE15	1,07	1,08	0,75	0,98	0,84
Brazil	0,11	1,31	0,55	1,03	5,72
China	0,81	0,70	2,73	0,99	0,13
India	0,27	0,42	4,14	1,09	1,00
Korea	1,51	0,51	1,96	0,76	0
Mexic	1,38	1,31	0,18	0,66	1,76
Rusia	0,24	0,26	0,01	2,17	0,94
Thailanda	0,94	0,78	1,86	0,92	1,22
Turkey	0,03	0,47	5,14	0,89	1,93
SUA	1,81	1,77	0,18	0,24	0,75
Canada	0,92	1,09	0,37	0,70	4,78
Indonezia	0,53	0,84	4,04	0,66	1,43
Japan	1,10	1,16	0,27	1,14	0

Source: Calculations made by Mika Widgren

According to studies conducted, Mika Widgren notes that the EU and the U.S. and Japan have a competitive advantage in the two categories (1 and 2) characterized by intensive use of highly skilled labor. Also both the U.S. and the EU do not enjoy the RCA in categories that require capital intensive.

4.3. Analysis of exposure to globalization based on specialization in fast-growing industry

Another way to analyze the degree of exposure to globalization is to determine the countries that have specialized in industries with the fastest growth.

From this perspective, Solla Rae notes that apart from Denmark, the Nordic economies are oriented towards fast-growing product type and telecom products. On the other hand Greece is more specialized in textiles, agriculture, fisheries, while Italy is exposed through clothing industry and the export of low intensity in the high-tech products.

The literature notes that, if we exclude intra-EU trade, EU exports of products with a focus on rapid growth.

Table 3. Export shares in manufacturing, where intensity

	High Tech	ICT	Medium High tech	Medium -low tech	Low tech
Worldwide	27,8	19,5	37,5	14,3	20,5
UE15	25,7	12,8	44,6	12,9	16,8
UE12	15,2	15,1	41,1	18,7	25,1
SU'A	36,1	20,2	40	10,1	13,8
Japan	27,1	21,9	55,7	12,8	4,4
China	36,2	33,2	20,7	12,8	30,3
Austria	14,1	8,7	43,7	17,4	24,8
Belgium	20,3	5,9	44,9	14,9	19,9
Bulgaria	5,4	4,6	23,2	27,4	43,9
Cyprus	49,2	32,3	21,9	4,3	24,6
Czech Republic	15,8	15,8	46,7	20,1	17,4
Denmark	23,2	10,8	29,8	11,7	35,3
Estonia	23,8	24,4	23,9	14,8	37,5
Finland	26,7	24	29,8	17	26,5
France	24,4	9,1	42,2	13,3	20,1
Germany	20,5	11,4	51,8	13,7	14
Greece	14,8	6	19,1	25,7	40,4
Hungary	32,8	31,6	43,6	9,4	14,2
Ireland	52,8	24,4	32,2	2,4	12,6
Italy	11,8	5	41,7	17,7	28,8
Latvia	7,7	4,6	17,4	13	61,9
Lithuania	11,3	10,6	29,5	15,5	43,7
Malta	57,3	50,3	15,7	6,3	20,8
Netherlands	34,7	24,6	31,7	10,2	23,4
Poland	6,8	7,4	40,4	24,3	28,6
Portugal	12,5	11,9	32,6	16,7	38,3
Romania	4,2	9,6	32,3	17,5	45,9
Slovakia	12,9	14,6	46,9	19,3	20,8
Slovenia	10,4	3,6	45	19,9	24,7
Spain	11,9	5,6	47,3	18,2	22,6
Sweden	24	15,3	38,9	15,3	21,8
United Kingdom	33,8	20	37,8	12,1	16,4

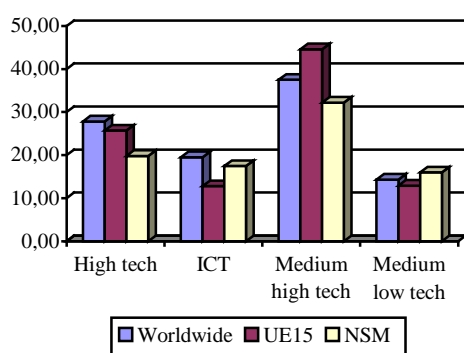
Source: Rae, Solla, 2007

It is noted that such high-tech goods represent a smaller percentage in the EU15 export share than Japan or the U.S., being more focused on EU15 exports of goods such as medium-high tech, while the new Member States have a higher share in export products such as medium-low and low technology.

Tabelul 4. Cotele de export în manufactură, după intensitate, raportare UE15, NSM, și nivelul mondial

	High Tech	ICT	Medium High tech	Medium -low tech	Low tech
Worldwide	27,8	19,5	37,5	14,3	20,5
UE15	25,7	12,8	44,6	12,9	16,8
Bulgaria	5,4	4,6	23,2	27,4	43,9
Cyprus	49,2	32,3	21,9	4,3	24,6
Czech Republic	15,8	15,8	46,7	20,1	17,4
Estonia	23,8	24,4	23,9	14,8	37,5
Latvia	7,7	4,6	17,4	13	61,9
Lithuania	11,3	10,6	29,5	15,5	43,7
Malta	57,3	50,3	15,7	6,3	20,8
Poland	6,8	7,4	40,4	24,3	28,6
Romania	4,2	9,6	32,3	17,5	45,9
Slovakia	12,9	14,6	46,9	19,3	20,8
Slovenia	10,4	3,6	45	19,9	24,7
Hungary	32,8	31,6	43,6	9,4	14,2
NSM	19,8	17,45	32,2	15,9	32

Figure 2. Reporting manufacturing export shares between the EU15 and the NMS world.



4.4. The ability of states to deal with globalization: a composite indicator

In terms of state capacity to deal with globalization interesting indicator is composed of following the analysis proposed by Rae and Solla consisting of:

- limiting aspect of the product markets
- Flexible employment
- The school (PISA)

- Level of Qualification
- Rates of participation in such programs LLP
- Public spending on programs for active labor market
- The rate of immigration as a percentage of the resident population
- The country-level innovative
- Structural changes in economy
- The degree of restriction on foreign direct investment

Specialized work examines only the first six indicators since the last 3 are of negligible value. Summarized the results obtained from the analysis Rea Solla composite indicator of the resistance to globalization.

Table 5. Analysis of the main components of globalization indicators

	1	2	3	4	5	6
Product market regulation	-0,39	0,26	0,24	-0,12	-0,11	-0,83
Labor market flexibility	0,40	-0,28	0,02	0,31	-0,45	-0,21
PISA scores	0,34	0,06	0,29	-0,81	-0,20	0,09
Level qualification	0,34	0,18	0,52	0,17	0,70	-0,06
LLP	0,43	0,20	0,01	0,35	-0,17	-0,21
Labor market policies	0,17	0,46	-0,72	-0,14	0,24	-0,14
Emigration rate	0,16	-0,73	-0,25	-0,21	0,37	-0,41
Index of innovation framework	0,47	0,18	-0,06	-0,11	-0,13	-0,16

Source: Rae, Solla. 2007

Rae and Solla's survey results revealed that the Nordic countries and North America have a greater capacity to deal with globalization as opposed to Eastern Europe and South which recorded below average values of indicators, human capital has a decisive influence their position.

5. Conclusions

We conclude the general analysis of this relatively new management policy outlined some basic characteristics of globalization. Thus, a first observation to be made is the dual nature of the management of globalization. The actors involved in this

process, be they policy makers, private stakeholders and Member States not only seeks to define the rules of globalization offensive. On the other hand, the same players would like to coordinate defensive exclusion of negative responses on some elements of this policy.

On these considerations, the overriding question becomes if possible a reconciliation of this dual identity, European, European Union without losing political legitimacy.

Analyzing the five offensive or defensive mechanisms for the management of the European vision of globalization, can highlight the following:

- The European Union uses relatively simple exercise regulatory influence on the EEC, somewhat inherent technical system integration, if taken into account the conditions imposed by the future members' accession.

- Union mandated sometimes other international institutions on the individual relations with Member States.

- Expanding the sphere of influence of the European Union as a management tool used both in terms of offensive and defensive perspective distinguishes between successive waves of European integration, the EU15 Member States enjoys a special status to the status of new member states of Union, which could be considered objects of management.

- Redistribution of costs and benefits of globalization was materialize by creating a fund to like Cohesion Fund structural regionalization used in the redistribution of costs.

Regarding the impact of globalization on EU Member States, which countries are most exposed to globalization and to make the best of this process we make the followings comments:

- For most Western European economies globalization is more an opportunity than a threat, because their exports do not compete directly on that of dynamic emerging economies of Asia. For example EU15 is strong in terms of engineering, pharmaceuticals and services, but yet there are exceptions such as Italy or Greece.

- The economies of South and West are more exposed because they are in direct competition with Asian economies being seconded to the large number of unskilled

workers

- EU internal trade is similar to that of developing countries, looking at the share of finished products, which will increase intra-European trade.

- Regardless of how they are exposed to globalization, countries face different phenomenon depending on factors such as flexibility of labor and product markets, the innovation, education, etc..

- If we look at the flexibility of the economy as a way to deal with globalization, this should not constitute abandonment of the European social model.

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2005-2010 Sony Ericsson Financial Activity Analysis

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Abstract

Multinational companies are one of the most important factors of contemporary economic progress, representing the side "of globalization is most visible". The development of these companies have been driven by continuous liberalization of international trade and investment flows. These companies operate in both developed and developing countries. Multinationals now play an important role in the economies of all countries in international economic relations, a topic becoming increasingly important for governments. Foreign direct investment, firms can also bring substantial benefits to both countries of origin and host countries through contributions to the efficient use of capital, technology and human resources between countries and can thus play an important role in promoting economic and social welfare.

Key words: financial activity, multinational company, promotion policies, investment

J.E.L. classification: G1, G11

1. Introduction

Sony Ericsson Mobile Communications is a global company producing multimedia mobile phones, including the following products: phones and accessories, PC cards and M2M. Producers combine powerful technology with innovative applications for image, communication and mobile entertainment. Sony Ericsson is an enticing brand that creates compelling business

opportunities for operators offering furniture and fun products for users. Joint venture owned equally by Sony Corporation and Ericsson AB, was founded in October 2001. Their mission is to consecrate Sony Ericsson as the most attractive and innovative global brand in the mobile phone industry.

International Center's management company is in Hammersmith, London, and research and development teams have their headquarters in Sweden, China, Canada, Netherlands, United States, India and Britain. Sony Ericsson has approximately 8,000 employees worldwide. With an annual growth rate of 43%, became the fastest developing vendor in 2006, compared with Motorola, the growth rate of only 39%. Today, Sony Ericsson is the second largest mobile manufacturing company, after Nokia, and has claimed the title by raising the next generation mobile market.

2. Sony Ericsson: policies, competing objectives

a. Policy program

According to the website, portfolio of activities is wide. The company launched on the market products are the best in communication technology, as 2G and 3G, while stepping up its offer to give him the opportunity to enter the market level. Sony Ericsson products are liked and tangible differences in the areas of photography, design and applications.

In 2005, Sony Ericsson announced a number of new phones, networking products and accessories that have significantly

improved their portfolio and predicted the multinational will have a new growth phase. The company responds to all customers with new products, thanking him, as if covering all market segments.

b. *Promotion policy*

The company uses various promotional techniques, such as PR (through media articles as a special link to watch them), sponsorship (at various events such as MTV Europe Music Awards in Copenhagen, the emergence of different films, The DaVinci Code), sales stimulating, and most used is Internet advertising, web site. The site is professional and communicates directly with customers, providing much information about Sony Ericsson products. The company attaches great importance to its market image and direct communication with customers by providing product support, handset configuration, showing a good reputation and a positive corporate image, thus having an ongoing relationship with clients about the emergence of new products and their unique concepts, as and present range of products (phones, accessories, PC cards). The site features a section where you can join as a member, thus forming a close link between the company and customers.

All this leads to achieve the objectives of increasing customer confidence in both the short (helps attract a large number of potential customers) and long (old customer loyalty).

Other forms of marketing communication company are packaged products, special offers and other promotions, such as customizing mobile. This form of promotion creates a strong brand can be considered a form of sales and rapid growth of the power company, its image and positioning.

A global strategy is the agreement with Sony Music Entertainment. This is a way to bring the latest entertainment company and customers as thanks.

The company also worked with a major global sponsor of sports namely "Women's Tennis Association Tour, which was called" Sony Ericsson WTA Tour. The sixth year of partnership, is an unprecedented opportunities between the company to provide tennis fans with new ways to experience the game through mobile technology.

In 2004, Sony Ericsson took the lead with Java 3D without the phone handset in 2005 with daring 3D to a wider audience. These links can attract many customers in the long run if Sony Ericsson will continue to promote partnership.

c. *Competitors*

Like any company on a market with some competitors, of whom mention Nokia and Samsung.

Regarding competitor Nokia site shows a more advanced graphics. The content of the texts is a much more informative; more comprehensive and promotional techniques are used internet advertising, website, sponsorship, sales incentive.

The message is simple yet attractive, and that is "Connecting People ". Creation of advertising is more attractive to Nokia by color, graphics and messages used. It's a higher level in the market because our products with more advanced technology and the prices are much higher thanks to technology, but customers pay more dotoriță benefits.

Another competitor is Samsung Sony Ericsson. Competition is not too easy task. In their case after a new story emerged, the competition between the two is the first new product in market promotion. The graphics on the front page shows a resemblance with Sony Ericsson, text content is limited, have less data, have Maua about all the products including audio and video and contacts with their center, and promotional techniques that are focused Internet advertising, web, sales incentive.

Their message is "Pushing Limits Fürther image, thus providing an overview of product quality. What accessories do not have as it offers a database of customers and people with a solid financial status and her loyal to the specific tools and powerful marketing and communications professional to turn them into customers and key strategic.

d. *Objectives*

Sony Ericsson considers sustainable development and production that is one of the most important challenges of the future and requires immediate action from responsible manufacturers. Sony Ericsson is committed to continuously improving our environmental impact and society.

Multinational activity is expressed by a thinking that has three objectives: the economic aspect, at least not in the environmental and social aspects.

Sony Ericsson plans to exceed minimum standards and industry leadership over a number of chapters. Our decision to be first to remove unwanted substances, our efforts to get the focus on energy efficiency and recycling gives us a strong foundation to make the utmost desire to conquer the leadership in the mobile phone industry.

3. Financial activity at Sony Ericsson

Because the primary function of leadership is forecast in terms of organization's financial function in the first place must be the work embodied in the budget financial forecasting. Financial Forecasting serves the strategic goals of the organization and outlines the direction to be followed for the next period (next year). The main tool for financial planning is the budget.

Shares of financial preceding any other activity in an organization. First to get the money to serve the acquisition of raw materials and labor those employees will become finished products. In turn they have paid. As a result, the financial decision precedes any decision to turn the economic, technical or otherwise. Any effective work must be based on well founded and developed a budget.

If we were to define budgeting, it is the process of fixing and allocation of resources and responsibilities for each activity center.

Budget forecasting in this context is the damage expressed in money supply and taking responsibility for achieving organizational objectives in terms of efficiency.

Budgetary control is the process that monitors the actual costs and revenues generated by any kind of organization.

Budget process has some advantages: it has a role to guide the organization for a particular purpose, that is considered optimal level of liquidity and profitability, financial planning is to coordinate efforts of all departments in the budget preparation firm serving the establishment of budget an effective control system, which is done by comparing achievements with projections

and correct discrepancies as soon as they occurred

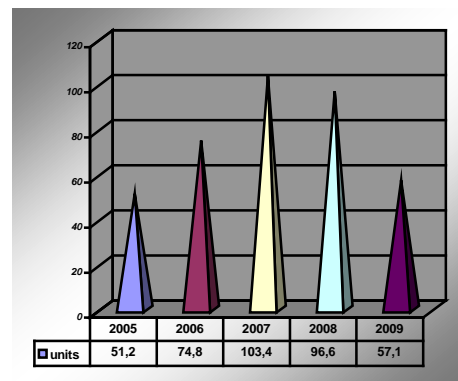
In this way budgets are benchmarks against which to appreciate the company's activity in a given period the previous period.

Budgeting with all its fundamental stages, the development and approval is an annual process, but there is the potential for detailed budgets for shorter periods of time (quarterly, yearly). However, in terms of reporting and control activity is a monthly process, but the reporting period may be longer than a month.

Sony Ericsson's first recorded profit in the second half of 2003. Since then, sales figures from all phones have increased peaking in 2007, when he received the sum of 103.4 million. Unfortunately, since that year, Sony Ericsson has managed to maintain their market position, sales have fallen increasingly more so at the end of 2009, have sold almost half the number of phones that sold in 2007.

In the chart below, I present the values of units sold during the last five years (figures in millions of units).

Chart No. 1.
Units sold in the period 2005 - 2009



Source: Sony Ericsson Data processing

I present below the analysis of financial activity in the Sony Ericsson during 2005 - 2010, following developments in particular the following indicators: number of units sold, the sales, gross margin, operating income, operating margin, net income The average selling price.

Year 2010:

For 2010 I will present work done in the first quarter compared with the same period last year.

The consolidated financial summary for Sony Ericsson Mobile Communications AB (Sony Ericsson) for the first quarter ended March 31, 2010 is as follows:

Table 1.
Indicators used in the Sony Ericsson

	Trim1 From 2010	Trim 1 From 2009
Number of units shipped (million)	10,5	14,5
Sales (EUR M.)	1405	1736
Gross Margin (%)	31 %	8 %
Operating income (Euro M)	20	-369
Operating Margin (%)	-1 %	-21 %
Net income (Euro M)	21	-293
The average selling price (Euro)	134	120

Source: Sony Ericsson Data processing

Examining data from the table we see that the units sold in the first quarter were 10.5 million, which represents a decrease of 28% compared to same period last year. The reduced number of units sold, sales achieved in the first quarter were also lower, ie reached a figure of 1405 million, representing a decrease of 19% compared to same period last year.

The average selling price increased by 12% but reached 134 Euros in the first quarter of 2010. This increase is due to the sale of existing models.

Gross margin increased both sequentially and year on year and reflects a more favorable product mix, benefit costs in the past year to improve sales and royalty problems during the quarter.

Transformation program, which began in mid 2008, aiming to reduce annual operating expenses of 880 million and expects to continue its result to be felt fully during the second half of 2010.

During the first quarter of 2010, Sony Ericsson has received additional external funding of 150 million euros. Funding has been secured by the parents in proportion 50/50.

Sony Ericsson supports a slight increase in unit forecast global market in 2010.

Net sales by market area for the first quarter of 2010 versus the same period of 2009 is as follows:

In Europe, the Middle East and Africa, Sony Ericsson has made an amount of 711 million, representing a decrease of 266 million or 37% over the same period last year, the company recorded sales of 977 million. Of this amount more than half is produced by the countries of Western Europe, reaching a figure of 525 million for 2010 and 721 million for 2009.

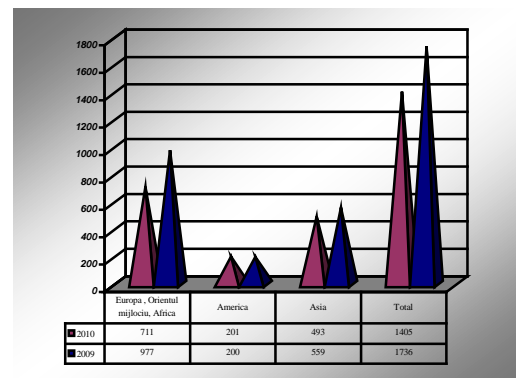
In America observă a small increase over the previous year, sales reached EUR 201 million and represents an increase of 0.5% compared to 2009 when Americans made 200 million sales companies.

Sony Ericsson has suffered losses in Asian countries, net sales in this area reached \$ 493 million, representing a decrease by 66 million in 2009 bringing 559 million multinational.

The company achieved total sales in the first quarter of 2010 were 1.405 billion euros, far less than your access period last year the multinational acquire a total of 1.736 billion euros.

The data presented above are shown in Chart nr.2. Figures are in millions of euros.

Chart no.2.
Sales development in the areas of market



Source: Sony Ericsson Data processing

Year 2009:

The consolidated financial summary for Sony Ericsson Mobile Communications AB (Sony Ericsson) for the fourth quarter and full year ended 31 December 2009 is as follows:

Table no. 2.
Indicators used in the Sony Ericsson

	Trim 4 from 2008	Trim 4 fom 2009	Final year 2008	Final year 2009
Number of units sold (millions)	24,2	14,6	96,6	57,1
Sales (EUR M.)	2914	1750	11244	6788
Gross Margin (%)	15 %	23 %	22 %	15 %
Income mining (M. Euro)	-262	-181	-113	-1018
Operating Margin (%)	-9 %	-10 %	-1 %	-15 %
Net income (Euro M)	-187	-167	-73	-836
Average Price sales (Euro)	121	120	116	119

Source: Sony Ericsson Data processing

In 2009, Sony Ericsson secures external funding of 455 million Euros to strengthen the balance sheet and improve liquidity. 350 million have been guaranteed by the parents in proportion 50/50. EUR 255 million, was developed by the end of 2009, but the remaining 200 million euros, an employee of two years of back-up facility was not used.

The program began in mid-2008 to reduce annual operating expenses of 880 million is to continue, with the full benefit expected in the second half of 2010. From the beginning Sony Ericsson program has reduced the global workforce by approximately 2,500 people from 9100 until the end of 2009. Total restructuring charges taken to date are 339 million Euros, and the fees for the entire program is estimated to be well within the previously announced 500 million Euros.

Units sold in the last quarter were 14.6 million, representing a sequential growth of 3% and a decrease from one year to 40%.

Sales for the fourth quarter were EUR 1,750 million, representing a sequential growth of 8% a year on year decrease of 40%.

The decrease from year to year, in both units and sales downturn was mainly due to the global market and the emergence of new

phones faster than expected, and transition to a new phone screen touch screen in the middle of market prices.

The average selling price for the fourth quarter 2009 increased 5% sequentially to 120 due to a more favorable product mix euro.

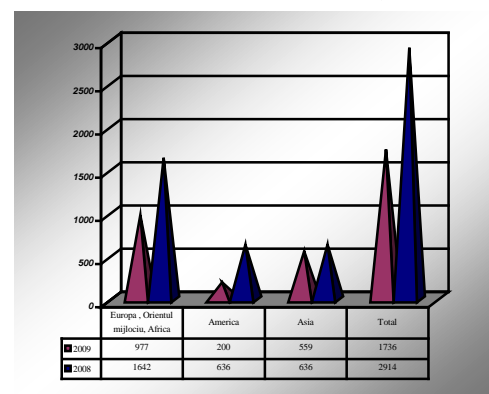
Net sales by market area for the last quarter of 2009 versus the same period of 2008 is as follows:

In Europe, the Middle East and Africa, Sony Ericsson has made in the last quarter of 2009 an amount of 977 million, which represents a decrease of 665 million or 68.4% decrease over the same period last year, the company recorded sales of 1.642 billion. Of this amount more than half is produced by the countries of Western Europe, reaching a figure of 678 million for 2009 and 1.117 billion for 2008.

In America, sales reached 200 million and represents a decrease of 436 million compared to 2008 when Americans made 636 million sales company. Sony Ericsson has suffered losses in Asian countries, net sales in this area reached \$ 559 million, representing a decrease of 77 million, or a 13.77% decrease in sales compared to 2008 in which Asians have multinational brought 636 million.

Chart no. 3.

Sales development in the areas of market



Source: Sony Ericsson Data processing

Thus, making a total sales achieved in the fourth quarter of 2009, the company achieved 1736 million; however multinational suffered losses of 67.85 compared to 2008.

The data mentioned in the previous paragraph are shown in the chart no.3. Sales development in the areas of marketing.

4. Conclusions

Sony Ericsson is an enticing brand that creates compelling business opportunities for operators offering furniture and fun products for users.

Sony Ericsson is the second largest mobile manufacturing company.

In 2009, Sony Ericsson has restated the goals of climate changing their dominant importance of the absolute. Therefore, the new Sony Ericsson absolute targets are:

- Reduce by 15% by 2015, total emissions of greenhouse gases resulting from the complete life cycle of Sony Ericsson products (based on levels in 2008);

- Reduce by 20% by 2015, total emissions of greenhouse gases from the internal activities of Sony Ericsson (based on levels in 2008).

Because all of the following characteristics Green Heart, overall CO₂ emissions from mobile are reduced by 15%:

- A manual, the phone, replacing the standard paper version and gives you instant access to convenient and user product support no matter where you are;

- Also, the electronic over 90% savings on paper and reduce the environmental impacts of transporting the final product more compact packaging;

- Made at least 50% recycled plastic;

- Light sensor optimized for the display, which uses less energy;

- The phone is water colored with dyes that reduce exposure to volatile organic compounds and can be transported as raw materials, using local water for reconstitution to the assembly plant, significantly reducing CO₂ emissions associated with transport.

The first organic product range is GreenHeart™ C901.

Sony Ericsson loaders deliver the most effective in terms of energy consumption in no-load.

In TakeBack comprehensive program, the Company's goal is to collect 1 million handsets per year in their system until the end of 2011.

The company uses various techniques Promotional sponsorships, sales incentives and advertising, the Internet is applied to the web site.

Sony Ericsson excels in these products give customers the opportunity to make a clear flawless pictures with cell phones that have built 12 MP cameras, listen to your favorite music sound faithfully.

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Market Analysis Savings Accounts and Deposits in Romania

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Abstract

The financial situation of the national economy in a greater or lesser extent depend on attracting new sources to be placed in the economy, but already with a specific purpose. Increase or decrease the money supply in the area of banking system is influenced by bank deposits, deposits from individuals, legal and other financial institutions.. Develop products and services related to cash generated great interest from people and required more efforts and concerns of society, aimed at comfort, emotional stability and safety. Banks maintain deposits and means of payment in the economy. Thus collecting deposits, banks are responsible for their effective management, with maximum yield, for their own benefit and depositors.

Key words: household savings, bank deposits, banking system, efficiency, credit institutions, certainly.

J.E.L. classification: E 21, E5

1. Evolution of deposits in 2009-2010

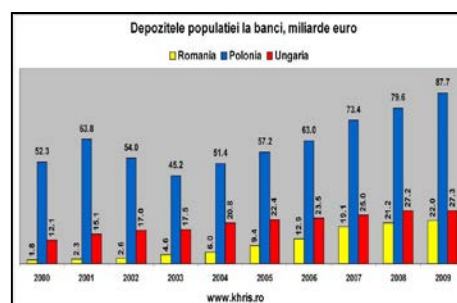
In Romania there is now a modern and competitive banking system, which provides flow values in the domestic market economy and provides products and services in line with trends in European banking. The deposits from households and businesses, banks are valuable sources for creating a balanced banking business, long-term relationships with customers.

According to NBR, at the end of 2000, Romanians' savings held in banks, both in RON and in foreign currencies amounted to approximately EUR 1.8 billion, which means less than 80 euro per Romanian. Meanwhile, the Hungarians had the banks equivalent to 12 billion euro that 1200 per capita and the Poles had the equivalent of 52 billion euro respectively per capita 1375.

As you can see the difference between first Romanian, and Hungarian and Polish on the other hand, was downright huge, which shows how much we had lost due to lack of vision of those who governed country in the first 10 years of the Revolution in 1989.

But things have evolved quickly between 2000 and 2009, so this time, total public deposits with banks amounting to 22 billion, with more than 20 billion than in 2000. The percentage increase is 1100% (in ROL, the increase was $\approx 2000\%$). Although neither Hungarians nor the Poles have remained in place, if their gains were more modest: 126% and 81%, annual progress from 2000 to 2009 are illustrated in Figure No. 1.

Figure. 1. Evolution of population deposits in Romania, Poland and Hungary between 2000 – 2009

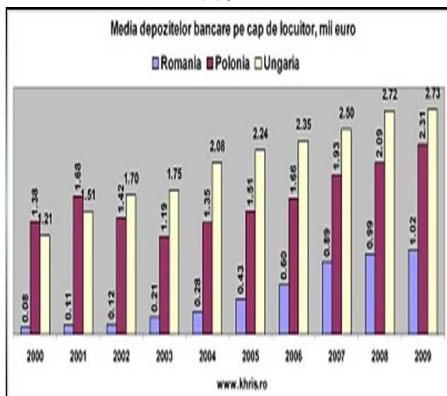


Source: www.khris.ro

Regarding per capita average, it now reached about 1,000 euro in Romania in Euro 2300 Euro 2700 in

Poland and Hungary, but is still very large differences. If we discuss only the period 2000-2009 (Figure No.2.) Romanian average amount deposited by banks was 940 euro per capita; one submitted by the Poles was 930 euro and issued by Hungarian was about 1500 euro.

Figure No. 2. Average deposits per capita (thousand euros) in Romania, Poland and Hungary in the period 2000-2009



Source: www.khris.ro

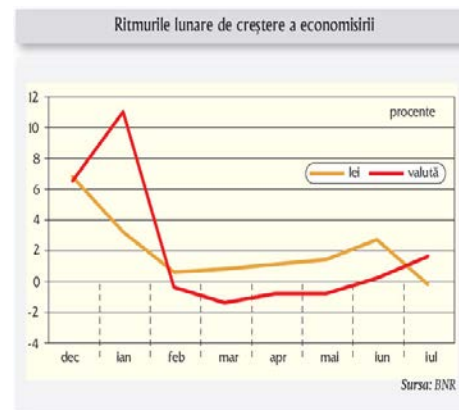
Although we are poorer than the Poles and Hungarians, the relatively small differences between the amounts deposited with banks in recent years, we explain by the investment opportunities. Poles and Hungarians have a more developed economy than ours, so that money went to stock exchange and investment by pension funds, etc., while the Romanians have continued to make most of the savings banks.

Evolution of the first half of 2009 shows very clearly changing financial behavior. Regionally, most deposits were recorded in Bucharest. Thus, the balance of deposits increased by approximately seven billion lei (1.68 billion euro) in the first half. Also, in Cluj, population investments increased by the equivalent of 685 million, and in Brasov the increase was about 668 million euro.

According to data announced by the National Bank, with the exception of June, the deposits in foreign currency advanced by 0.1% in February-May period, their growth rates were located in negative

territory. At the same time, savings in lei dropped 0.3% to 101.45 billion lei, amid more significant withdrawals from the companies that have decreased their deposits by 0.8% to compensate the drastic reduction bank financing and the high price of credit. From the beginning of the year, July also marks the first minus of the savings advance in national currency. After the peak recorded in December 2008, the 6.7% monthly growth rates were maintained continuously in positive territory (Figure no.3.).

Figure No.3. Savings monthly growth rhythms during December 2008 - July 2009



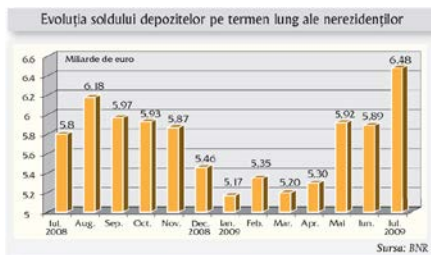
Source: own calculations NBR

It is noteworthy that there is a general legal framework for guaranteeing deposits, established by Government Ordinance 39/1996 on the establishment and operation of the Deposit Guarantee Fund in the banking system with subsequent amendments. The purpose of this institution is to guarantee repayment of deposits to banks by depositors, individuals and legal entities. Fund's financial resources come from contributions of all credit institutions authorized by the National Bank to receive deposits from the public, unless there is a state security for the deposits, and, since Romania's EU accession date, deposits banks in Member States. Coverage level increased each year from 1288 Euro in 1997 to 20,000 Euro in 2007, and 50,000 Euro from October 2008 until now.

Long-term deposits in Romania by non-residents, recorded in July 2009 a record value, of 6.48 billion euro, up by 18.57% - 1.015 billion euro - towards the end of 2008. These deposits are the main way that local banks are financed by the parent companies of the West.

According to data published by the National Bank in July 2008 their value was 5.8 billion euro, and by November the balance varied slightly to 5.87 billion euro (Figure No. 4.).

Figure No. 4. Long-term evolution of balance of deposits of non-residents in Romania



Source: own calculations NBR

As conclusion we can say that high interest rates on deposits and the risk of financial instability (due to loss of employment) were transformed in 2009 in savings.

2. Forecast deposits and savings accounts 2010

The new year started in the financial plan of the measures taken by the National Bank, the first monetary policy meeting this year bringing an interest rate reduction of 0.5 percentage points (from 8% to 7.5%), while rates on reserves applicable minimum liabilities were maintained (15% for RON and 25% for currency).

Deposit interest people have in the period January 2009 - January 2010 a small discount rate. Thus, if the average rate in January 2009 level of 16.06%, 12 months later this had fallen to 9.66%. Lowest interest rate reductions in the period under review saw it yields greater savings up periods of three months. Deposits with maturities between three and six months were paid with interest of 10.27% to 5.78% below January 2009. Those terms over six months until 12 months were 9.3% interest with 5.66% less than 12 months ago.

Data published by the National Bank show that the halving of interest was recorded in Euro deposits also. But unlike savings in lei, the effects for the population has recorded big reduction. Between

January 2009 - January 2010 average interest fell 3.57%. In January 2010, the highest yields have made deposits with maturities between 6 and 12 months, the average interest is 3.45%. A year ago, they were the most poorly remunerated savings, with interest of 5.77%. In early 2010, the lowest average interest bearing deposits in euro within a month, to 2.97%.

Corporate deposits decreased during the first month of this year with a record of over three billion RON. This resulted in a reduction of deposits in the banking system in Romania at 164.3 billion lei in December 2009 after saving reached a maximum level of 167.7 billion lei (Figure No. 6.). According to NBR, 31 January 2010, household savings were 97.5 billion lei and firms 54.8 billion lei.

Banking deposits fell during the first month of the year with a record of 3.4 billion lei, as a result of dwindling savings companies 3.27 billion lei. Meanwhile, population deposits increased by 160 million lei. In December 2009, residents' deposits reached a peak of 167.74 billion lei. According to data published by the National Bank in January 2010, up savings in national currency decreased by 2.15 billion lei, and the currency to 1.25 billion lei.

Figure No.5. Bank Deposit Evolution in Romania



Source: own NBR calculations

If bank deposits in lei last year was a profitable investment, interest on bank were over 12% twice and somewhat higher than inflation at this point in local currency bank deposit can not guarantee protection money than by depreciation caused by inflation. Transformation took place for two reasons: banks do not give high interest rates on deposits and Government decided to re-gains tax of 16% in bonuses.

At this time the interest offered by banks to one year deposits varies between 4% and over 8%.

In foreign currency deposits case, with or without 16% tax situation is about the same. If last year some banks offer up to 8% interest on deposits in euro, currently they vary between 2.5% and 4%. Thus, under a stable course, a one-year deposit at any bank will not only cover the best case, inflation, with no other practically gain. Last year the deposit in euro was not so much preferred by many Romanian to take advantage of good interest but as a measure of protection before a depreciation of the RON. Between April 2009 - April 2010 the balance of deposits in euro rose to an equivalent of 32.6 billion lei to 37.6 billion lei. During the same period, total deposits in lei belonging to households increased by 4.6 billion lei, up to a level of 63.18 billion lei, according to the National Bank of Romania (BNR).

Economists argue that although positive real interest rate is low, the Romanians will go further for the banks to keep their money, simply because there is little alternative. Financial behavior of population studies show that bank deposits remain in public preferences, but the pace of growth over the next two years will be moderation. This slowing is due primarily our attractiveness banking products compared to other alternatives because of the low level of interest. Another argument for reducing the rhythm of development of bank deposits is sorer Romanians appetite for funds and other alternative saving instruments.

3. Conclusions

The main source of funding of a bank deposit is represented by its customers. There are many types of classification of deposits (those individuals from those firms, the national currency against the currency, etc.).

In recent years began to grow increasingly bank deposits, with all their forms, through which we can obtain an additional gain.

The year 2009 marked a rapid and massive shift from consumption to savings. If in 2008 the population was the main objective of improving living standards in 2009 were quite different priorities due to the evolution of the economic crisis.

Romanians were concerned, on the one hand, job security, and secondly, the ability to pay debts. In this context, which overlapped with two-digit interest on term investments, banks have received from individuals' equivalent to about 4.3 billion euro in first six months of 2009.

Changing financial behavior has been helped by high levels of interest from deposits. Thus, some banks even gave a 16% interest per year for investment in lei, and nearly two thirds of the surplus savings in the first half was generated from deposits in domestic currency. In addition from January 1, 2009 the Government decided that individuals should not pay tax on 16% interest on deposits.

We can say that higher interest on deposits and the risk of financial instability (due to loss of employment) were transformed in 2009 in savings.

It is also noteworthy that there is a general legal framework for the establishment and operation of deposit Guarantee Fund Bank Deposit. The purpose of this institution is to guarantee repayment of deposits to banks by depositors, individuals and legal entities. Coverage level increased each year from 1288 in 1997 to Euro 20

In recent years, it is seen a shift towards smaller deposits with maturity less than one year, at the expense of deposits with maturity over one year. The maturity of deposits is becoming less likely to cause discomfort bankers provided that credit limits are required by the population becoming older.

Regarding currency savings, further savings Romanians interested in RON at the expense of foreign currency. Thus over 60% of depositors prefer savings in U.S. dollars.

Regarding 2010, the new year began in financial measures taken by the National Bank, the first monetary policy meeting this year bringing an interest rate reduction of 0.5 percentage points (from 8% to 7.5%).

In sections devoted to savings products months in January 2010 was no exception to the downward trend started last year, further fall in interest rate subsidies are operated by financial institutions. Emphasis was again placed on the products that interest RON two figures are now starting to be past. However, data published by the National Bank show that the halving of interest were recorded and Euro deposits.

If bank deposits in lei last year was a profitable investment: interest on bank were over 12% twice and somewhat higher than inflation at this point in local currency bank deposit can not guarantee protection money than by depreciation caused by inflation. Transformation took place for two reasons: banks do not give high interest rates on deposits and Government decided to re-gains tax of 16% in bonuses.

At this time the interest offered by banks to deposits in a year varies between 4% and over 8%, while deposits in foreign interest rates vary between 2.5% and 4%.

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The Stability of the Romanian Banking System: an Overview during the International Crisis of 2007

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Abstract

Financial stability is a primary objective of international decision-making process. The analysis and evaluation of the Romanian banking system is paramount, because this is the core of the financial market, which is in the process of European integration and shocks' propagation cross-border raises the level of systemic risk.

In this paper, we try to underline the spillover effects of the international crisis of 2007 on Romanian banking stability through a distinct analysis of the risks generated by households respectively, by companies. The study highlights the fact that major challenge to financial stability is credit risk.

Key words: financial stability, banking system, credit risk, non-performing loans, international crisis

J.E.L. classification: G21, G32, G01

1. Introduction

The effects of international financial and economic crisis show that financial integration does not provide a guarantee of financial stability, even in an almost ideal environment in which the European Union acts as a single market in all sizes and Member States are subject to a high degree of harmonization terms of financial regulation and supervision [2]. Institutional integration, as compared with integration via markets, facilitates crisis management system [8]. This article highlights the implications of current international crisis on banking system stability through an analysis of risks generated by households and by companies. Credit risk is a major challenge for the Romanian banking system stability.

Table 1. Key Prudential Indicators (%)

	Overdue and doubtful loans/Total credit portfolio (net value)	Total past-due and doubtful claims/Total assets (net value)	Credit risk ratio ¹
2007	0.22	0.17	4
2008	0.32	0.29	6.52
2009	1.45	1.01	15.29
2010	2.22	1.49	20.81

Source: NBR Monthly Bulletin, January 2011 p. 46 <http://www.bnro.ro/Regular-publications2504.aspx><http://www.bnro.ro/Regular-publications-2504.aspx>

A growing vulnerability of the Romanian banking system is the decrease in loan portfolio quality. Although non-performing loans are at a manageable level, the pace of growth is a concern for financial stability. During the analysed period (2007-2010), credit risk ratio increased by 420.25%, reaching a value of 20,81 % at the end of 2010. The indicators that define the quality of banks' loan portfolios have reported a marked deterioration, the main reasons being: economic recession and rising of unemployment rate; currency depreciation and the high level of interest on loans, a development linked to increased risks [1].

These adverse developments have forced commercial banks to proceed to an increase of provisions in order to cover non-performing loans, and to adopt a caution position in granting new loans.

A positive aspect for Romanian banking system is the lack of toxic assets in the

¹ Gross exposure related to non-bank loans and interest under "doubtful" and "loss"/Total loans and interest classified related to non-bank loans, excluding off-balance-sheet items

balance sheets of credit institutions, and the fact that no bank was not in bankruptcy. Therefore, no government intervention was needed, on the contrary, the strong support of shareholders gave banks additional reserves to absorb losses from non-performing loans.

2. Spillover effects of the international crisis via households

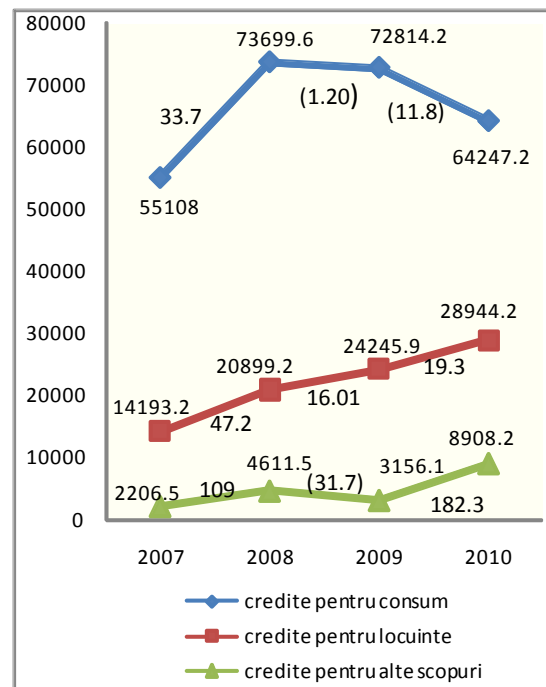
During the current international crisis, households have had a negative impact on Romanian banking stability due to evolutionary effects of two factors, in particular, the degree of indebtedness and disposable income volatility of the population [5].

The deterioration of the economic climate has reduced loans demand and also, the portfolios' quality held by credit institutions on households. Non-government credit slowdown in the latter part of 2008 and during 2009 was due to reduced credit supply, against the background of: existing liquidity problems on international markets, which have affected the international banks that have branches in Romania, reducing excess liquidity that previously characterized the Romanian banking system, increasing risk aversion of banks. Regarding loan demand, the most important negative factors were: increased cost of borrowing, currency depreciation and uncertainties about its evolution, negative outlook related to economic growth and unemployment.

Households have felt the crisis effects particularly from the following perspectives: net wealth deteriorated, disposable incomes have come under the adjustment pressure and confidence in the economy has declined [3]. Households have transferred part of the problems entailed by the crisis to the banking system stability. Non-performing rate loans has increased significantly in 2009 and the first half of 2010 (from 2.4% in December 2008 to 6.9%- June 2010). Also, the volume of bad loans in foreign currency registered a dynamic more pronounced than in the case of domestic funding (300% increase compared to 125%, December 2008-June 2010). After analyzing the structure of loans to

households' destination we can observe that substantial share is owned by consumer loans: 72.65% at the end of 2009, generating still more than 90% of debt service. Structural analysis shows that loans in foreign currency reported a higher non-performing ratio than loans in lei for all categories of retail loans.

Figure 1. The evolution of credit to households depending on destination during 2007-2010 (thousands RON)



Source: NBR Monthly Bulletins, <http://www.bnro.ro/Publicatii-periodice-204.aspx>

Challenges remain, on the short term, because [3]:

- there is a delay of several months in sending negative shocks from labor market to overdue payments;
- the expectations of population regarding their future financial standing remain negative;
- the risks accumulated during the years when lending conditions were looser will be maintained for long-term in banks' portfolio, as the maturity of loans saw an increase before the onset of the crisis.

Table 2. Past-due Debts for more than 30 Days Incurred by Individuals (2007-2010)

Year	Number of natural entities incurring past-due debts for more than 30 days	Total past-due debts	Currency		Type of delay		
			RON	EURO	Delay from 31 to 60 days	Delay from 61 to 90 days	Delay of more than 90 days
<i>Lei thousand</i>							
2007	352 394	573 266	489 225	81 825	25 109	24 357	378 234
2008	449 510	981 184	733 802	225 684	39 095	36 493	782 079
2009	683 308	2841822	1 827 273	869 537	65 506	74 962	2 194 995
2010	720 661	5 488231	2 673 604	1 971 239	79 485	89 128	3 925 097

Source: NBR Monthly Bulletins, <http://www.bnro.ro/Publicatii-periodice-204.aspx>

During the period analyzed (2007-2010), the number of natural entities incurring past-due debts for more than 30 days increased by 104.5%. The accelerated deterioration began in the second half of 2008. If the level is not alarming yet, the strong upward trend rears problems. Past-due debts volume increased about ten times in the same period, while retail credit has slowed significantly. Arrears on foreign currency loans reached 36.20% of the total past-due debts at the end of 2010 (from 31% at 31.12.2009), currency depreciation affecting debt servicing capacity. Expanding foreign, interest rate or income shocks, can cause a major effect on possibilities' loans repayment. The positive aspects are the provisions made by banks for the retail portfolio that would cover part of the past-due debts. Credit cards have reported the highest rate of arrears, but they have a small proportion in consumer loans, the opposite are mortgages which reported a reduced non-performing ratio, but ascending. Real estate loans reported a non-performing ratio that it was maintained at low values at the beginning of the crisis (3% in June 2010), one explanation being that first home buyers are more strongly motivated to service their debt.

Most loans (85%) are granted to persons who have a monthly income below 2000 lei, generating the significant share of the arrears. Because households with lower incomes may be affected by crisis, it can be concluded that the effect on banks' debts will be major. In volume, there are a relatively balanced distribution along the subcategories of income between 500 and 5000 lei. Small-value loans are the most numerous non-performing loans. By the non-performing

loan ratio, these loans range among moderate risk generating loans. Consequently, applying a high penalty rate to small- value loans would not be justified by the higher default rate [3].

Although the risks induced by households have increased in recent years, now, the situation does not create major problems for financial stability [5]. As an overview, the households, through its actions, do not lead to systemic risk on financial stability in Romania, but the adoption and permanent implementation of a proactive attitude is imperative [7].

3. Spillover effects of the international crisis via companies

The implications of international crisis of 2007 on companies' economic and financial performance in Romania are the following [3]:

- the deterioration of interest coverage ratio, due to adverse impact of both explanatory factors: profits declined markedly (by 64% in Jun 2008-June 2009), whereas interest costs continued to rise (by 31% during the same period).
- the increasing of total indebtedness, because of the faster growth in total debt than in equity.
- the reduction of companies' capacity to maintain their cash flow, the main drivers were the less readily available bank credit lines and the lower profitability. This issue has negative effects on: the overdue payment ratio (the debt servicing is affected), arrears and investment.

- Return on Equity (ROE) posted a strong downward trend (from 20% to 6% in June 2008-June 2009).
- gross foreign currency exposure of companies that took foreign currency-denominated loans is large and still increasing. By sector, companies in the real estate and manufacturing sectors have the highest exposure. The indebtedness for SMEs in foreign currency is significant and their degree of capitalisation is lower. Companies with large foreign currency exposure (more than 50% of own funds) have managed better, than the rest of the economy, on average, to service their debt with banks, because these companies enjoying a better financial standing than the rest of the economy, which allowed them to resort to external financing as well.
- the number of companies undergoing insolvency proceedings in 2009 was similar to that seen in 2008, but in 2010 Q1, the number of companies against which insolvency proceedings had been opened saw an increase of almost 38% compared to the same year-ago period.

Companies have transferred to the banking system stability part of the issues they experienced, because of the international crisis. The non-performing loan ratio increased from 0.9% to 8%, December 2008-June 2010. Companies in the construction seem to be the riskiest one with a non-performing loan ratio of 11% in June 2010. The real-estate sector has experienced the fastest deterioration, reporting an 8% overdue payment ratio in June 2010 after a 0.2% non-performing in January 2009. SMEs have generated the largest number of non-performing loans, their ratio exceeding 10% relative to the corporate sector (June 2010): the EBIT interest coverage ratio is lower (77% compared to 173%), the leverage ratio is more pronounced (3.1% compared to 1.4%), new cash flow deficit is double relative to the deficit of the corporate sector, albeit higher, ROE is attributable particularly to a lower capitalisation.

The probability of default in the case of companies has become more pronounced, from an average of 4.3% at the mid 2008 to 12.5% for 2010. Due to increasing number of non-performing loans, provisioning efforts must be further made, in spite of banks'

profitability being thus dampened in the short run. Banks have responded to the increase in the number of non-performing loans also by raising the risk premium.

Companies have mutually transferred the shocks induced by the crisis: arrears and payment incidents posted an increase. After following a strongly upward path in 2008, the number of payment incidents stabilised at the end of 2009. In terms of structure, almost 90% of total amounts are generated by SMEs. The main effects of international crisis on SMEs are: hinder financing, decreased exports, decrease in domestic demand, financial bottlenecks created on the one hand, by the state through the debt to private sector and, on the other hand, by other companies that have financial difficulties, reduction of investments and psychological effect.

Systemically important companies (SIC) had better capacity to cope with crisis than the rest of the economy: although their turnover shrank more than average, profitability has remained positive [4]. SIC have transferred in a position relatively lower liquidity problems to partners, because no incidents have been reported, with debts to banks and they contributed less directly, to increased unemployment. These companies resort to the relatively modest resources of domestic banks so that the return of demand for credit may not come from them.

4. Conclusions

The main conclusion of this paper is the fact that credit deterioration is the key risk to the banking sector in Romania. During 2007-2010, credit risk ratio increased by 420.25%, reaching a value of 20,81 % at the end of the period.

Both households and companies have transferred to the banking system stability part of the shock they experienced. Households have felt the crisis effects from the following perspectives: net wealth deteriorated, disposable incomes have come under the adjustment pressure and confidence in the economy has declined. Therefore, non-performing rate loans has increased from 2.4% in December 2008 to 6.9%- June 2010; the volume of bad loans in foreign currency registered a dynamic more pronounced than in the case of domestic funding (300%

increase compared to 125%, December 2008-June 2010) and the number of natural entities incurring past-due debts for more than 30 days increased by 104.5%. Although the risks induced by households have increased in recent years, now, the situation do not lead to systemic risk on financial stability in Romania.

Companies have felt the crisis effects from the following perspectives: the deterioration of interest coverage ratio, the increasing of total indebtedness, the reduction of companies' capacity to maintain their cash-flow, ROE indicator posted a strong downward trend, the number of companies against which insolvency proceedings had been opened saw, in 2010 Q1, an increase of almost 38% compared to the same year-ago period. Therefore, the non-performing business loan ratio increased from 0.9% to 8%, December 2008-June 2010. Companies have mutually transferred the shocks induced by the crisis: arrears and payment incidents posted an increase. While SMEs have generated the largest number of non-performing loans, systemically important companies have transferred in a position relatively lower liquidity problems to partners, because no incidents have been reported, with debts to banks and they contributed less directly, to increased unemployment.

The Romanian banking system entered the crisis well capitalized, but deteriorating macroeconomic and financial market conditions now pose significant risks to financial stability.

5. Acknowledgement

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Ecological Consumer Behavior – Influential Factors -

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Abstract

The study of the consumer behavior is a complex task because it is possible to analyze it from different points of view. So, if we investigate the ecological consumer behavior we realize that it is also difficult to establish the limits that clearly define the profile of a consumer who acts in an environmentally friendly manner. Consequently, the measurement, the conceptual delimitation of this behavior and the identification of the ecological segment in the market are essential aspects for the commercial strategies development of the companies.

Regarding the definition of this concept and its measurement, it seems reasonable to think that these consumers are those who are concerned about environmental problems.

Very often, their behavior is characterized by their attitudes and actions towards the environmental protection.

Key words: consumer behavior, bio products, consumers, ethic consumers.

J.E.L. classification: M39, I19, Q59

1. Introduction

Even if the organic products seem to be difficult to find and expensive, most of the consumers regard them in a positive way. All consumers associate organic products to their health at different levels of abstraction and they want good, tasty and nourishing products, because pleasure and well-being are their most important values.

Some of economic theories have shown some limits in explaining the complexity and multidimensionality of consumer behaviour. These are not only relating to the assumption of consumer rationality (i.e. utility

maximizing behaviour) and perfect information.

2. Ecological Consumers

In the literature, the ecological consumer behavior has been analyzed through conducts reflected not only in the purchase, recycling and/or elimination of a product (Guagnano et al., 1995; Ling-Yee, 1997; Chan, 2001) but also through aspects that reflect the consumer's ecological awareness level (Sanchez et al., 1996) and even through positive and active attitudes towards recycling and the willingness to pay more for environmental products (Kaiser, 1998; Kaiser and Wilson, 2000; Kotchen and Reiling, 2000; Laroche et al., 2001). Therefore, this behavior presents different manifestations which sometimes do not involve a final action but an environmental attitude and feeling.

In this regard, it is important to make a difference between an ecological attitude and an ecological behavior. The attitude involves a favorable or unfavorable intention to act and the behavior entails a final conduct pattern. Maloney et al. (1975) studied the environmental attitude from three dimensional perspective, which refers to the emotional, intentional and cognitive elements.

In addition, these authors included the behavioral component establishing a general ecological behavior measurement.

As for the identification of the ecological consumers segment, there are several studies which try to find the profile of this type of consumer. With this purpose, they introduce variables such as demographic, socio-economic, psychographic and environmental knowledge.

Early attempts to understand this consumers segment were based on single dimensions (such as socio-demographic variables) and did not proved to be very successful (Kassarjian, 1997; Kinnear, 1974). Recently, Diamantopoulos et al. (2003) found socio-demographic variables useful to define the consumer's profile in terms of environmental knowledge and attitudes but they argued that these variables were limited as far as environmental behavior is concerned.

3. Literature Background to Personality and Ecological Behavior

Over the past few decades, changes occurred in consumption models—and, more specifically, in food-related lifestyles (Reid et al. 2001)—have stimulated an increasing attention on the experiential and symbolic meanings of food consumption (Colacchio et al. 2008; Guido 2009). Once the utilitarian needs are fulfilled, consumers choose everyday food to build their own social and individual identities (Marshall 2005). The consumption of organic food products—made through biological methods devoid of synthetic fertilizers, toxic pesticides, and genetic engineering—can satisfy consumers' ethical needs to care for their relatives' health as well as for their own one, to protect the environment, and to preserve the well-being of animals (McEachern and McClean 2002). Most consumers perceive organic products as having also specific benefits—in terms of taste, nutrition, and sensory characteristics—which distinguish them from conventional food (Arvola et al. 2008 Magnusson et al. 2003, Zanolli and Naspetti 2002).

Although still a niche, the organic food market is considered a very promising sector (Hughner et al. 2007). According to the International Federation of Organic Agriculture Movements (IFOAM) organic agriculture is nowadays practiced in 141 world countries (IFOAM) 2007, and the organic-product market has grown rapidly during the last few years: in 2007, organic-product sales have reached \$ 46.1 billion worldwide, growing on an average of \$ 5 billion per year over the last decade. Even if 97% of the global sales are concentrated in North America and Europe, the organic

industry is experiencing a strong growth worldwide, and these products are now available in most retailing food stores (International Federation of Organic Agriculture Movements 2009). Because of this high potential, the organic food market has attracted a growing interest from many sides. On the one hand, organic food product companies look for new ways to increase their business, and, on the other, marketing researchers aim at a better understanding of organic food consumers' behavior. A number of studies have considered acceptance, primary motives, and major obstacles and rationales to their consumption (see, Hughner et al. 2007 for a review) but, to date, there is not yet a deep knowledge of the multifaceted mechanisms at the basis of the organic food consumers' behavior.

An conceptual model of consumer behavior was developed by following the so-called Prospect method (Caprara and Barbaranelli 2000), a conceptual framework which integrates the Theory of planned behavior (TPB, Ajzen 1991, and the Five-factor model of personality (FFM, cf. Digman 1990).

Deaton and Muellbauer (1980), for example, discuss consumer behavior in terms of preferences and opportunities for choice: "unlike preferences, the opportunities for choice are often directly observable so that, to the extent that variations in behaviour can be traced to variations in opportunities, we have a straightforward and objective explanation of observed phenomena". In their view, therefore, "much can be so explained, and (...) the part played by preferences in determining behavior tends to be overestimated."

In marketing, however, the analysis of consumer behavior is dealing primarily with preferences and how preferences are formed in the mind of the consumer. Marketing approaches to consumer behavior may be distinguished in cognitive versus behavioral.

Cognitive approaches emphasis constructs dealing with mental structures and thinking processes; behavioral approaches emphasize direct links between the characteristics of the environment and behavior. Both approaches are widely accepted and acknowledged way of analyzing behavior, with high degree of complementarity (Peter et al., 1999). In this study they will concentrate on the first

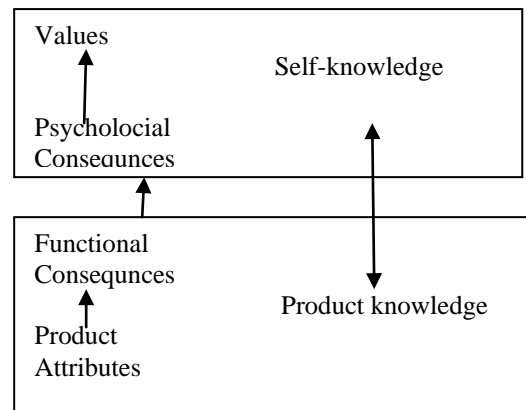
approach and focus on consumer product knowledge, involvement and motivation in the case of organic products.

From a cognitive perspective, it can define consumer behavior as the activities that people engage in when selecting, purchasing, and using products and services to satisfy needs and desires. Such activities involve mental and emotional processes, in addition to physical actions.

The cognitive approach is based on consumer knowledge, product's perception and the needs consumers want to satisfy. Cognition refers to the dynamic mental constructs and processes involved in thinking, understanding and interpreting stimuli and events from the environment. It includes the knowledge, meaning and beliefs that consumers have developed from their experience and stored in their memories (Peter et al., 1999). While many aspects of cognition are conscious thinking processes, other are essentially automatic. In other words, consumer behavior does not imply only reasoned action but it is essentially a consequence of his/her consumption-relevant cognitive structure (Grunert and Grunert, 1995).

When a stimulus or event regarding a product, including new products information, come in relation with consumer self-knowledge and his memory, a link between him and the product is built. A network of links between product attributes, personal consequences and values can be revealed to give a deeper insight in consumer motivation. These links build up those elements of the cognitive network that the consumer rises from his mind when presented product information in the form of product attributes: when this network is structured in a hierarchical form is known as a "means-end chain" (Gutman, 1982).

Figure 1 - Linking values to products: the Means-End Chain Model



Source: Gutman, 1982

A means-end chain (MEC) is a knowledge structure that links consumers' knowledge about product attributes with their personal knowledge about consequences and values (Figure 1).

The means-end approach suggests that consumers think about product characteristics or *attributes* in terms of personal *consequences*. These may be perceived as positive (*benefits*) or negative (*risks*). In other words, the means-end chain model gives the possibility to explicitly link consumers needs and products characteristics, and reveals his goals/motivations in purchasing a product. In means-end chain theory consumer decision making is considered like a problem-solving process. Consumers exert a behavior (as an example: acquire a credit card), as a *mean*, to reach an objective or an *end* (ex: not to pay cash) (Reynolds and Whitlark, 1995). Besides, consumer also see most product attributes as a mean to some end: at the conscious level this may be represented by some positive consequences, in a more abstract and subconscious level their end is to attain *values*, that is "*preferred end states of being and preferred modes of behavior*" (Peter et al., 1999).

4. Some Important Perspectives in Social Scientific Consumer Research

Understanding the consumption of food from social scientific perspectives implies taking account of the social and cultural

contexts in which people think about, buy, prepare, eat and dispose of food products. A social scientific perspective on food focuses on social relationships from social, cultural, institutional and political perspectives. This may concern questions of politics and economy, as related for example to the distribution of food - including kinds of shopping outlets. It may also concern questions of culture and tradition, in which food is seen as one form of symbolic communication, as a tasty source of pleasure or as a dimension of care in providing for the needs of families.

Food is a meeting point of numerous symbolic codes: personal, familial, cultural, biological, industrial and environmental, as well as ethical dimensions of social justice. It follows that organic food can also be understood in relation to such codes. Some studies are of an ethnographic character. A common feature of these approaches is a focus upon the *meanings* we connect with material products. This does not imply that the utilitarian values of products in use are overlooked, but rather an acknowledgement that there is something more than practical or instrumental values related to these products.

Sociological and anthropological studies of food and food choices have pointed out – among other issues – that consumers tend to conceive eating as a moral matter. Food purchase, cooking and eating are activities deeply embedded in the normative structures and routines of everyday life. Food is not only a form of meaningful communication; it is also a commodity that consumers pay for, as well as being a necessity of life. Buying food therefore is an everyday activity, which constitutes a connection between two different spheres: the market and family life, a duality, which should also be reflected in studies of food.

In recent years, the perspectives of social scientific studies of food have been broadened further and include, for example, important contributions from economic sociology and social geography as well as political economy. Moreover, food consumption as a form of political voice has received considerable attention, not the least with reference to organic food. The term 'political consumption' emerged first in marketing research, where it is still being applied, referring to a group with particular

values and lifestyle. In social scientific work, this is rather studied as a phenomenon associated with changing forms of political mobilization and voice, referring, among other things, to democratic theory, and to changing relations between consumers and suppliers.

These latter contributions direct attention towards the structures of systems of provision and the political and institutional contexts of distribution and consumption, as well as consumers' participation in these contexts as both buyers and citizens. Thus, the focus of much recent work has been redirected from a concern with the role of food in family life towards social, political and institutional conditions for the consumption of organic food.

What emerges from these very diverse social scientific approaches is that the consumption of organic food can be many-sided and complex. A common theme is that in order to understand the ways in which people experience organic food, how they evaluate such key concepts as 'safety' and 'quality', and the extent to which organic foods are chosen in preference to conventional variants, an approach is needed that takes account of the contexts of social action and the manner in which everyday activities are embedded in interpersonal relationships and institutional patterns.

Differences in the priority accorded to various quality attributes of food may reflect differences between the roles of social actors in the food system. In a Norwegian study of quality conceptions related to the purchase of vegetables, Lien and Døving found substantial differences between consumers, wholesalers, retailers and farmers with regard to their conceptions of "good quality". Consumers and farmers had a common focus on quality aspects that are not immediately apparent in the store. These included the nutritional value of products, their taste and the extent to which they were produced in an environmentally sound manner, whereas wholesalers and retailers focussed more on aspects of the products' appearance, such as their size, colour and form.

Several studies undertaken during the 90's and reviewed by O'Doherty Jensen have addressed the way in which consumers evaluate food. Many studies document a tendency to evaluate the quality of products

in terms of the extent to which they are perceived as being "natural" or "artificial". Results from a regional survey in Southern Norway, indicate the need to supplement this focus on product attributes. It was found that consumer considerations related to the choice of food include a range of issues related to the product itself as well as issues related to the food system as such. It is important to note how broad the range of consumer interests may be, which can be discussed as consumer conceptions of aspects of 'quality', just as it is important to keep in mind that different concerns may be relevant to consumers in specific contexts.

5. Some Social Scientific Points of Critique of Cognitive and Economic Approaches to Consumption

Within a marketing approach, whether or not consumers choose to purchase a particular commodity is taken to be the indicator of consumer demand, and often used as a basis for interpreting consumer interest. This approach, according to Warde and Martens, is inadequate in that purchases represent only some of the ways in which consumer choice and influence are exercised. They distinguish different levels of choice, as this term is defined in a common dictionary. These are: 1) to select; 2) to pick in preference; 3) to consider fit or suitable; and 4) to will or determine. They argue that these levels of choice tend to be mixed up without reflection in public debate about consumption, and sometimes in academic discourse.

The fourth level of 'choice' for instance implies the existence of freedom for an individual to determine his or her own fate, while the first two by contrast merely entail picking among a given set of items that are available. It is choice in the latter sense only, for which purchases made can serve as an indicator.

The seemingly great freedom of choice and influence of the consumer is often overestimated, and from Warde and Martens' argument it follows that the "truly sovereign consumer" is closer to fiction than to reality. They conclude that: "... the term "choice" inflates the importance of individual decisions and conflates qualitatively different

aspects and level of discretion." They further sum up some of the types of restrictions on personal choice, among them: the availability of resources, systematic inequalities of power in decision-making, shared cultural and aesthetic judgement, and "situational entailment".

They claim that a sociological approach should aim to describe those processes, which restrict freedom, understood as determination of will, and the components of the social logic of restricted choice.

Regina Birner also argues against the assumption that the failure to buy something indicates a lack of interest on the part of the consumer. One basic shortcoming of the tendency to interpret purchase as indicating interest in and support for a particular product is the lack of opportunity to communicate consumer dissatisfaction or desire for change. There is no way to receive qualitative information about what consumers actually want unless the exact incarnation of their wishes are to be found among the products offered on the market.

The inverse of this reasoning is to draw the conclusion that the only reason why consumers might not buy a certain product is a lack of interest in that product. Birner *et al.* list a number of other plausible reasons why consumers may not buy particular products, such as organic food. Factors connected with the product that might influence a decision not to purchase organic food include price distortions (due to external effects, differences in profit margins and know-how), problems of availability, advertising and labeling of products. Factors related to the decision-making of consumers include: trust, information costs and logistical problems, as well as social context and habits.

6. Conclusions

As theoretically expected, lower prices and better distribution, of course, would help to increase the demand of organic products. At the same time, potential organic consumers want good tasting products as well as easy-to-use products which aren't perishable. In terms of product development, better packaging and organoleptic quality standards should be a target for organic farmers and processors.

The consequence level can give information on organic products' positioning. Consumers ask for more information. They want to choose with more freedom and knowledge is an instrument, but they are also interested in more "natural" products: certification and labelling is a starting point, food safety is a desirable target, but most of all they desire to understand and to be aware about how organic production and processing is indeed different from the conventional one, and how organic products can be distinguished.

Organic consumers do not want to be driven by the market, they want to eat healthy and at the same time are not keen to renounce to the pleasures of life.

The value level may be useful to devise a better communication strategy (Peter et al., 1999). "Health" is clearly the key-word to this respect, but it should be coupled with implicit reference to value states such as hedonism, pleasure and achievement, which also act as driving forces.

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The World Bank Vision on the Need of a Global Economic Forecast in the Contemporary Crisis Conditions

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Abstract

This paper illustrates an economic study conducted by the World Bank in line with the European Commission on the progress of the contemporary global economy in the nowadays crisis conditions. Based on this study it is showed that global GDP will increase by 3.3% in 2011 and 3.5% in 2012, and the private capital flows to the developing countries will increase by 3.2% in 2012.

The most affected industries by the global crisis are manufacturing, construction and sales of goods. In terms of social, the economic recession has increased inflation and unemployment and lowered the income of the household product. The global recession operates in an unbalanced economic environment. During 2005-2010, China has experienced the highest growth rate.

The inflation and unemployment rates are still high and vary widely among the main actors in the global economy.

Key words: global GDP, inflation, unemployment, growth rate, global recession

J.E.L. classification: F23

1. Introduction

The most recent comprehensive economic study realized by the World Bank is initiated on a different approach than that of the European Commission. This new approach considers that the new challenge for the world economy is the "nervous markets" related to the tax position adopted by some European economies with high incomes. [1]

2. The GDP Evolution in the Global Business Environment

Against this background, global GDP will increase by 3.3% in 2011 and 3.5% in 2012. The private capital flows to developing countries will increase from 2.7% of their GDP in 2009 to 3.2% in 2012.

As a result of the increased productivity growth, the GDP in the developing countries will increase by 6% between 2011 and 2012. This is more than double than the GDP growth rates in developed countries, which will reach 2.3% in 2011 and 2.7% in 2012 (see Table 1).

Moreover, many countries face economic depression. This caused a significant decrease in the industry's output, investment, trade and an unusual increase in the unemployment and inflation rates.

The global recession is operating in a unbalanced economic environment. Even if this crisis is called "The Great Recession", the same names have had other previous global crises.

Table 1: The Evolution of the global business environment (the annual growth rate of the GDP)

Country / Region	2008	2009	2010	2011	2012
World Economy	1,7	-2,1	3,3	3,3	3,5
Euro zone	0,4	-4,1	0,7	1,3	1,8
Japan	-1,2	-5,2	2,5	2,1	2,2
S.U.A.	0,4	-2,4	3,3	2,9	3,0
China	8,5	7,1	8,7	7,8	7,7
Russian Federation	5,6	-7,9	4,5	4,8	4,7

Table 2: The trend of global economy

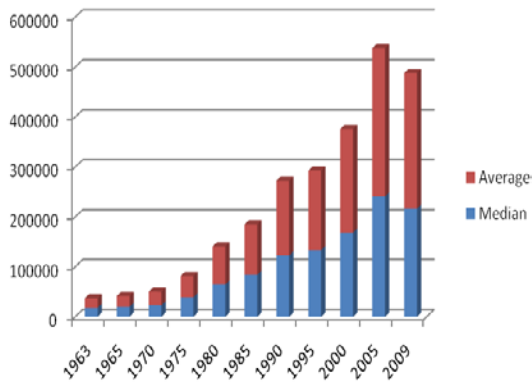
% annual real change	2005	2006	2007	2008	2009	2010
GDP real growth rate						
U.S.	2,9	2,8	2,0	1,1	-2,9	0,9
Japan	1,9	2,0	2,4	-0,7	-5,3	0,1
Asia (exclusively Japan)	8,3	9,1	9,7	6,9	3,3	5,6
China	10,4	11,7	13,0	9,0	6,1	7,8
ASEAN (Indonesia, Malaysia, Filipinas, Thailand) + South Korea	5,0	5,4	5,7	4,2	-0,3	3,3
Candidate Countries	8,0	6,7	4,8	1,3	-3,6	2,1
Russian Federation	6,4	7,7	8,1	5,6	-3,8	1,5
Latin America	4,6	5,4	5,6	4,2	-1,6	1,6
Sub-Saharan Africa	5,6	6,5	6,6	5,2	2,5	3,5
World Economy	4,5	5,1	5,1	3,1	-1,4	1,9
World trade in goods						
World import growth	8,5	9,5	6,7	2,6	-11,4	0,9
The increase in global exports (without UE27)	9,3	8,9	3,6	-10,7	2,1

On the other hand, the current global crisis is considered by many experts as the most difficult after the crisis of the '30s. It has caused the "destruction" of the main commercial and industrial activities, the fall of the costs and of the global economies.

The experts believe that the main cause of shrinkage in the U.S. construction sector constituted an interest rate cut by the FED, from 6.5% to 1% in just three years. It was practically an invitation for people who had higher risks of lending to contract new loans.

As a result, the housing was artificially increased, based on speculative resale conditions. [4] The victims of this process were the commercial banks (see Figure 1).

Figure 1: Median and average sales prices of new homes in U.S.



The crisis in the civil construction sector has expanded rapidly to credit cards, auto loans and the industry. The next step was to export the crisis in world economy. As a result, the economic situation of the most important global actors has changed, especially in 2009.

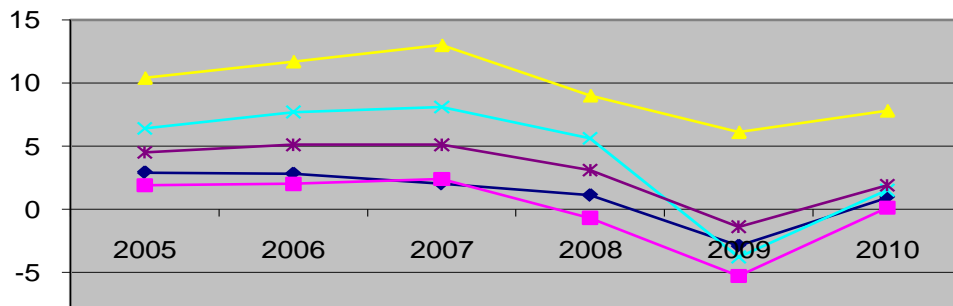
The highest rates of the GDP growth in 2009 were from China (6.1%), India (7.9%), Pakistan (2.6%) and Switzerland (1.5%). The Euro Zone has experienced negative growth rates (-4.0%), even if Germany (0.7%), France (0.3%), Italy (0.6%) and Spain (0.3%) had positive growth rates.

On the other hand, other major economic players have experienced economic contraction: U.S. (-2.9%), Japan (-5.3%), Russian Federation (-3.8%) and Canada (-3.2%). This trend had a negative impact on the global trade connections, as shown in Table 2.

According to Figure 2, China had the best economic development in 2010. During 2005-2010, China experienced the highest growth rate.

All the other major world economies have reached a growth peak in 2007 and a minimum in 2009. Even if their economic development was positive in 2010, these economies are not yet able to obtain the same economic performance as in 2008.

Figure 2: The GDP trend of the major global economic players

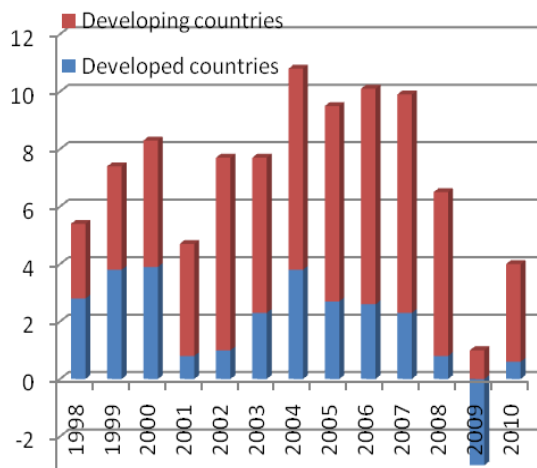


As a consequence, the trend of the world economy during 2008-2010 was similar to that of the largest national economy, except China.

Another interesting finding is that the developing countries experienced the GDP growth rates higher than those in the developed countries except the States of the EU27.

These developing countries, although the average growth reached a maximum in 2007, had continued to record strong growth rates in 2010 (see Figure 3). [2]

Figure 3: Growth rates in the economies of non-EU27 (%)



3. The evolution of inflation and unemployment worldwide

The inflation and the unemployment rates are still high and vary widely among the main actors in the global economy. In 2009, the inflation rate was 0.9% in the Euro area, 2.7% in the U.S., 1.9% in China, 1.3% in Canada and Australia and 2.8% in the Republic of Korea.

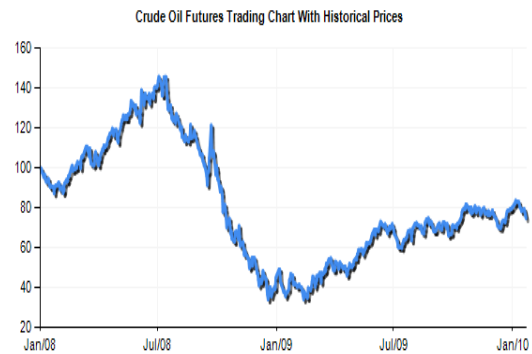
The highest inflation rates were registered in Brazil (4.31%), Russian Federation (8.8%), India (13.51%) and Venezuela (26.9%), while Japan has experienced with deflation (-1.9%).

The global economic contraction has affected the unemployment rate trend. In 2009, it has reached 3.5% in the Republic of Korea, China 4.3%, Japan 5.2%, 5.41% in Mexico, 5.5% in Australia, approximately 10% in the EU27 and U.S. and 23.2% in South Africa.

The financial crisis on the African continent is connected to the chaotic and unsustainable lending practice of the financial operators. As a result, there have been implemented a variety of schemes and financial instruments related to risky loans and security arrangements.

However, the African economies have experienced the decreasing demand and prices for crude oil, platinum and nickel (see Figure 4). [3]

Figure 4: The crude oil Futures transactions



South Africa was the first African economy that has been affected by the current global crisis. Morocco and Egypt have suffered contractions of their national economies, but they have managed to meet the challenges of the crisis.

A report by the OECD and African Development Bank has calculated the decrease of the rate of evolution of the African continent's GDP, from 5.7% in 2008 to 2.8% in 2009. This evolution has affected welfare, inflation and unemployment rates and has increased social and political conflicts in Africa.

On the other hand, the optimistic forecast of the GDP growth by 4.5% on the African continent in 2010 has not turned out.

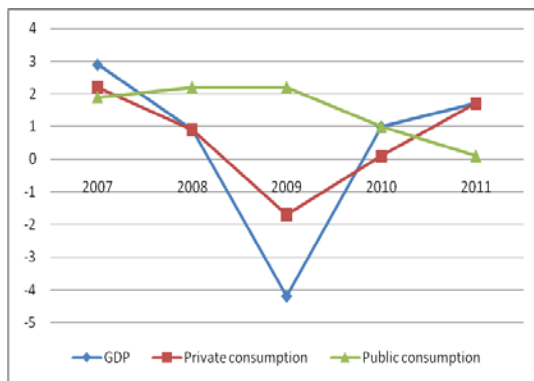
The mining sector, which is one of the most important economic activities in Africa, has suffered great losses due to the decreasing specific demand in Europe and America. The cumulative effect was the decreased African exports and commodity prices.

However, four African economies have suffered the greatest economic contraction in 2009. Angola, which is the largest exporter of crude oil from Africa, has reduced the annual growth rate of the GDP from 15.8% in 2008 to -0.4% in 2009. Seychelles recorded a growth rate of 0.4%, -0.7% for Chad, and The Democratic Republic of Congo -0.6%.

In 2010, the average growth rate was 0.2% in Central Africa and 3.5% in East Africa.

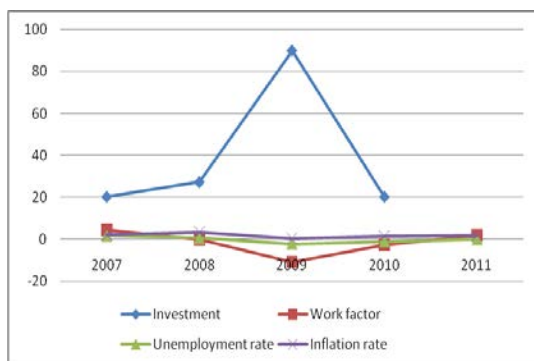
A similar evolution has had the private consumption, which has achieved a positive growth rate in 2010 (0.1%) and will increase by 1.3% in 2011. As a result, the public consumption will decrease on the period under review (see Figure 5).

Figure 5: Evolution of GDP and consumption in the EU27 (%)



Increasing investment and economic contraction have affected the employment factor and unemployment, even if the inflation rate was not so high (see Figure 6).

Figure 6: The evolution of the investment, employment and inflation factor in the Euro area (%)



Another economic giant, the Russian Federation, has reached an annual average growth of 6.8% over the past 10 years. In 2009, the Russian Federation has entered into recession and the real GDP has contracted to 3.8% and to 1.5% in 2010.

The Russian Federation must face the international liquidity decline and contraction in commodity prices.

The most affected sector of the Russian economy is investment, which has evolved from a double-digit growth in 2007, to a shrinkage of 17% in 2009. Against this background, the unemployment rate rose to 5.6% in 2007 and to 9.5% in 2009.

4. Conclusions

The Russian government has implemented several economic measures to help revive the national economy. These measures aimed at liquidity, direct support of the banking sector, firms and households and increased flexibility in exchange rates. The value of this stimulus package amounted to 14% of the Russian GDP.

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The Multinational Corporations and the Global Economy

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Abstract

This paper illustrates the role that multinational corporations have and their trend in the global economy. Multinational corporations are operating at the intersection of production, international trade and foreign investment. These firms are at the heart of debates related to the economic globalization. In the past 20 years the role of the multinational corporations in the world economy has increased significantly. The multinational corporations' foreign direct investment has increased from 180 billion to 1000 billion USD in 2007.

Key words: multinational corporations, world output, foreign direct investment, productivity, profit

J.E.L. classification: F23

1. Introduction

The multinational corporation is a company that controls and organizes production through the production capacity located in at least two states. [1]

U.N.C.T.A.D. estimated the number of multinational corporations to 63.000, corporations that have 700.000 subsidiaries in third countries. The multinational corporations and their subsidiaries hold 25% of the global output and a number of 86 million employees.

In 2002, for example, the total stock of FDI was U.S. \$ 7100 billion, compared with 802 billion dollars in 1982. [2]

Based on the increase of the oil prices, oil groups have dominated the Forbes 500 ranking in 2009 due to lower manufacturing revenue and traditional banks.

The number of American companies in the Forbes 500 standings was reduced to 140, the lowest level since the start of writing tables, published by Forbes magazine in 1995.

The giant retailer Wal-Mart remained the world's largest employer, with 2.1 million employees, exceeding the Chinese National Petroleum group, with 1.61 million employees, and the State Grid companies, U.S. Postal Service and Chinapec.

Despite the additional revenue of \$ 30 billion, Wal-Mart has been relegated to third place of the Fortune 500.

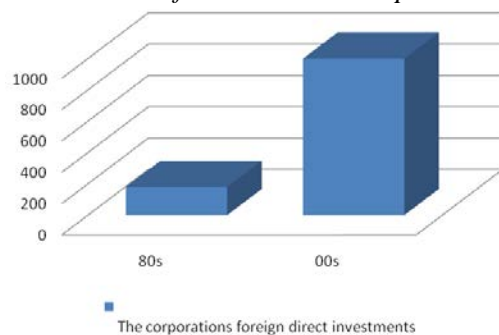
The new rising industrial empire of the world is China, which entered the top ten for the first time with the oil group Sinopec (China Petroleum & Chemical Corp.) ranked ninth, in front of the Toyota group.

In total, China has 37 companies in the Forbes rankings, compared to 68 in Japan. With the entry of nine new companies in 2008, China begins to challenge the positions of France (40 companies) and Germany (39 companies) in the ranking of the world economic giants.

Among the large American companies affected by the financial crisis it can be mentioned AIG, Freddie Mac and Lehman Brothers. AIG holds the sad record of being the company with the biggest losses in 2008 of 99 billion dollars, followed by the companies Fannie Mae, Freddie Mac, General Motors, Citigroup and Merrill Lynch.

Instead ExxonMobil still holds the world record of profitability, with a profit of 45.2 billion U.S. dollars obtained in 2008, followed by the Royal Dutch Shell and Gazprom.

Figure 1: Evolution of foreign direct investment of multinational corporations



2. The Evolution of the Multinational Corporations

Only in the U.S., the multinational corporations have a number of 21.3 million employees, representing one fifth of the labor factor in the American industry. The sales of the U.S. multinational corporations increased by 5.8% in 2004 compared to 2.3% in 2003.

In 2005-2006, the global multinational corporations' situation was as follows:

Table 1: The multinational corporations World Top

The position occupied in the year:		The corporation name	Turnover (U.S. \$ billions)
2005	2006		
1	3	Exxon Mobil	210,392
2	2	Wal-Mart	193,295
3	1	General Motors	184,632
4	4	Ford Motors	180,598
5	5	Daimler Chrysler	150,069
6	11	Royal Dutch-Shell	149,146
7	17	BP	148,062
8	9	General Electric	129,853
9	7	Mitsubishi	126,579
10	8	Toyota Motors	121,416

As shown in Table 1 it is noted that among the world's multinational corporations are headquartered U.S., Japanese and EU companies, i.e. the three major poles of global economic development. Among these

three major world economic powers takes place over 80% of the international trade volume value.

In 2009, the Fortune 500 multinational companies have fired a record number of 821,000 employees, while the total profits made by the largest 500 U.S. corporations grew more than four times to 391 billion dollars.

Thus, the profits of the first 500 companies from the U.S. economy virtually returned to normal after years of extremes - the speculative bubbles in 2006 and 2007, followed by a hard crash in 2008 - despite an infirm economic recovery, away from a return to normal.

The ranking for 2009, including the largest U.S. companies by revenue, is loaded with changes that mark the U.S. economy transformations. The house builders, occupying 14 positions in 2007, disappeared completely from the rankings, falling victims of the crisis, while the pharmaceutical sector has brought nine fresh new entries, reflecting the strength of this industry to recession.

The collapse of the commodity prices removed from the top six energy, oil and oil and gas pipelines giants and pushed the leader last year, Exxon Mobil, to the second position, far behind the new king, the Wal-Mart retailer.

The fall of the auto market has sent General Motors from the sixth place to the 15th place, marking the first year in the half a century history of the Fortune 500 when GM does not fall within the top ten.

The 2009 ranking is loaded by failures and successes, the story of the crisis, the dramas that companies some have gone through, the luck or vision of the others.

But for the 2009 top, the most important issue is clarifying a glaring inconsistency: how the 500 companies have managed to achieve such a strong growth in profits in the context of the steepest decline in revenue from the last 26 years?

The revenues of the Fortune 500 companies, normally the most important indicator for profits, fell last year by 8.7% to 9.800 billion dollars, the biggest percentage decline since 1983.

The answer is unusually simple: once they have seen the sharp fall in the sales volumes and prices in late 2008 and early 2009, the companies started to cut spending frenzy.

Basically, the corporations produced less cargo with fewer people.

Two thirds of the cost reductions came from the crucial area of labor costs. In 2009, the Fortune 500 companies have laid off 821,000 employees, the highest number in history, representing nearly 3.2% of all employees. Thus, by mid-year, the corporations produced fewer commodities with fewer people.

In the mid 2009 there was a burst of pace. The sales have passed the point of minimum and began to increase slightly, while companies continued to fire.

The result was a huge leap in productivity. Today, the major U.S. employers maintain austerity regimes imposed during the crisis, although the economy has finally started to grow.

The profits booming return come mainly from three sectors, namely financial services, consumer industries with cyclical developments and health.

Last year, the banks, securities firms and insurance companies reduced their total losses from 213 billion dollars to just 20 billion dollars. The best example is AIG, which went from a loss of \$ 99 billion in 2008 - the largest in the history of the Fortune 500 - to a loss of only 11 billion dollars last year.

The investment banks, including the giants JPMorgan Chase, Wells Fargo and Goldman Sachs had combined profits of 38 billion dollars last year, after losses of \$ 8.7 billion in 2008.

The retailers, led by Wal-Mart, were able to grow their business by attracting "the bargain hunters", more and more in the context of lower wages and rising unemployment, replacing the shelf quality products with cheap goods.

The star of the 2009 Fortune 500 is undoubtedly the health sector, which registered record profits of 92 billion dollars (up by 33%, or 23 billion dollars), surpassed only by the high tech industry, with 94 billion dollars.

On the European continent, the most important multinational corporations are:

Table 2: The multinational corporations European Top

The position occupied in the year:		The corporation name	Turnover (€billions)
2005	2006		
1	1.	Daimler Chrysler	210,392
2	2.	BP	193,295
3	20.	Total Fina Elf	184,632
4	3.	Axa	180,598
5	7.	Royal Dutch-Shell	150,069
6	4.	Volkswagen	149,146
7	5.	Allianz	148,062
8	6.	Siemens AG	129,853
9	10.	Eon	126,579
10	8.	Deutsche Bank	121,416

In 2008, Nokia was the most important European corporation, with an estimated value of 38.2 billion Euros. [3]

The French LVMH brand ranked second, with a value of 34.9 billion Euros, followed at a difference of over ten billion by the UK brand Vodafone (24.1 billion).

In the fourth position was the Spanish telecommunications company Telefonica, with a value of 22.5 billion Euros. Unilever, the British-Dutch descent company, ranks fifth with a value of 21.6 billion Euros.

The German brands BMW and Mercedes-Benz occupied the sixth and seventh positions, with values of 21.3 and 20 billion.

The Royal Bank of Scotland was ranked eighth, with a value of 19.1 billion Euros, followed at a difference of only 10 million Euros by France Telecom. The tenth position was occupied by Deutsche Bank (18.1 billion Euros).

The study revealed a strong discrepancy between the brands in Western Europe and Eastern Europe. Thus, the aggregate value of the top ten brands in Germany, the United Kingdom and France represent 46% of the total value of brands from the 24 countries examined. Other 44 percent return from brands in Italy, Spain, Switzerland, Netherlands, Finland, Sweden and Austria.

The Eastern European countries were dominated by multinational corporations' brands, while local brands were poorly represented. Exceptions to this rule were OTP Bank, Beeline or Gorenje.

Germany was the center of the most powerful European brands, being the home for leaders of 7 from the 16 industries analyzed. Moreover, 15 of the top brands in the 50 European brands were from this country - especially the companies from the automotive industry.

The most valuable European brands affect positively the origin countries economy. For Finland, the most valuable European brands in October 2008 brought in a contribution of 37.3% to its GDP, while the percentage stood at 26.6% in Switzerland. The European average was 9.4%, exceeded by Austria (16.5%). On the last positions were located Romania (0.5%) and Bulgaria (0.48%).

3. Conclusions

By the extent of trade carried out and through special high volume of sales value, the transnational corporations have significantly imposed themselves as another pole of power in the global economy. Basically, two thirds of world exports of goods and services are conducted through the multinational corporations. [4]

An important part of this international trade is conducted between companies and between multinational corporations and their subsidiaries in other states. In the U.S., for example, 33% of exports and imports 40% of runs between this kind of firms.

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Sovereign Debt Crisis in Europe – Romania' Vulnerabilities

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Abstract

Romania is among the countries that are vulnerable to the sovereign debt crisis in Europe. As a result of the global crisis, public sector deficit and debt level increase from 2007 to 2009. Deficit remains high in 2010, with only a modest reduction, while debt level continues to rise. This paper analyzes Romania' vulnerabilities to sovereign debt crisis in the eurozone. Our findings highlight the necessity of major fiscal consolidation and fiscal discipline in Romania - a periphery country - to stay away from sovereign debt crisis.

Key words: sovereign debt crisis, Europe, Romania

J.E.L. classification: F34, G15, H63, O23

1. Introduction

2010 has brought up the issue of sovereign debt crisis in the eurozone that had to bail out Greece and Ireland after they racked up more debt than they could repay. Questions arise regarding Portugal and Spain. In 2011, concern about the situation extends to countries of emerging Europe.

2. Sovereign Debt Crisis – Theoretical Considerations

According to Manasse, Roubini and Schimmelpenninck, a country is defined to be in a debt crisis if it is classified as being in default by Standard & Poor's, or if it has access to non-concessional IMF financing, exceeding 100% of quota [1]. They consider that not all debt crises episodes have to do with fiscal vulnerabilities of the sovereign. Developing an early-warning model of sovereign debt crises, their research demonstrates that high debt (more than

49.7% of GDP) and high inflation (larger than 10.5%) incur the largest default risk. However, low external debt levels (between 19% and 49.7% of GDP) can cause problems when combined with liquidity problems, political uncertainty and pegged exchange rate.

Reinhart, Rogoff and Savastano introduce the concept of "debt intolerance" [2]. They argue that a country's current level of debt intolerance can be approximated empirically as the ratio of the long-term average of its external debt to an index of default risk. Vulnerabilities to debt intolerance are affected by the level of external debt, degree of dollarization, indexation to inflation, short-term interest rates and debt maturity structure.

Manasse and Roubini find that crises differ depending on whether the government faces insolvency, illiquidity, or various macroeconomic risks [3].

Some authors [4] consider that the most important debt factors are the quality of national economy, of political and institutional bodies and of the government.

3. Sovereign Debt Crisis and Romania

Romania is among the countries that are vulnerable to the sovereign debt crisis in Europe because its financial sector is closely linked to highly indebted states on the continent (e.g. Greece), according to the World Bank Global Economic Prospects Report [5].

As a result of the global crisis, public sector deficit and debt level increase from 2007 to 2009. Deficit remains high in 2010, with only a modest reduction, while debt level continues to rise (Table 1).

Table 1. Evolution of Government overall balance and public debt in 2007-2011 (% of GDP)

	Government budget deficit (-) / surplus (+)					Public debt				
	'07	'08	'09	'10	'11	'07	'08	'09	'10	'11*
IMF and Ministry of Public Finance	-3.1	-4.8	-7.4	-6.8	-4.4	19.8	21.3	29.9	35.5	37.7
Eurostat (ESA 95)	-2.6	-5.7	-8.6	n.a.	n.a.	12.6	13.4	23.9	n.a.	n.a.

Source: Ministry of Public Finance, *Public Debt Bulletin*, October 2010; IMF, *Regional Economic Outlook – Europe, Building Confidence*, October 2010; EUROSTAT

According to Ministry of Public Finance data [6], the public debt at October 31, 2010 reached 182.4 billion lei, representing 35.5% of GDP. Although the public debt remains below the reference set by the Maastricht Treaty, 60% of GDP, the growth is sustained. In less than three years, public debt has doubled to 182.4 billion lei from 82.3 billion lei at the end of 2007. 93.7% of the total volume is government debt, direct or guaranteed.

To prevent worsening economic and financial situation in 2009, Romanian authorities have agreed a financing package for 2 years (May 2009-May 2011) of €19.95 billion with the International Monetary Fund - €12.95 billion, European Union - €5.0 billion, World Bank - €1.0 billion, European Bank for Reconstruction and Development and European Investment Bank - €1.0 billion.

The Government's austerity measures are stipulated by the Law on measures necessary to restore budget balance adopted in June 2010. The adjustment plan is to a significant degree expenditure-based, although it contains also some tax-based components.

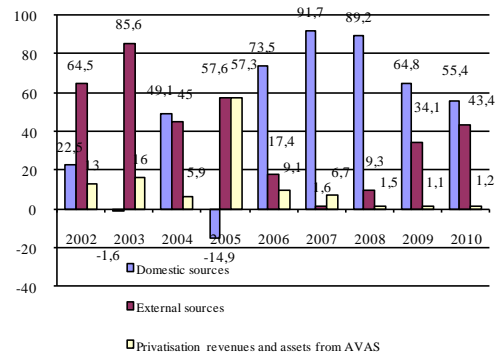
In Romania, expenditure measures for the fiscal deficit reduction were cuts in public sector wages (by 25% since June 2010), freezes in pensions, increases in the

flexibility of government expenditures and public employment cuts.

On the revenue side, the decision was to maintain a 16% tax rate on income and profit and to increase the standard VAT rate from 19% to 24% since 1 July 2010. Measures taken in the area of fiscal governance has been the adoption of the Law of fiscal responsibility, the Law on uniform pay in the public sector and the legislation on pension reform.

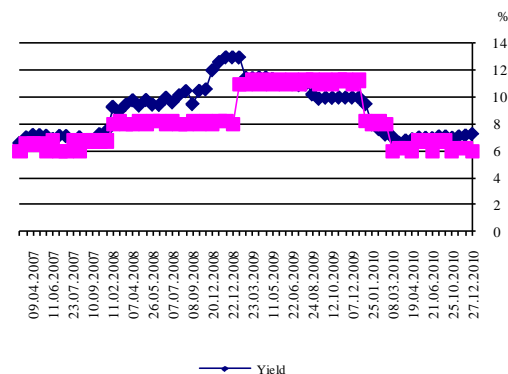
The budget deficit financing during the period 2007-2010 was focused mostly on internal sources, external funding increasing from 1.6% in 2007 to 43.4% in 2010.

Figure 1. Financing the budget deficit in 2002-2010 (% in total)



In 2010, Government made new loans of 44.1 billion lei, mostly by selling government securities on the domestic market. In the first half of the year, the authorities limited their regular market access to short maturity instruments (Treasury bills with maturity of one year). Since November 2010, they have begun to focus on extending the maturity of the domestic currency debt while accepting somewhat higher yields.

Figure 2. Yield and coupon rate of the Government bond in 2007-2010 (% pa.)



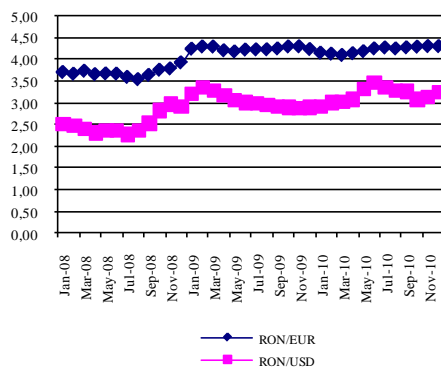
According to IMF Country Report January 2011, Romania plans to launch a "euro medium term notes" program in early 2011 that will maintain its presence in the external markets under more flexible issuance procedures [7].

Government fiscal strategy for 2011-2013 presents the reform program undertaken by the authorities to rationalize public expenditure, public sector restructuring, further actions against tax evasion, prioritizing investments, supporting economic activity and accelerated absorption of EU funds.

End-2010 inflation rate stood at 7.96%, outside the central bank's variation band of $\pm 1\%$ around the 3.5% target. December 2009 compared to December 2008 inflation rate reached 4.74% and 2009 annual average was 5.59%.

The exchange rate has added pressure on inflation, in early 2009 it recorded a nominal depreciation, followed by a relative stability. In early 2010 the exchange rate began a slight appreciation, but on short term, since April 2010 it continuing the depreciation process.

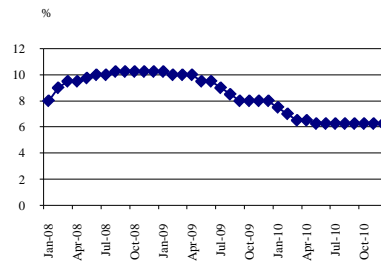
Figure 3. Exchange rate in 2008-2010 (monthly average)



Unemployment rate increased from 4.4% in 2008 to 7.8% in 2009 and in 2010 it registered a slightly downward trend, reaching 6.95% in November.

Compared with 2008 when the National Bank of Romania raised the monetary policy interest rate for six times, recording at the end of the year a level of 10.25%, in 2009 central bank reduced the monetary policy interest rate, reaching a level of 8% at the end of the year. In 2010, monetary policy interest rate continued to decline, reaching 6.25% in May 2010, which remained constant until the end of the year.

Figure 4. Monetary policy interest rate in 2008-2010 (%)



Monetary policy set as a priority for the period ahead the countering of the effects of the standard VAT rate increase starting 1 July 2010.

4. Conclusions

In a speech at the 2010 Leaders' Dialogue Reform Club in London, president of the EBRD Thomas Mirow stressed that sovereign debt is the most damaging direct legacy of the crisis. He considered that "sharp rise in sovereign debt will impose large liabilities on taxpayers in the West for a generation" [8].

Reinhart and Rogoff [9] estimate that debt will be the big issue in the next 10 years.

Kenneth Rogoff, the former chief economist at the IMF, considers that Europe is experiencing problems that will take years to play out. He said, speaking at a conference in Oslo in January 2011: "the periphery countries are obviously in deep fiscal trouble. I think we will see restructuring still in some of the periphery countries".

In January 2011, IMF [10] warned that in the euro area is needed a more comprehensive approach to crisis management that could break the fiscal-financial spiral and reduce the risk of cross-border contagion.

Greece, Italy and Belgium have the highest debt levels in Europe. In this context, Romania has the interest that eurozone to treat its weaknesses so that not to be directly affected.

Romania needs a major fiscal consolidation and fiscal discipline to stay away from sovereign debt crisis.

5. Acknowledgement

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General Issues Concerning the Reconciliation of the Accounting Earnings with the Taxable Earnings

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Abstract

Deferred taxes came from the need to reflect the deferred debts or claims in the financial statements, in an entity's relationship with the state budget. [4]

Given the complexity of the operations leading to temporary differences, in this article we will address general issues concerning the reconciliation of the accounting earnings with the taxable earnings in terms of accounting models.

In order to develop accounting models, we will first clarify the tax matters that affect the entry in the accounts of deferred taxes, after which we intend to briefly present the entry in the accounts of two types of deferred taxes.

Thus we can identify both the deductible temporary differences, which are indirectly involved in future net flows, by the fact that they reduce the tax due, as well as those directly involved in the net flows increase if the laws allow the recovery of tax losses from past profits.

Key words: accounting earnings, taxable earnings, deferred tax, reconciliation, profit

J.E.L. classification: H32, H87, M40, M41, M49, Q56

1. Introduction

Given that the financial statements are a structured representation of the financial position and performance of an entity, and their goal is to provide information about the financial position, financial performance and cash flows of an economic unit, useful for a wide range of users in making economic decision, special attention should be paid to

deferred tax through which is achieved reconciliation of the accounting earnings with the taxable earnings.

In the context of the trend on the European and international level to ensure a common agreed framework for the preparation and presentation of financial statements, we must accept a new formula of the accounting and taxation report, both in connection and disconnection relationships.

Thus, the accounting-taxation connection involves linking the two fields without having an interconditioning relationship; accounting is the main knowledge base of the taxation. Referring to the accounting-taxation disconnection we may say that it derives from the differences between the accounting rules and principles and the tax ones. Once these differences are found, proceed to the reintegration and deductions that are required between the accounting and tax values. [5]

Given these considerations, two sets of earnings are calculated for taxation of the profit: accounting earnings and taxable earnings. [2]

A large number of accounting professionals often complain that accounting principles are not observed by taxation and accounting is subject to taxation, some even argue that "total disconnection of taxation from accounting" is required. [1].

Thus, there is the question of their reconciliation, and most accounting standards currently used in the world provide certain methods in this regard.

Specifically, this reconciliation is achieved through the *deferred tax*.

The motivation to reflect the deferred debts and/or claims in the balance sheet, in an entity's relationship with the state budget,

due to temporary differences arising between the tax basis of assets or liabilities and their book value recorded in the balance sheet is the production of *immediate positive effects*, such as: reduction of a current liability with taxes to the state budget and prevention of false profit distribution to owners, both resulting in an outflow of resources. Given the complexity of the classes of balance sheet assets and liabilities that may result, in certain circumstances, in temporary differences, next we will deal with claims and debts regarding the deferred tax.

In order to reflect such operations in the accounts, first we must point out the defining and characteristic elements of the deferred tax, the advantages and disadvantages of its use, without forgetting the tax treatment.

2. Theoretical considerations on the deferred income tax

To clarify the theoretical matters regarding the deferred income tax, we consider it appropriate to refer to the tax base that generates it.

Thus, *the accounting profit* refers to the profit or loss from a certain period, before deducting the income tax expenses.

The taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules set forth by the tax authorities, based on which the income tax is payable (recoverable).[6]

The specific way to achieve reconciliation of the accounting earnings with the taxable earnings depends on the accounting and tax regulations applicable at a given time.

We can say that the accounting earnings and the taxable earnings are separated by two categories of differences: permanent differences (which are not subject to any accounting records) and temporary differences (subject to accounting records designed to reconcile the accounting earnings with the taxable earnings).

The permanent differences are represented by:

➤ *non-deductible expenses* that the tax authority definitively refuses to deduct due to their unjustified nature, due to their excessive size etc.; [7]

➤ *tax deductions*: these are revenues or other amounts that the tax authority permanently refuses to tax. [8]

The temporary differences are the gap between the book value of an asset or liability in the balance sheet and their tax bases. They are generated by the fact that the tax incidence of certain transactions or events takes place at a time different from that of recognition in the accounts. [2]

There are two types of temporary differences: taxable temporary differences and deductible temporary differences.

The taxable temporary differences will result in higher future payments regarding the income tax and give rise to deferred tax liabilities. They appear in the following cases: [6]

➤ for balance sheet assets, if the net book value of an asset is greater than the tax base of that asset;

➤ for balance sheet liabilities, if the book value of a liability is lower than the tax base of that liability;

The deductible temporary differences will result in lower future payments regarding the income tax and give rise to deferred tax assets. They appear in the following cases: [6]

➤ for balance sheet assets, if the net book value of an asset is lower than the tax base of that asset;

➤ for balance sheet liabilities, if the book value of a liability is higher than the tax base of that liability;

Given the above differences, we may say that the immediate *positive effect* of using deferred taxes is the reduction of a current liability with taxes to the state budget and prevention of false profit distribution to owners, both cases leading to an outflow of resources from that entity.

The deferred tax is, in effect, a tax credit, a credit granted by the state to taxpayers, without interest, over a certain period of time. If we take into account the tax deductions, unlike them, the deferred tax does not reduce the taxpayer's tax liabilities, but allows for deferred payment of certain tax liabilities.

The limits of using deferred taxes are represented by the fact that the entity must maintain a reasonable degree, not to overdo their use, unless in future years they accumulate very large payment obligations

for activities and profits for the current period.

Taking into account their tax effect it is required to describe the deferred tax assets and liabilities.

3. Accounting models concerning the deferred tax

The temporary differences generate taxable or deductible amounts when the book value of the asset or liability is recovered, that is extinguished.

Thus, we have deferred tax assets and liabilities that were generated by:

- assets, if tax depreciation differs from the accounting depreciation;
- stocks, if they are sold with installment payment and it is chosen to record the installments on taxable income, at the time specified in the contract for collecting such installments; the related costs are deductible on the same due dates;
- provisions, which sometimes may be recognized as deferred tax assets;
- interest, if there are differences between the time of performing and recognizing the interest costs from an accounting and tax perspective;
- tax losses carried forward;
- favorable and unfavorable foreign exchange differences recorded in the retained earnings account.

Due to the complexity of these operations we considered it appropriate to deal in this article with *the entry in the accounts of transactions relating to:*

- deferred tax liabilities arising from fixed assets;
- deferred tax assets arising from accrued expenses.

a) Accounting of operations regarding deferred tax liabilities arising from fixed assets

Assets are defined as resources controlled by the entity as a result of past events, which generate future economic benefits for the enterprise. [6]

The tax base of an asset is the amount deductible for tax purposes from any taxable economic profit to be made by an entity when it recovers the book value of the asset.

If these benefits are not taxable, then the tax basis of the asset is equal to its book value.

A deferred tax liability must be recognized for all taxable temporary differences, exceptions being made to the extent that the deferred tax liability is resulting from:

- initial recognition of the goodwill, or
- initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction it affects neither the accounting profit nor the taxable profit (tax loss). [6].

To understand how to reflect in the accounts the operations regarding deferred tax liabilities arising from fixed assets, we considered it necessary to start from an *application*.

In this respect we assume that a company SIMA has bought a piece of equipment at the cost of RON 500.000, and the estimated useful life is 5 years. From an accounting perspective, the equipment is depreciated linearly and from a tax perspective, the accelerated method is accepted. The tax rate is 16%. It is known that the income obtained from the equipment's operation or disposal will be taxed.

At the end of the first year of use, we will have the following situation:

- accounting depreciation = $500.000 * C_1 = 500.000 * 20\% = 100.000$ RON,
- tax depreciation = $500.000 * C_a = 500.000 * 50\% = 250.000$ RON,
- the tax payable is reduced by RON 24.000,
- *taxable temporary difference* $(250.000 - 100.000) * \text{tax rate } (16\%) = \text{deferred tax liability}$ (RON 24.000), where:

C_1 - straight-line depreciation rate,

C_a - accelerated depreciation rate = 50% of the original cost of the fixed asset in the first year of operation,

$C_1 = 100/5 = 20\%$.

Due to the difference between the depreciation rates, tax depreciation of company SIMA exceeds the accounting depreciation by RON 150.000 in the first year of operation, difference which is reduced from the second year.

This tax recognition of a higher depreciation expense caused a reduction in the tax due by RON 24.000 in the first year, which *is not actual tax savings* but *deferred tax liability* until the expiration of the normal use of the fixed asset.

This case generates the following *entry* in the accounts of the company SIMA:

6912	4412	
“Expenses with deferred income taxes”	“Deferred income tax”	24.000

b) Accounting of operations regarding deferred tax assets arising from accrued expenses

The tax base of a liability is its book value, excluding any amount that will be deductible for tax purposes in the future accounting periods regarding that liability. A deferred tax asset should be recognized for all deductible temporary differences to the extent that a taxable profit is likely to be available, for which may be used the deductible temporary difference, unless the deferred tax asset arises from initial recognition of an asset or liability in a transaction which:

- is not a business combination;
- at the time of the transaction affects neither the accounting profit nor the taxable profit (tax loss). [6]

In this respect, we consider that, in order to observe the principle of years' independence, at the end of year N, the company SIMA reflects in the accounts the interest expense (related to a long-term contracted loan), amounting to RON 2.000, in compliance with the credit agreement, interest which will be paid the next financial year.

In the accounting of the entity SIMA, this case involves the following *entry*:

666	1682	RON
“Interest expense”	“Accrued interest on long-term bank loans”	2.000

Two cases are considered:

a) if the interest expense is deductible for tax purposes, according to the cash accounting the book value of the interest liability is higher than the tax base of the interest liability. This results in a temporary deductible difference of RON 2,000, which gives rise to a *deferred tax asset* of RON 320 (2000 * 16%) which is registered in the accounts as follows:

4412	7912	
“Deferred income tax”	“Revenues from deferred tax income”	RON 320

In the year N +1, the interest expense will be deductible when determining the taxable profit and the company will pay a tax minus RON 320 than normal in an accounting perspective.

b) if the interest expense has been already deducted for tax purposes and the book value of the interest liability is equal to the tax base of the interest liability and therefore there are no temporary differences. That situation is related to the accounting practice in Romania.

4. Conclusions

The option to study deferred taxes is justified by the complexity and significance of this topic in delineating the objectives of a modern accounting from the fiscal imperatives.

We can say that in our country, the issue regarding an entity's development of accounting policies regarding the corporation tax is often placed in the background; the objective of a true and a fair view is abandoned to the detriment of tax provisions.

Thus, deductible temporary differences and the tax credit are indirectly involved in future net flows, because they reduce tax due, and if the laws allow recovery of tax losses from past profits, such resulting deductible temporary differences directly determine the increase in net flows.

If a company fails to recognize deferred tax assets or liabilities, this will lead to distortion of the financial position and performance.

Although these deferred taxes have some *advantages*, their *limitations* should not be neglected, namely a reasonable degree should be maintained and their use should not be overdone, unless in the following financial years very large payment obligations are accumulated.

The tax decision must fall organically within the entity's decisions, so that it may experience a risk and uncertainty reduction. [3]

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Basic Problems Concerning Budgeting in Coal Extraction Units

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Abstract

Given that the purpose of any business, and therefore those working in the field of extraction of coal mineral resources, is aimed at maintaining the equilibrium relationship between revenue and expenditure, the management problem facing firms is to find those methods which allow sizing and controlling this type of relationship. For this purpose, a financial previsions document is elaborated, namely the „income and expenditures budget”, with the help of which mines forecast for a certain period of time, usually a year broken down in quarters, the financial revenues and expenditures, thus ensuring a relationship of financial equilibrium.

Key words: coal mining industry, objectives, planning, budget.

J.E.L. classification: D24, L71, M11, M41,

1. Introduction

Given that the purpose of any business, and therefore those working in the field of extraction of coal mineral resources, is aimed at maintaining the equilibrium relationship between revenue and expenditure, the management problem facing firms is to find those methods which allow sizing and controlling this type of relationship. For this purpose, a financial previsions document is elaborated, namely the „income and expenditures budget”, which appeared as an „instrument of harmonizing and streamlining the relationship between income and expenses"[1], with which the mines forecast for a certain period of time, usually one year broken down by quarters, income and

financial expenses, thereby ensuring a financial equilibrium relationship.

2. Planning – integral part of the management process

A budget is not something born „out of nothing” each year, it develops in the context of the activity, taking into account *the long term planning process* during which the following stages take place (Fig. 1):

❖ *Objectives’ identification* involve specifying the targets on which future actions should be targeted, their achievement must be measurable, usually expressed in financial terms, such as the expected profit or sales, return on capital employed.

❖ *Identifying potential strategies* that entail identifying possible alternatives of action for achieving objectives. To this end one must consider the following *steps*:

~ an analysis of the environment in which businesses operate;

~ an examination of the resources which require a determination having regard to the specific factors that may contribute to the success or failure of their operations;

~ determination of alternative directions in which the organization could develop.

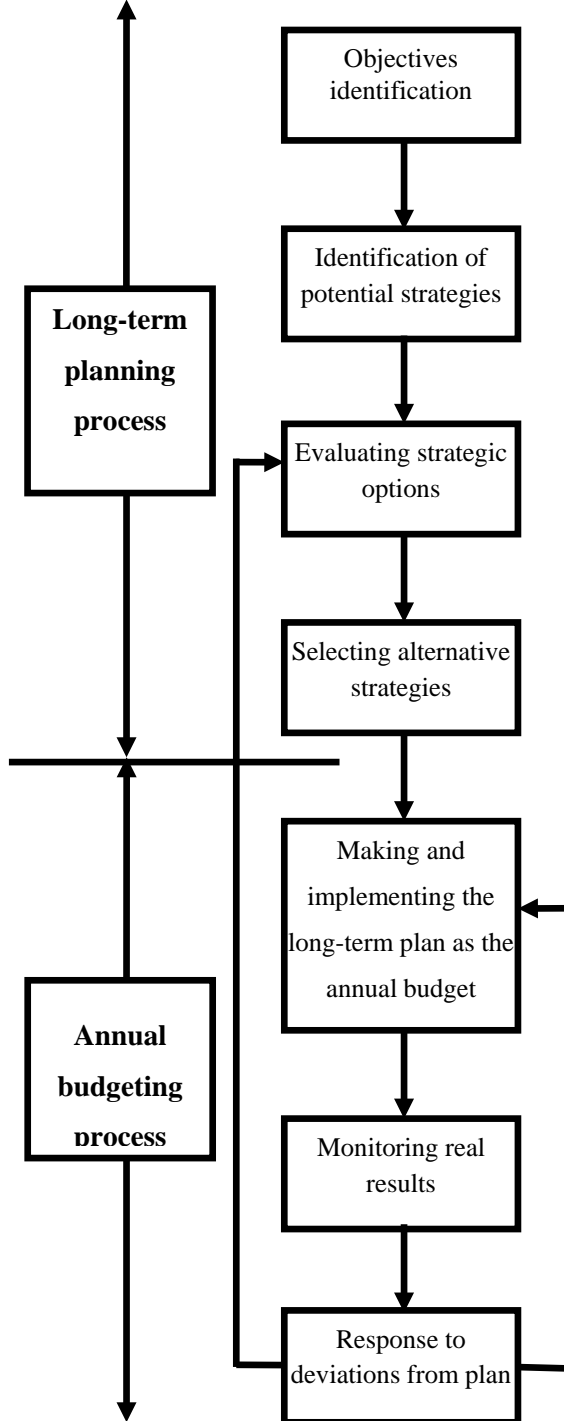
Starting from these steps three *generic strategies* have been identified for the coal mining companies:

✓ *cost-domination strategy* which seeks to achieve this goal by practicing the lowest cost in the range of activity;

✓ *differentiation strategy* involves conferring unique qualities of the product or service provided to the consumer to buy regardless of price;

✓ *concentration strategy* focuses the organization on a particular segment of the market.

Fig. 1 Stages of the planning process



❖ *Evaluation of strategic options* aims at analyzing each type of strategy, given an assessment of the advantages and disadvantages of each, using **differentiation criteria** such as:

➤ *adequacy* that seeks to identify the degree of overlap of the proposed strategies with the situation identified by strategic analysis.

➤ *feasibility* that focuses on checking the extent to which the strategy can be implemented within available resources;

➤ *acceptability* of a particular strategy.

❖ **Selecting a choice of alternative strategies** in boosting strategic objectives proposed by the establishment of long-term plans.

❖ **Making and implementing long term plans** as annual budgets are the first step in the budgeting process and they consider the long-term implementation strategy of the organization in financial terms.

❖ Final stages of the annual budget process: the actual **performance monitoring** and **recording deviations from the plan** have to compare results with those planned and not least the commitment of remedies for these deviations.

Given the **planning stages** discussed above we can say that the budget be considered as an integral part of long term planning, he was influenced by the decisions that were made in the past and implications for programs to be realized in subsequent periods .

3. Budgeting production costs

Most programs and projects are developed and controlled on a budget that can be defined as the quantitative expression of an action plan proposed by management to support a specified period and to coordinate the necessary actions to implement that plan. [2] In this sense, the budget is a forecast figure of objectives and / or the means to achieve them. Given the fact that the need for budgeting is the need to obtain the performance required in a competitive economy that has limited resources available, **the budget** may be defined as a voluntary action plan and an instrument of coordination among the various entities of economic organizations (divisions, departments, activities) to achieve strategic objectives. [3]

Thus, we can say that in any economic unit and implicitly in the coal mines budget is an organizational plan in terms of money short-term forecasts that make the entity on

the income and expenses to be recorded in concert with the strategic objectives pursued.

In the coal mining companies **budget** has the following **functions**:

- to assist in planning operations for the company's strategic objectives;
- to coordinate and ensure the harmony between the activities of different organizational subunits;
- to communicate plans of managers at higher levels to lower compartments' managers;
- to encourage managers to achieve proposed goals;
- to review the current activities;
- to evaluate managerial performances.

In detail, **the characteristics of the six functions of budgeting** are as follow:

Planning - we pointed out that fundamental decisions about planning are taken, usually under long-term planning and development process itself, the budget takes into account the implementation of these plans. Budgeting process ensures that on the one hand, mining managers plan future operations, and on the other hand, taking into account the specific conditions and potential changes, they have to find ways to counteract the adverse situations and to capitalize on the positive ones. Viewed from this perspective, budgeting has to encourage managers to anticipate problems before they arise, thus minimizing the risk of hasty decisions based on opportunity rather than a reasonable rationale.

Coordination – envisages bringing together and arranging a joint plan of action of various parts of the mine. In the absence of a centralized aggregate, individual managers can make decisions, potential divergence of general plans for the facility, and in this the budgeting process aims to precisely reconcile these differences appeared ,having as objective the good of the organization as a whole rather than the benefit each individual field.

Communication – involves all components of business information on mining plans, policies and constraints to which the organization must comply. Budgeting process ensures that senior management communicated its expectations to lower levels, in a way for all members of the organization to understand these expectations and to coordinate their activities

in order to achieve them.

Manager stimulation – is based on knowing precisely the objectives of all heads of mining of departments, through their active participation in preparing the budget. If the budget is required by management to a higher echelon and are more a threat than an opportunity to contest and resist its implementation this can cause negative effects on staff morale.

Control – entails identifying deviations from plan by comparing actual results with budgeted amounts, and by managers to identify the disturbing factors to trigger corrective actions to remedy the situation.

Evaluating management performances is often done by comparing the results obtained with the progress of the budget, the manager being able to evaluate its own performances.

A coherent budgetary system has at its basis some **elaboration and functioning principles**, namely [4]:

❖ **totality principle** which considers the coverage of the company's activities in coordination to ensure a balance between the various functional and operational services;

❖ **superposition principle** of the budgetary system with the authority system in the enterprise;

❖ **solidarity maintaining principle** between departments and of **concordance** with the general policy of the enterprise;

❖ **principle of suppleness** in an increasingly constrained socio-economic environment;

❖ **principle of coupling with the personnel policies** to find a motivation of staff in line with the aimed strategic objectives.

Business budgets in the specialized literature are **classified according to several criteria**:

1. Coverage criterion under which budgets are divided into:

~ *general budgets* that consider the fundamental objectives of an enterprise even if it is within the scope of coal extraction;

~ *Partial budgets* to provide for the development of sub-objectives arising from its fundamental objectives.

2. Budgetary responsibility criterion establishes:

- ~ budgets prepared by departments and management positions;
- ~ budgets elaborated on products, projects or activities.

3. Periodical elaboration of the budget criterion provides their division into:

- ~ periodic budgets which take into account a certain period of time: year, quarter, month;
- ~ *continuous budgets* which provide a continuous supplement of the regular budget before the expiry of fixed periods.

4. Criterion of adaptability to changes in exploitation activity divided into:

- ~ *static budgets* which include usually revenues and expenses at a single level of activity considered as unaltered;
- ~ *flexible budgets* which have in view calculating revenues and expenditures based on actual production levels achieved during the budgeted period.[5]

5. Criterion of budget importance according to which we have:

- ~ *Basic budgets* developed as a rule for the production which forms the basic object of production for the enterprise;
- ~ *Resulting budgets* whose elaboration starts from the basic budget and has in view the supply budget, treasury budget, investment budget, etc..;
- ~ *Master budget* which considers the coverage of a single budget for all budgets and industries developed in three parts: [6]
 - * regular budgets which include sales budgets and marketing activity, production budget, the budget for supply / consumption of raw materials, human resources budget, general consumption budget on production, general and administrative expenses budget and investment budget;
 - * provisioned account;
 - * provisioned balance.

Treasury budget is added to all this, he is a resultant himself of all other budgets.

For the beginning of the year, the procedures for drafting and approving the budget to be completed, making its operations usually start in August - September of the current year for the next year.

For enterprises operating in the coal mining area, the **budget formulation process** involves a cycle can be broken down into several stages and begins with the identification of overall business objectives and long-term projections.

As a step prior to actual preparation of the budget it is envisaged in anticipation of future events that must take into account the forecast of a large number of factors (sales volume - which is also the main forecast on which are based future projections, the size prices, wages and stock of raw materials, inflation, cost of services provided by third parties, overheads, etc.).

The personnel responsible for budgets should consider the following requirements [7]:

✓ To work in *harmony and adopt a practical vision* during development, which involves a realistic assessment of income and productive capacity utilization, the direct and indirect costs, liquidity, etc.

✓ Establish *achievable goals*, not provide indicators for a budget which are unfeasible as it may be rejected by staff involved in its execution.

✓ *Limited resources are distributed according to need*, production, investment, research, marketing, etc. - which requires discussion, negotiation and acceptance of compromises.

✓ To know that there is *a close link between continuous budgets*, they condition each other. If a budget is influenced by a single factor, the effect spreads its influence on other continuous budgets.

✓ *To participate in the discussion to establish goals and objectives* of the strategy formulation required by all interested persons.

✓ *The need to develop program budgets* that the early period in the overall budget can be implemented. Advance preparation of budgets is one of the essential conditions of an effective budgeting.

✓ To take into account the changes that may occur in which assumptions regarding the basis for drawing up budgets. This

requires the development of *flexible budgets* that can be revised according to changes in business environment.

✓ Establish staff *responsibilities* for implementation of each budget, known as technical control responsibilities. Persons responsible for implementation of the budget are required to keep expenditure within the budget, explaining the causes of their overcoming.

✓ *To track* periodically (monthly) the *execution* manner of budgets.

In specialized literature, a key condition for **budget preparation** is considered to be the human factor, is aimed mainly at the following *aspects*:

➤ **Compliance** of purposes aimed at agreeing individual and group interests with those of the mining company;

➤ **Participation** which supposes the involvement of directors in both the development budget as well as budget control;

➤ **Motivation** envisages encouraging initiative and responsibility and not exercising pressure on the control performance assessment;

➤ **Defining clear objectives** aimed at tracing tasks, so that the objectives of the operation should coincide with individual goals;

➤ **Communication** involves the transmission of accurate and timely information between all hierarchical levels of the enterprise. If the control system is accepted by those who need to realize it, they will impede the flow in information, so that programming decisions will be difficult to take control.

Another key factor in achieving workable and interconnected budgets in accordance with the objectives of the mining company is budget coordination and communication between functions. After testing several versions in the budget, will choose the most feasible and practical form, which corresponds most business objectives are drafted so that the overall budget will be submitted to the general manager. Following approval of the final form, the budget is required for each responsible in each program budget and will indicate the level of activity and expenditure.

With the approval of the master budget, **monitoring and control** becomes part of the job of the manager, and aims to compare the actual situation with the situation expected, and forecasts respectively the long-term objectives of the coal company. Thus, we can say that budgetary control is designed to identify and explain deviations from the budget. It is therefore responsible for the budget of each attribute, because every time when the level of achievement is known it must be seen by the budget allocated for this purpose, which allow for comparisons and decisions on actions to be undertaken in the future. Tracking the budget is made constantly and nonpunctual by comparing each chapter of the budget with the current achievements, following the development, in principle, of the methodology used in the development activity.

Actual results should allow all those who contribute to the preparation of the budget (not just the management company) to design their own future actions to achieve the budget extent developed in the previous period, given that the information provided consistently allow for advanced forecasts.

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Some Considerations on the Liberalization of Maritime Cabotage within the Context of EU Integration

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Abstract

The maritime transport activity is extremely important to the European Union, taking into consideration its particular contribution to the development of international trade, employment, economic independence and its effects on industrial development (shipbuilding, port activities etc.).

Key words: maritime transport, liberalization, nationality

J.E.L.classification: K 10

The special role and importance of maritime transport activities for the European Union has been materialized in the development of several regulations aimed at ensuring the free access to the common market in this area. At Community level, maritime cabotage, respectively the transportation service between European ports, is seen as a natural consequence of the freedom to provide services in this area and as an optimal alternative to road and air transport.

Although "maritime transport is liberal by its nature and purpose, being based on an extensive and modern international coding"[1], liberalization has become certain after January 1st, 1993, when the transports made between Member States and those involving transit through a Member State have benefited of free services.

The issue of abolishing the restrictions related to the provision of transport services between Member States, so that the internal market comprises an area for the free movement of goods, persons, services and capital, has been raised at the Community level since 1992. Taking as its starting point the need to ensure the freedom of maritime transport services between Member States

and that the Community ship-owners operating vessels registered in a Member State will benefit from this liberalization, it has been decided to adopt, at Community level, several provisions in order to regulate this issue.

Thus, on December 7th, 1992, the EEC Regulation implementing the principle of free movement of maritime transport services within Member States [2] was adopted, and it entered into force on January 1st, 1993; starting from this date, it has been mandatorily implemented within the Member States of the European Union.

The adoption of this Regulation and the intervention of the European Commission in order to improve the maritime transport conditions is likely to ensure the safety, the maintenance of open markets and the increased competitiveness in this area, which is repeated in the three priorities in the development of maritime policies [3].

According to the provisions of this Regulation, shipping services within Member States, or, in other words, maritime cabotage services, represent the services normally provided for a remuneration which include the continental cabotage (the transport of passengers or goods by sea between two ports situated on the mainland or on the main territory of one and the same Member State without stopovers on islands); off-shore supply services (transportation of passengers or goods by sea between any port in a Member State and establishments or structures located on the continental shelf of a Member State); island cabotage (transportation of passengers or goods by sea between ports situated on the mainland and on one or more islands of the same Member State or between ports situated on the islands of the same Member State)[4].

In Romania, the issue of measures taken in order to ensure maritime cabotage liberalization was raised together with the

transposition of the community legal acts for the accession to the European Union.

Most problems have been identified in the existing legislation. The provisions governing the maritime transport since 1997 and the adoption of the Government Ordinance on civilian navigation nr.42/1997 [5] did not comply with the community rules in this area, although they have been often amended and supplemented.

It is therefore obvious that we need a law which would serve not only to cover the situations which are not regulated by the existing provisions, but which would also ensure the legal frame for a safe development of maritime transport activities.

The requirements imposed by the EU accession, the recommendations of the European experts and the entry into force upon the accession of Romania of the Regulation implementing the principle of free movement of maritime transport services within Member States, Regulation with a direct and mandatory application - all these led to a reconsideration of the existing legislation. This is because the homogenization of legislation seems to be the only solution in order to eliminate the drawbacks posed by the diversity of national legislations and thus to provide the necessary legal framework for maritime transport development. Only a uniform Community legislation can restore into the minds of the participants at the maritime transport activity the confidence that they will always be under the same laws everywhere and at anytime. For this purpose, the Government Emergency Ordinance no. 74/2006 [6] was adopted, and it modified the original title of the normative act in "Ordinance on maritime and inland waterways transport" and certain provisions considered inadequate to the accession process were also amended. This bill was approved with amendments by Law no. 290/2007 [7].

The main amendments concerned the liberalization of maritime cabotage, among other things, because once joining the European Union, the regulation become compulsory to Romania too. Therefore, all provisions of national laws that were contrary to the process of accession had to be abolished.

Thus, according to article 1, paragraph 1 of the Regulation, the freedom to provide maritime transport services within a Member State shall apply to Community shipowners operating vessels registered in a Member State and flying the flag of that Member State; these vessels shall fulfill all the conditions for carrying out the cabotage in that Member State.

The status of Community Shipowner may be reached by any citizen of a Member State established in a Member State or outside the community, and who is engaged in maritime transport activities, in a shipping company established in a Member State or outside the community, when the vessels are registered in a Member State and they are flying the flag of that State[8].

The legislative changes related to the granting of the Romanian nationality to vessels represent a first step in respecting the principle of freedom to provide maritime transport services.

The caselaw reveals that "the nationality of floating vessels is determined by the flag they are flying, and the headquarters or residence are determined in connection to the port they depend upon and they are registered into, a principle that is accepted in international law and undeniable by the positive legislations"[9].

Regarding the conditions under which a ship can obtain the Romanian nationality, we note that through the last legislative measures, they were extended in order to ensure the compliance with the principle of free movement of maritime transport services. If prior to the changes, the right to fly the Romanian flag could be granted only to vessels owned by Romanian natural or legal persons or even by foreign persons with their domicile or branch in Romania, now this right can be granted to vessels belonging to natural or legal persons who have the citizenship, respectively the headquarters located in a Member State of the European Union or belonging to the European Economic Area.

Thus, in accordance with article 44, paragraph 2 of the Government Ordinance nr. 42/1997, republished, vessels have the nationality of the State in which they were registered and whose flag they are entitled to fly. From the text of the law it results that, in order to be granted the Romanian nationality,

two conditions must be met: to be registered in Romania; to be granted the right to fly the Romanian flag.

Regarding the first condition, it is mandatory to register the ships in certain registers, depending on the category they belong to.

The second requirement is related to obtaining the right to fly the Romanian flag. This right is granted on behalf of the Government by the Ministry of Transport exercising the authority in the field of naval transport by the Romanian Naval Authority.

In all cases it must be proven that the vessels are compliant [10] with the domestic and international provisions on the compliance with the technical requirements established for the construction of ships. The fulfillment of this compliance condition is to be proved under the appropriate Act issued by the competent authority.

The regulation allows Member States to conclude public services agreements with the community owners for the provision of transport services characterized by continuity and regularity, practiced under previously established conditions and prices [11]. In cases of serious disruption [12] of the domestic transport market caused by the liberalization of cabotage activities, Member States will ask the Commission to adopt safeguard measures. Thus, at the request of a Member State, the European Commission may take measures which may involve the temporary exclusion of the respective area covered by the Regulation. The exclusion of the area under regulation can not exceed 12 months.

In emergency cases, Member States may unilaterally adopt the appropriate interim measures that can remain in force for no more than three months. The Commission will be notified immediately and it shall confirm or repeal the respective measures pending a final decision (Art. 5).

Also, we must emphasize the legislative changes made regarding the crew. Freedom to provide services defined as "the right to provide services to individuals or companies resident on the territory of other Member States" [13] authorizes any citizen to exercise their activities freely throughout the Community. In maritime transport, however, there are specific Community provisions governing this freedom. According to article

8 of the Regulation, a person who provides a maritime transport service may, for that purpose, temporarily exercise his or her activity in the Member States where the service is provided under the same conditions as those imposed by that State on its own citizens.

Initially, in its republished form, the Government Ordinance nr.42/1997 stated that "the Romanian sailing crew consists of all persons of Romanian citizenship who possess a licence or a capacity certificate obtained in accordance with the legal provisions which entitles them to meet shipboard functions". As a novelty, the Government Emergency Ordinance nr.74/2006 extended the sphere of the Romanian sailing crew, in the sense that it can be composed of persons of any citizenship, compared with the old regulations that provided that this option was granted only to Romanian citizens.

At the Community level, the liberalization of cabotage has also implied the adoption of measures related to policy regarding the competition in order to prevent unfair tax practices, the standardization of the traffic of dangerous goods and the improvement of working conditions.

Also, the re-launching of river and maritime transport on short distances by improving port services and the connections to other means of transport in trans-European networks, the adoption of new regulations on maritime security, of minimal social rules and of a European system of maritime traffic management is one of the objectives of the European Union.

Instead of conclusions

The issue of cabotage liberalization between European ports has not been as developed as land transport. For this reason, we believe that the maritime transport on short distances can be a competitive alternative, taking into account the existence of a European network of rivers able to decongest the terrestrial infrastructure [14].

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Maritime Insurance. On Damage and Means of Coverage

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Abstract

Maritime transport can not be conceived outside the protection offered by insurers. Maritime insurance offers protection to maritime vessels and their cargoes, contributes to the development of maritime transport and, implicitly, to international trade development.

Key words: maritime transport, particular average, general average, insurance

J.E.L.classification: K 10

Despite the progress registered in shipbuilding, the damage of different types and magnitude, involved in water transport, cannot be ignored.

Starting from the idea of maritime solidarity and risk sharing between the participants to the maritime expedition, the problem of covering such damage can be analyzed in terms of their contribution to the costs incurred by losses.

In this respect, the insurance system against risks of losses and damage encountered within the maritime expedition is extremely important for the promotion and development of modern maritime transport.

The maritime insurance is optional. However, because of the risks present more than anywhere else and because of the great values involved (ship, cargo, freight), virtually there is no maritime expedition outside insurance. The aim of the insurance is to compensate the insured party (the shipowner, the cargo owner) for the losses incurred by the risks at sea.

The question is to know to what extent these losses are borne by the participants in the maritime expedition, and thus by their guarantors, the insurers.

The losses in the maritime transport of goods may be total or partial.

Total losses can be grouped into actual total loss, presumed total loss and total loss by interpretation [1].

"Actual total loss" equals to the total destruction of the insured asset (ship, freight).

"Presumed total loss" refers to the situation where there is no information on the ship for a certain period of time, and it is arisen the presumption that the ship has disappeared as a result of a risk of the sea.

"Total loss by interpretation" is characterized by the fact that the insured object exists and that it could be saved, but the damage is so great that it would require expenditures which would exceed the insured value or when the cost of repairs would exceed the value of the vessel repaired.

In accordance with the general principles of law, the losses are covered by the owner of goods. In the case of insured goods, the insurer will requite the insured within the limits agreed within the contract.

Thus, in case of "actual total loss" and "total loss through interpretation", the rule stipulates that the insurant will receive the insurance indemnity from the insurer, leaving the missing vessel to its disposition.

In the event that the insurer has paid the compensation for "total loss by interpretation" and the insured goods (ship) has not disappeared, according to the principle of subrogation, it will follow the arrival of goods at their destination and the collection of the corresponding freight. This is merely a consequence of the fact that the respective loss was not due to a threat against which the freight has been insured. However, in order to avoid these situations, there are inserted appropriate clauses which exclude the right of insurers to make claims in connection to the freight no matter whether the ship is abandoned or not.

In the carriage of goods by sea, besides total losses, damages borne by the property owner and, implicitly, by his/her insurers,

there are also partial losses (damage) caused accidentally or intentionally. Damages are divided into particular average, caused accidentally and borne directly by the owner or by the party interested in keeping the affected goods, and general average, intentional losses, borne by the beneficiary parties, in proportion with the values at risk.

Typically, the term "damage" means a material damage or the degradation of something, regardless of its nature, consisting in its total or partial loss. In maritime law, the term "damage" has a broader meaning and includes not only the damage that may be suffered during transport by the ship and/or goods, but also the expenses which will be borne by the participants in the sacrifice made.

In common law, in the implementation of the *res perit domino* principle, loss or damage are and remain under the risk and responsibility of the owner or insurer. This is also the situation of particular average, where the losses caused independently of the human will are borne by the owner of the goods or, if the goods are insured, by the insurer.

In CASCO type ship insurances, particular average is covered by insurers if the insurance was concluded on condition of "total loss, damages and liability for collision", this being the most comprehensive and, at the same time, the most expensive insurance condition. In case of cargo damage, the cargo should have been insured under type A (all risk) or type B (with partial average) conditions, for the owner to receive compensation.

General average means a partial loss, consisting in the extraordinary sacrifice or expenses made intentionally and reasonably for the common rescue of the ship and cargo from a danger which threatens them in the maritime expedition. Unlike the particular average, where damage occurs without the possibility of prevention, in the case of general average, there is a deliberate sacrifice intended to avoid danger or to limit the damage. The distinction between particular and general average is important especially in terms of contribution to damage bearing. In case of general average, the incurred costs shall be paid proportionately by all those who have benefited from the sacrifice made. The classification of general and particular averages is not limitative and the

classification of facts in one of the categories depends upon the court [2]. The distinction between the two categories of average is important in what concerns the bearing of the costs and it seems unnecessarily to investigate the conditions to be fulfilled as long as the event would fall into one of the situations referred to by the legislature [3]. However, in general, it is considered [4] that a partial loss may be regarded as a general average where there is a great and volunteer sacrifice, with useful results. The extraordinary sacrifice, intentionally made in case of general average, is materialized in the emergency measure for the common interest. The general average results in a loss. The extraordinary nature of the act of sacrifice is assessed not in relation to the magnitude of the damage, but compared to its cause. The general average always answers to the idea of necessity reported to the common interest, namely to the intention of avoiding a greater danger.

In the Romanian Commercial Code, the general average is defined in article 655 as "expenses incurred and damages suffered voluntarily for the common good and deliverance of the vessel and burden". Also, there are listed the things, the expenses and the fact that may represent general averages, some of them being found in the modern regulation on general average.

The acknowledgement of the general average act is translated into sharing the loss. The general average basic principle, known by the trade since ancient times, is that a person whose property is sacrificed for the general benefit must recover the loss by the contribution of those who had benefited from the sacrifice made. The contribution to general damage follows therefore the sacrifice and the extraordinary expenditure incurred for the common rescue of the interests of those engaged within the maritime expedition and it is directly related to the compensation to which it gives birth [5].

Regarding the contribution to general average, article 659, paragraph 2 of the Commercial Code provides that it shall be divided proportionately between the load (cargo) and half of the ship and freight value. The load saved contributes to the general average with the value it has in the port of destination (article 667 of the Commercial

Code) and the ship – with the value it has in the port of destination or with the price to which it could be sold (article 666 paragraph 1 of the Commercial Code).

Regarding the freight due in case of general average, the Romanian Commercial Code provides in article 586 that the shipowner has the right to the freight even for the sacrificed goods, but he/she contributes to the general average. The right to the freight could be lost solely for the purposes of article 587 of the Commercial Code, i.e. for "things lost by shipwreck, kidnapped by pirates or taken by enemies", in the absence of a contrary agreement.

In order to avoid the loss of the freight, an exoneration clause is usually inserted within charter party, for instance: "the freight is earned even if the vessel and/or cargo are lost or not". The effect of this clause is that the shipowner will not contribute with the freight thus earned in case of general average, because the freight was earned before the act of sacrifice, it is not at risk; therefore, it can not be included in the community of interests [6]. In this sense, article 666, paragraph 2 of the Commercial Code provides that "the freight which, by the convention shown in article 587, is earned even in the case of the loss of the loaded goods is not subject to contribution". Also, the freight earned by these means is not included in the value of the goods for which the shipowner contributes with the ship (article 667 of the Commercial Code).

The provisions relating to the general average which are listed in the Romanian Commercial Code do not apply if the parties have expressly provided for the applicability of other rules. The solution results from article 654 paragraph 4 of the Commercial Code which states that "in the absence of a special agreement between the parties, damages are governed by the following provisions".

The general average was subject to various commercial codes, which led to the existence of differences, even if not essential, between the laws of various states. Regulatory differences have led to conflicts of laws largely solved by unifying the rules on the general average. Within the maritime transport, the *York-Anvers Rules* are usually applied (these rules have their origin in Glasgow Resolutions, in 1860, later modified

and brought together under the name of *York-Anvers Rules*, supplemented and amended thereafter) [7].

York-Anvers Rules, included most of the time in charter party and bills of lading, include a set of rules governing the conditions and principles of the general average and the costs incurred in case of general average.

Only the damages, losses or expenses that are a direct consequence of the general average act are admitted into the category of general averages, on the basis of *York-Anvers Rules*. In order to cover the damages resulting from general average, the party which has suffered the loss is entitled to a contribution from the other interested parties. Those interested parties which, within the general average, benefit from the contribution of other partners are: the shipowner, for the value of the saved vessel or freight set out in the charter party or in the bill of lading; the owner of the goods for the value of the goods saved; the charterer under the *time charter* contract, for the freight set out in the bill of lading. The interested parties will contribute to the general average proportionally with the amount of the interest saved (ship, cargo or freight).

Usually, the contribution to general average is determined in the unloading port by fulfilling several formalities known as General Average Regulations, established by a specialist in the field, on the basis of the eloquent documentation (bills of lading, manifests, invoices etc.), which will establish the amounts to be allowed within the general average, and the contribution of the parties in order to cover these expenses.

The York-Anvers Rules are applicable in the establishment and liquidation of the general average only if they are included in the charter party or in the bill of lading. Otherwise, the General Average Regulations will be drafted in accordance with the laws of the port of discharge or of the port where the maritime expedition ended. "In the absence of a special agreement between the parties, damages are governed by the following provisions (article 654 of the Commercial Code, paragraph 4).

If the Romanian law is applicable, the procedure will be conducted in accordance with the provisions of the Romanian

Commercial Code and the Government Ordinance no.42/1997 [8].

These regulations establish the obligation of the vessel commander to prepare a detailed written report on any important event happened on the ship's voyage. This report will be submitted to the competent port authority. Also, copies of this report will be sent to the interested persons (shipowners, insurers, experts in General Average Regulations).

Extraordinary expenditures made in connection to the general average are generally covered by insurers. Given the values involved in a maritime expedition (ship, cargo, freight), it is hard to imagine that it would take place without the protection offered by insurers. This is why, in practice, all procedures are perfected between the insurers.

In vessels insurance, the possibility of covering these expenses by insurers depends on the condition on which the insurance has been concluded. The expenses with general average are usually covered by policies concluded under "total loss, damages and liability for collisions" and "total loss, general average and liability for the collision".

In the insurance of goods, if the general average clause was inserted within the policy, this means that the damage to the goods included within the general average and the costs incurred by rescue shall be paid by insurers under the General Average Regulations, drew up in accordance with the legislation of the port of destination or in accordance the *York-Anvers Rules*. Also, in case of general average, the recipient of goods is required to sign a document called average bond drew up by the shipowner. For greater certainty, the shipowner may request a guarantee from a bank or insurer for the payment of the contribution. In this respect, a document is drawn up for the establishment of a *deposit receipt* in a bank, which will serve as a guarantee for the payments in the compensation account within the respective general average. After the establishment of the contribution to the general average by means of General Average Regulations, the insurer will reimburse the insured the general average deposit, according to the insured interest [9].

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Orange Brand Image on the Romanian Mobile Telephony and its Effect on Company's Performance in Crisis Context

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Abstract

The word "brand" is designated to be a name, term, symbol, or a combination of them all, in order to identify goods and services of a vendor or group of sellers and bring a difference in their their goods and services from the competitors. The present study is based on a laborious documentation, but of high interest, made at Orange Romania, the largest mobile operator in Romania, in order to identify all elements supporting this concepts' brand image, values and beliefs. We appreciate that supports the development of the company brand image, its good performance and customer relations.

Key words: brand, brand image, brand promotion, crisis.

J.E.L. classification: M37, M21.

1. Introduction

The *brand*, in essence, is an extremely complex, a distinctive sign used to distinguish a company to identify products and services identical or similar to those of other organizations.

The current status of this research highlights the various ways of expressing the significance of the brand. According to The American Marketing Association, the word "brand" is designated to be a name, term, symbol, or a combination of them all, in order to identify goods and services of a vendor or group of sellers and bring a difference in their their goods and services from the competitors. "

There are specialists [4] who consider the brand to be a symbol that gives customers a certain perception or positioning. The perception of the brand is suggested to the customers to enable a certain value or positioning of the intended product into their minds. A strong brand manages to present the best product value.

The brand is a name and / or a distinctive symbol that is intended to identify products or services as belonging to the producer or the producer group and to differential those goods or services from the competition's [1]. Other authors attribute to this word a very special meaning, which remains in the mind of the consumer [9].

One attribute of brand which ensures business success is simple: "*Brand Simple ideas lead to a strong branding and memorable, that people can relate with, immediately*" [2]. The most powerful generators of success in branding ideas are those that have common attribute simplicity [3].

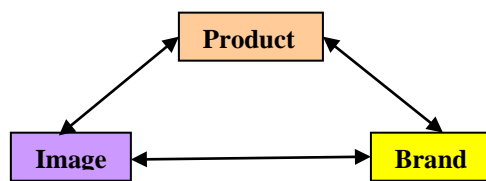
Other concepts designate *the brand* as "an interaction between mental processes about goods and forms and their images about goods that changes consumer's behavior" [6].

Brand have three primary functions: navigation (brands helps consumers choose from a bewildering array of choices) , reassurance (brands communicate the intrinsic quality of the product or service and reassure customers that they have made the right choice) and engagement (brands use distinctive imagery, language, and associations to encourage customers to identify with the brand) [11]

2. The relation between product/brand/company image

There is established between product, brand and image an inter-relationship and interdependence one. This relationship can be seen in figure below (Figure 1).

Figura 1: The relation between the brand/product/company image



Source: product by the authors

The image requires a mental representation of an object, which, given the businessmen area, may be a product, a service, an enterprise or other organization. It is the projection of attitudes, opinions or prejudices of any given person or group of persons towards an organization.

„A brand is not a corporate identity system. A brand is not a product. A brand is a person's gut feeling about a product, service, or company because in the end the brand is defined by individuals, not by companies, markets, or the so-called general public" [7].

The brand image is not only the representation of an object or an attitude, but is also a multitude of values and beliefs perceived inside this expression. The image representation, the brand image, the brand value of a product, service or business are the result of marketing policies related to the management style of the head of the organization, but also the combined effort of professionals and employees. Once the image was formed in the public mind, the product's brand name will automatically suggest the designated product image.

Modern business practice and performance of developed countries shows that good results in their market relations is due to a significant extent, formation of an image and a compelling brand image. Therefore, one of the most difficult tasks of

marketers is to create, launch, protect and maintain the brand image.

In order to find that creative solution, that unique combination of image and text to sum up and express the essence of the values and principles which underlie its existence, the organization can choose one of the following models of branding [5]: culture branding, mindshare branding, emotional branding and viral branding.

To formulate a clear picture of how the organization is perceived by the receptors of its unique speech, Olins [8] proposes the research of three aspects of the organizational life which he considered to be essential: the area or sector in which activates the organization, the organization and its characteristics and brands, businesses and divisions.

The Upshaw author [10] elaborates the main points of a strategy that focuses most on external identity:

- Evaluating the Brand Reality;
- The uniqueness of the Consumer;
- Prompting the Power Positioning;
- Humanizing the Identity;
- Managing Identity Contacts in the Real World;
- Analyzing those Brands that Succeeded and Failed at Building Strong Identities;
- Gauging what Lies Ahead in Interactive Marketing;
- Minding the Brand Identity.

There are the Romanian market two major categories of brands. There are *symbolic brands*, with strong personality and wide recognition, and *sign brands*, which enjoys a high reputation, but without much substance. In the second category, one can integrate high recognition brands, especially the generics, Adidas, Xerox - as well as national sign-brands - Dacia, Tarom, Mamaia. Everybody has heard of these last ones, but nobody could pinpoint exactly on their essence.

3. Orange brand worldwide

The present study is based on a laborious documentation, but of high interest, made at Orange Romania, the largest mobile operator in Romania, in order to identify all elements supporting this concepts' brand image, values and beliefs.

Orange history begins in 1992 when a new mobile operator, called Microtel Communications, appeared on the British market

[12]. Microtel wanted to create the most personal telecommunications brand in the world, honest and open in dealing with people. He has taken into account many brand names such as: Red, Amber, pecans, Yellow, Miro, and of course Orange.

"Orange" was the name that would fit best with his business ideas, as it had connotations for fun, optimism, and freedom, full of life. Market research showed that people believed this name distinctive and friendly, extrovert, modern and strong. The logo was a simple one, reducing the association with the fruit and supporting the brand purpose, to be direct and honest: a square orange, "orange" being written in small white letters. The company also launched the brand slogan: *"The future's bright, the future's Orange"*. The campaign deliberately avoided the pictures with mobile phones, in order to show that Orange is based on communication and supports consumer benefits. The advertise was focusing on the following promise: *"People will find it hard to believe in future, that voices have ever traveled through the wires. We will not change what you say, but how you say it."*

Orange has built from the very start a strong identity, fresh and clear, to differentiate itself from competition. He defied convention and was prepared to support what he believed in. Orange put customer needs first, introducing simple services, innovative and of high value. He was and still is a leader, not a follower.

When Orange entered the Romanian market, it reinvented an already on market company, namely Mobil Rom, together with its brands, Dialog and Alo, putting them all together. Orange brand was based on an already strong marketing company with a large number of customers.

Another thing that lightened the Dialog image is that it was perceived as a company close to people. Dialogue brought to market a new concept, the "customer oriented", which brings a new attitude and an extra benefit to customers. The line color - orange and blue – are intended to symbolize, on the one hand, sincerity, aspiration, technology, and on the other hand, creativity, human warmth, communication. The name had to have - in addition to any trade, the necessary attributes: simplicity and unique sounding - a strong connection with nature as the service,

in this case Dialog was the best synonym for "communication."

For five years after its launch in 1997 until the rebranding in April 2002, Dialog was almost always the market leader in Romania, trying to design in the consumer's mind a fresh image, a clear perspective on history that they wrote together.

Dialogue Image was supported by the following promotional campaigns:

- The Campaign Gift Dialogue (2000-2001) was an action designed to ensure as close to real people;
- Clock Dialog Campaign to introduce the method of charging per second. This campaign has been nominated Ad 'Or festival in the "Best Campaign for telecommunications services";
- Free Dialogue campaign. The slogan was *"By using Free Dialogue, one can become a night bird"*, and the campaign had a surprising personal touch. A rooster howling at the moon and then a wolf singing like a rooster became the symbol of Free Dialog subscription;
- Flight image campaign speaks primarily about the fact that Dialog means to learn.

All these campaigns have revealed the same thing: Dialogue communication was a more relaxed and free Company, in which everyone presented their views.

Many campaigns have defined the brand image through a clever approach, challenging and full of non-conformism. Such dialogue has won most of the GSM market in Romania and simultaneously launched the latest trends in style approach relationship with the consumer. All these have been the effect of a strategy whose main goal was to anticipate and respond promptly to customer requirements, the slogan being revealing: *"Dialogue makes it possible!"*

4. Orange brand promotion in Romania

Orange was launched in Romania with a performance which speaks of internationality of this brand, carrying a simple message: Orange respects differences between people and knows that people will always communicate to each other, and not with designated places.

Orange continuous challenge is to maintain a clear brand identity, according to the permanent renewal of how these attributes are transmitted. It always chooses association with important

events, "worthy" of brand reputation or establishes its own events. Orange has always involved itself in supporting people with disabilities in communication, education, social, in the environmental conservation by volunteering in disaster mitigation. It aims to support development sustainable society and the favorable trends of the mark in the minds of consumers.

The Orange image can be best defined by the company's statement: "Orange is what we are and what we do, every day." Its creativity, courage, dynamism, openness, attention to detail and consistency are what it defines the brand. Orange means a change in the development patterns and continues to provide quality service, innovation and transparency. The Orange Brand and Orange Romania will outline each clearer day which means this universe and the benefits it brings

5. Conclusions

The current research was based on all documents examined and the information collected within the organization Orange Romania, and was the subject of our study that supports the development of the company brand image, its good performance and customer relations. We appreciate the positive elements of corporate activity and the economic performance and impact on brand image are the following ones:

- Inside the company, all views are heard, however different they may be;
- on internal audit, the company always checks whether managed to meet its obligations;
Orange build business relationships based on trust, honesty and openness - relationships in which all parties benefit. It encouraged the application of ethical principles in all business relationships it establishes;
- Any employee or associate benefits of fairness and safety. There is a working environment where mutual respect is cultivated, involvement and trust. Employees are encouraged to continually develop, both professionally and personally;
the client is always first, taking advantage of quality and value;

- Orange supplier relationships are based on honesty, openness and transparency. Orange is a global brand that adapts to the specific part of each local community. By its actions, Orange is trying to contribute to the welfare of the community in which they operate;
- the company always tries to understand, control and minimize the negative impact that its work could have on the environment - globally, nationally or locally;
- it considers that the existence of the company depends on its ability to achieve financial targets and build long-term success;
- Orange image by outlining the promotion is a new opportunity to develop, strengthen its brand image and values. All campaigns and promotions focuses on communication and it has been continuously proved that the Orange brand is an open, surprisingly, simple, dynamic and honest one.

Orange, the European mobile company, is among the great brands that leads this movement to the point of leaving its telecommunication competition flatfooted in the last century. [13] Even though Orange delivers a tangible mobile service, its message has always wandered away from the product. Loaded with emotion, Orange's brand message is actually all about life. Unlike any other in its industry, Orange has become a brand with a beating heart, a brand that lives.

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Impact of Economic Crisis on Business to the Franchise System in Romania

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Abstract

Given the national context, but also international economic crisis, businesses are seeking the highest returns.

Why would a business franchise win a bet? Because franchising is the most dynamic and powerful method practiced for business development and economic opportunity and the franchisee has the opportunity to become its own franchise architect of the scheme and detailed plan of procedures.

Franchising remains a good recipe for business and crisis. What have changed because of economic difficulties are preferences Romanian entrepreneurs in this field. Thus, if two years before they were attracted to foreign brands, "business is now looking for not much money out of pocket and be easy to operate, that will not last too long before we can open a unit "believes Constantin Anton, president of the Romanian Franchise Association.

Key words: franchising, business, crisis, profit.

J.E.L. classification. M21, M16, E3.

1. Introduction

Romania XXI century, the economic and social point of view, is clearly distinguishable from pre-revolutionary period. Planned economy, centralized economy was replaced by a free market, in which each economic subject can pursue their own interests.

Economic freedom after 1989 was an opportunity for some, while others were disadvantaged by the new rules of market economy.

The range of franchises available on the Romanian market includes a very broad range of offers, both in price and as a field.

Franchise market in Romania has grown sharply, especially on the import franchises. This system broke quickly, and those who turned in time managed to create a safe and profitable business. Companies such as *Coca-Cola, McDonald's, Shell, Marriott, and Hilton* managed to build successful systems on the Romanian market. Failure rate of these companies is almost nil, and all partners enjoy the advantages of the beneficiaries. (2)

In parallel with the entry of international brands in Romania, local entrepreneurs have created successful brands. Some of them have already extended the franchise, and others have announced their intention to create a franchise network. *Angst, Ambassador Plus, Cris Tim, Cubics, Computer Warehouse, Elvila, donut angry, Tina R, Day, Rodipet, International Leasing, Parallel 45, Romstal Optinova, Vinexpert, Twister* Romanian brands that are expanding nationally through franchising. The big advantage is the price of local franchises, much lower compared to offers of international companies. (1)

The high demand on the Romanian market is now in the fast-food franchises. Are not neglected the real estate industry, advertising, fashion or cosmetics.

2. Impact of economic crisis on business to the franchise system in Romania

Romanian businessmen have been targeted mainly to business ideas that cost less than \$ 10.000. Most applications were registered among fast-food franchises, followed by

those in the services area, in third place topping retail franchises.

Among the most popular and developed over 2010 Romanian franchises are selling franchise **Romstal** equipment and facilities, the **Millennium Insurance** **Insurance Broker** in the center of recharging **Eco Refill** cartridges for printers and sports betting **GS BET**. To these are added two franchises Spanish beauty and **Cellulite Nomasvello Block**, according to the ARF.

Franchisors who wanted to expand the concept in this period had to draw the attention of anti-crisis measures, such as lower entry fees and concessions on the duration of the contract or terms of payment. They represent almost half the market share of franchises in Romania. (3)

Like any other business, a franchise depends on the sector in which it operates. Thus, the units have worked closed, mostly in areas affected by the crisis.

The adjustments to the strong expansion plans for the current period is cause for growing franchise segment affected by the new economic context, such as banking and financial services, real estate franchises and the construction of local franchises segment fashion retail, etc.. The franchise segment of the local real estate and financial fields has declined 90% from the previous period of economic crisis. At the same time, the fashion retail declined 60%, while the remaining areas had a decrease of 30%.

Given the market developments and requirements for the current period, domestic investors migrate from one area to another activity. A good example is the franchise candidates to financial and banking systems. With the new context of the market, they are turning to insurance brokerage franchises. **Safety Broker**, concept developing domestic franchise operations in the required type policy (non-life), has extended its network of franchisees in 2010.

During the crisis, continued extension of the franchise start-up investment of less than 10,000 euros and the breakeven point in a year. This includes franchises which do not involve a highly developed infrastructure and mature very quickly - the segment of cheap food franchises or franchise services. On the service, to invest in insurance, training, and afterschool programs for children, beauty salons, car washes, dry clothing, etc...

According to statistics, businesses in the franchise segment went better in 2010 than in 2009. Thus, in 2009, companies in this system showed a turnover of 900 million euros, according to statistics ARF, a high level in 2010 to over 1, 2 billion euros. (3)

Fig. no. 1
FRANCHISE MARKET IN ROMANIA



Source: Romanian Franchise Association

"He suffered more franchises this year in real estate, bank loans, very expensive franchises retail area, particularly on clothing and shoes from major brands, as well as luxury restaurants in the area" (Constantin Anton, president of the ARF, in an interview with the Wall Street journal, article "Cheap Franchises fashionable in times of crisis" by Ana Bâta, November, 2010).

Although in our country, luxury franchises addresses a segment of the population more than 10% of the total, higher income, more than 10,000 euros per month, the business's financial crisis were felt.

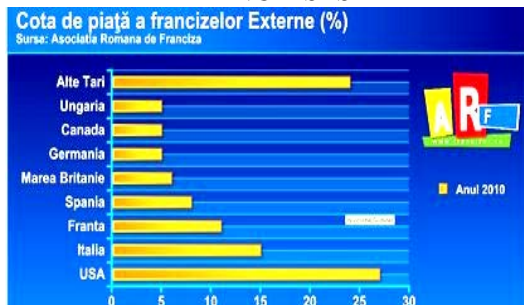
"The crisis has hit both the purchasing power of customers and the owners of luxury franchises operating in our country by worsening market conditions." (Adrian Gheorghe, managing director ThinkBig International consulting company specializing in the franchise segment, the story "luxury franchises market crisis, the Wall Street journal)

Among luxury brands that have reduced the number of distribution units are, according to consultants ThinkBig CPC International and Managing Consultants, **Benneton, Escada, Mexx, Versace Jeans Couture, Frank Muller** and **Hugo Boss**. [1]

Increasing importance of private sector financial crisis has allowed the development investments Romanian franchise system; increasingly more investors discover the many opportunities in Romania. At present, we find our market more than 490 franchise networks, followed the next year to

witness resurgence in popularity, with this system, the leading brands in the fast-food, services or retail.

Fig. no. 2
MARKET SHARE OF FOREIGN
FRANCHISES



Source: Romanian Franchise Association

"In 2011, the market is expected to reliance the franchise, which will encourage the resumption of investment in more expensive franchises, such as retail or hospitality services sector," he told 3idei.ro during the event "Days of Biz" Adrian Gheorghe managing director ThinkBig International.

In essence, the franchise offers a business format which, if adhered to and adapted to the national level will be operational.

Specialists in the field believe that increasingly more people are looking for business concepts that will enable them to maintain at least the first years of business, the jobs they have. Start a business involves initial costs, plus an early period in which, until business begins to bring revenue, entrepreneur finds itself forced to support themselves in savings. Thus, business concepts that can be managed remotely, requiring no permanent presence of the owner will become increasingly in demand because people will want to maintain their source of income to shelter while launching their own business. For the same reason, the impact will be businesses that do not require large investments and the sale or advertising business shall be made directly by the firm, without appealing to other companies or not to contribute to advertising funds.

It will grow increasingly more business categories, such as home cleaning services, after-school services, company that organizes events for children and offer them to fitness centers and art centers.

Franchises activity related to object technology will register increases as well. If only a few years ago, having a website of the company seemed more like a fad, it is now imperative, regardless of their field of activity. Thus, web-advertising franchises, but also providing IT support and maintenance of systems and sites will be in high demand. In parallel, firms providing security and searching video surveillance will grow even more, because even the smallest shops, installing anti-theft systems.

Franchisors in America, Turkey, Italy and Bulgaria are beginning to discover the Romanian market, being attracted to areas such as services, tourism, retail and fast food. Currently, Romania is a target investment of more than 10 world famous brands; they join the existing franchise network, number about 490.

Extension of franchise will be as pronounced in the coming years. Our country is a potential magnet for international franchise network.

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The Accounting Information: between Handling and Audit Quality

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Abstract

The entire evolution of human society is based on the permanent amplification of the information ability. The transformation of knowledge into a “treasury” has become possible by the permanent transmission of the information, gathered from one generation to another, in an interrupted chain, for centuries and millenniums.

Accounting discipline guides the economic life to profitable alternatives and, through the financial statements it provides the most important source of information for both the management and for stakeholders. Audit helps to improve the quality of this particular information, verifying and certifying that the given information is consistent with reality, while auditors are true guarantors for the providing of quality accounting information. In the undertaken study, we have attempted to demonstrate the importance of accounting information in the contemporary world, by reading the through history, from its appearance until the need for certification.

Key words: accounting information, stakeholders, true and fair view.

J.E.L. classifications: M41, M42.

1. Introduction

The new potentials brought about by the “information age” lead to the considerable renewal of business development. Within the current context, business performance depends a lot on the only “distinctive resource” of companies, that is information.

According to the author Peter Drucker, the difference between a company and the others is “its ability to use all types of information – from the scientific and technical information to the social, economic and managerial

information” [1].

Clearly, the welfare of the people is conditioned by the environment they grow in. Undoubtedly, the economic environment has a major influence. A condition of development of the economic environment is to improve the business environment which depends on the acceleration of attracting capital. To achieve this goal, it is necessary to involve accounting, as a communication key for the information in relation to stakeholders, knowing that possession of information is essential to substantiate any decision or, in other words, modern management cannot be conceived without the offer of accounting information. In addition, the increasing of the economic efficiency is conditioned, among others, by the proper development of the accounting system, providing quality information and timely, so as to increase the investors confidence, creditors and other users of financial statements.

2. Accounting information, a permanence of history

The origin of the humanity is the information, recognized as the most important resource, only endless but also the hardest to acquire.

Information is a generic element for the process of knowledge and representation of reality, and of the design and communication in inherent for the human action, on the scale of society – in general – and organizations – in particular.

As for the information provided by accounts science, its evolution has seen some outstanding points. In this context, we venture to assert that a particular form of accounting information has occurred when people first learned to count and weigh their fortune. Known works of history, starting with Hammurabi's Code, which occurred four

centuries ago, include accounting notes, but also raise the question of morality and social attitude, problems which, we see further, propagated throughout history until now. Furthermore, Roman law, especially the commercial one, is also considered a milestone in the formation of accounting as a science in itself. According to the authors Lionel Collins and Gerard Valin, since the third century BC, the Romans designated a person to verify information on provincial heritage. By the early thirteenth century, kings, emperors, churches and state institutions demanded writers, to protect property, or punish the culprits for the wealth of information distortion. Going forward the thread of history, "the one who keeps records" become a major figure of the Middle Ages, being named responsible for the art of business and arithmetic [2].

At the end of the fifteenth century, along with Luca Paciolo and his famous work *Summa de arithmetica, geometria, proportioni et proportionalita*, it has become a conceptualized theory for the presentation of accounting information that has been perpetuated and developed until nowadays.

Paciolo was the one who noted, for the first time, the measurable accounting potential to represent, report, and why not, "inventory" business. Proof that he is and remains the "father of science of the accounts" is the fact that, more than half a century after his birth, accounting has come to be recognized as a social good, a resource full of potential for decision, given to his users in a regulated environment, recognized as the accounting information market.

Nineteenth century was marked by business development, leading thus to the development of accounting information. Therefore, it had come the moment when a validation of a reality check reports were necessary (we can assimilate the accounting information contained in financial statements present), in the purpose to avoid fraud and errors.

3. The accurate representation of the accounting information and the morality in business

Once in the twentieth century, accounting information has to be commensurate with

performance criteria. In the years 1940-1970, with the development of international trade and capital markets activity, the amplification of validation activity of the accounting information specific to banks, employers, financial institutions and credit occurs. In essence, it sought certification for the sincerity and regularity of the accounting information. These features have come to be recognized in the same period, under title of accurate picture.

This is the extent to which objective reality is depicted through a complete and relevant information on the facts and economic processes, expressed in monetary standard. It is widely accepted that, from its inception in 1948 in art. 149 of the Companies Act (Company Law in the practice of Anglo-Saxon) and until now, the faithful image remained a characteristic of accounting information, an accounting objective of reporting to users and a decision-making as a requirement for their quality. However, it has not been clearly defined, except that it is a normative concept of sustainability, which protects users from fraud syncope accounting rules and rulers.

In their paper *Droit comptable* from 1993, French professors Alain Viandier and Christian de Lauzainghein say: "For some people, fidelity is nothing but sincerity or even the prevalence of sincerity over rule observance, which makes them wonder about the real utility of assigning a particular name to a concept already belongs to the accounting law. For other people, fidelity is a concept that is characterized by an energy of its own, which allows the statement of rules., On the contrary, for some other people, fidelity is not a genuine concept, which merely has a guiding role. Finally, for there others, fidelity is the simple combination of regularity and sincerity".

The problem of "loyalty" of the provided information, has both concerned, economic entities and stakeholders. As proofs for the statement mentioned above stands, on the one hand, the international accounting referential, declaring, in 2010, a faithful representation as fundamental characteristic of accounting information of general interest, and, on the other hand, the European Directives, which require accurate picture as part of the accounting practices of each country in order to impose rules concerning

professional reasoning rather than accounting automatism [3].

Although controversial, the term of true and fair view on accounting information, has come to have the same meaning resonance worldwide, and it is an evolutionary process. The true and fair view imperative prevails over all the other legal obligations, therefore relying on the current tendency of harmonizing rules, principles and accounting concepts.

However, one should not forget that both history and especially the present have shown that it is not enough to impose the true and fair view from the accounting information and, implicitly, from the issuing economic entities. Constraint by the economic reality and the growingly emphasized presence of "unfair" accounting information, the economic environment has imposed an external and independent validation of the financial reports publicly provided by the accounting field, a validation achieved by audit. Ever since the occurrence of this activity, its goal has been the improved quality of information and the increased degree of its credibility. Therefore, public institutions together with stakeholders have required audit and consultancy professionals to provide an acknowledgement of the true and fair view on accounting information, as well as protection against international fraud by means of this procedure [5].

4. The quality of auditing - necessity of the present

Nowadays, when information is spreading so fast, all entities are linked in a dynamic network of interconnections and, as at any other level more or less, every action affects the actions of others and is itself influenced by them.

Starting from the previously mentioned aspects, the accounting information credibility is reflected in the true and fair view that it creates in relation to the activity of the issuing entity, and the implications of "altered" and "unfair" information are reflected in the quality of its users' decisions. Certainly, the role of the audit is to certify the fact that the information is affected by a small informational risk, which is actually a guarantee, as well as a validation of its quality [4].

Going forward the thread of history one reaches the twenty-first century and the global information society. With this title, the whole world recognized the potential of information and its role in today's world.

Regarding the accounting information, the same twenty-first century has exploited its highly developed manipulation potential. It is therefore no longer a secret to anyone that most scandals and the world economic crisis are based, to a great extent, on big-scale unauthorized maneuvers. Using numerous financial techniques, applied to accounting information, well-known companies have managed to distort reality in relation to their performance and financial position, providing uncertain information regarding the accounting information (non)quality, thus misleading users' outlook, which has raised issues on the deontology of the accounting profession, and especially of the auditor one. This has drawn attention on an outstanding truth: the observance of the law is more important than the law itself.

The current economic world must assume its own evolution. It must adapt to the lack of material resources and understand that the force currently comes from the permanent information flow.

The recognition that accounting information is a social good and that its use in an incorrect form spreads, altering decision making process and leading to adverse situations, if not disastrous, can help to restore „economic order of things", but also to relieve their rights of the accounting profession and auditing.

The answer has partially been found in the new attitude regarding the audit quality. Seen from a certain perspective, this new attitude may throw a negative image on the audit process, on the accounting professional and on the profession as a whole. But one should not forget that the exception invalidates the rule in any field. Therefore, if one needs self-correction, by securing the audit quality, then this is a small price to pay compared to the benefits that accurate and fair information may bring to users' decision-making process. We eventually subscribe to what the great Johan Wolfgang Goethe said centuries ago: accounting figures do not govern the world, but they express how it is governed.

"Constant" of human evolution, the concept of accounting and accounting

information has become vast and has come to be seen in absolutely all areas of human activity. The omnipresence of accounting information in all sectors of economic life of a nation and its defining feature, of commensuration of size and activity of economic entities, have turned it into a good value yet quantifiable. Although recognized as covering only civil law, accounting information dominates our lives and we cannot exclude it.

Appropriateness of accounting to economic reality image is, on the one hand, a consequence of normalization of accounting, and, on the other hand, the intervention of accredited professionals to verify and certify financial statements, namely auditors. It is important that auditors comply with quality requirements.

5. Conclusions

Within the multitude of information currently changing on various markets due to the free movement of capitals, assets, services and people (construed as the four fundamental principles of the "international construction"), the accounting information continues to occupy a privileged position.

The guarantee of this lies into the importance of accounting, which is considered the primary language of communication in the business world. Given that it quantifies, evaluates, processes and, more importantly, provides information about the activities of the economic entities, regardless of size and geographic location, the users' expectations move towards accounting information for supporting their business decisions.

Overall, the needs for accounting information of the users involve looking for new solutions to guarantee its quality, ranging from the harmonization of accounting practices and international procedures, to the certifying this information by the audit. In other words, these requirements and needs in the development of business impose accounting as a language of communication and accounting information, as a mean. They have public good character, whose role requires more than keeping track of transactions, being absolutely indispensable in representing relations between business and stakeholders.

Accounting has become quite a stake for the actors on the accounting information market – producers, standardizes, users – each following their own interests. Under these circumstances, the product that the accounting provides – the accounting information – may only be the result of a compromise between expectations and exigencies.

6. Acknowledgement

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Human Development in Dobrogea Area – from Crisis to Crises

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Abstract

The aim of this paperwork is, on the one hand, to analyze the data represented by the Human Development Index and, on the other hand, to reveals some possible directions followed by human development under the impact of national and international trends. The position held by Romania and the two Dobrogea's counties in the rankings of HDI is highlighted in a comparative perspective for the period 1998–2009. Taking into consideration that Romania ranks among the last European Union members, the paperwork includes some warning signals on the future of human development in the area and some recommendations for improving the current situation.

Key words: human development, Dobrogea, crisis, health, education, standard of living.

J.E.L. classification: I00, R11

1. Introduction

According to Mahbub ul Haq, the pioneer on measuring human development since 1990, the defining difference between the economic growth and the human development schools is that the first focuses exclusively on the expansion of only one choice - income - while the second embraces the enlargement of all human choices - whether economic, social, cultural, or political. [1]

Through a plastic expression, the human development implies: providing those means by which people may enjoy a healthy life and participate actively in taking decisions affecting their lives; a process of enlarging people's choices.

Policies that take account of human development may allow individuals to acquire certain skills that make them feel less vulnerable to everyday life. This new

approach to development – by placing the individual in the spotlight - has emerged as economic development is no longer an end in itself but a means to serve people.

2. Current status of issue

According to Human Development Report 2006, entitled "Beyond scarcity: Power, poverty and the global water crisis" [2], Romania, though, ranked last in the hierarchy of EU countries in terms of human development has exceeded the threshold value of 0.800 at the Human Development Index (HDI) progresses through all three of its basic components: longevity (Life Expectation at Birth index), education (Enrolment in Education Rate, Literacy Rate) and standard of living (Gross Domestic Product - GDP).

In the historical area Dobrogea, composed from Constanta County and Tulcea County, the health of the population is the key issue of human development in the area, and in general, the premise of education and employment.

Thus, during 1996-2009, the mortality rate in the Constanta County, oscillated between 9.6 and 10.6 per 1,000 inhabitants (10.4 in 2009) and in Tulcea County, between 11.0 and 12.5 to 1,000 inhabitants (12.2 in 2009) - increasing in recent years of economic crisis, and the death rate by cause shows continuing growth of tumors and diseases of the circulatory system, as the main causes of death.

Regarding the delivery of health services, there is a worsening of the situation, both in terms of the number of doctors per 10,000 inhabitants and the population returns to a trained medical environment. All this accompanied by the decrease of the number of hospital beds in conjunction with the increasing number of patients requiring hospitalization reveals a picture of deteriorating health system, aggravated by a

slight increase in public expenditure on health as percentage of GDP, well below the EU-25 average.

Since last summer, the Romania Ministry of Health announced its intention to shut down and merge small and inefficient hospitals; they even talked of turning them in nurseries and homes for the elderly. The aim of such restructuring, as ministry officials have stressed repeatedly to streamline costs related to the personnel administration and health facilities (with bed per patient). The last minute events from Japan underlined the insufficient analysis of some government measures such as the proposal of changing the Cernavoda Town Hospital (the only one equipped with spaces for decontamination in the event of a nuclear accident) in the outer section of the Municipal Hospital Medgidia.

This state of fact will continue to deteriorate, with a direct impact on health and indirectly on the level of living standards, given that, on the one hand, Romania's EU accession has resulted in an exodus of qualified medical personnel and, on the other hand, health care facilities will not benefit from massive investments in modernization and refurbishment.

Finally, even if in health field had been made some progress (especially on the preventive side), the non-involvement and even the setbacks are numerous, requiring quick partnership solutions.

The second premise for human development, the education, focused on issues related not only to the education system, this is an ongoing process throughout life.

Extracurricular education is a process of reassessment of cultural values, both moral and spiritual ones, strongly affected by the current system of market economy. Also, the education system has undergone transformation (curricula, forms during the years on education, alternative textbooks, "step by step" education etc.), so, until now isn't a universally accepted framework. Family, entourage, teachers, and media, each of them, make their contribution to the individual's education.

In Dobrogea, as well as at national level, we may observe an increasing in the rate of enrollment in preschool education, and prospects for change caused by the legal framework, the final year of primary

education will become mandatory, according to new Law of Education [3].

This positive trend is accompanied by the phenomenon of overcrowding of schools as a result of the growing number of children assigned to these; the number of such institutions is falling.

The new legislative changes have been fed by the government desire to relieve the budget by a series of education's expenditure, the lyceum gradually is falling in the private sector charge, steps followed by this type of education are more difficult to make than in the university's case, the 15-16's year old teenager being unable to devote both to the educational process as well as the labour market.

In terms of pre-university population, the decreasing of its number was generated by the demographic reduction and the increase of school abandonment rate, too, especially in rural and disadvantaged areas. If concerning the Roma children's problems were written more articles; we easily forgotten the Romanian children who lost their inclination towards education, not only forced by poverty.

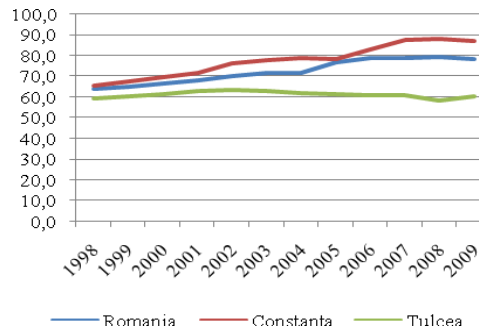
Despite the total number of illiterates has declined in Romania from 1992 until now, has tripled the number of young people aged between 15 and 24 who are illiterate persons. A similar pattern had the school abandonment rate between 2000 and 2009. These are the consequences not only of the financial problems, but also of the family model that has been offered to them.

The university population is concentrated in Constanta County, though, and in Tulcea County there are a number of centers for learning distance, this new form of education rapidly expanding beyond the barriers of space, in my opinion, the advantages of this system surpassing his quality.

During the 1998-2009 gross enrolment ratios by level of schooling in Dobrogea is growing over 22 percentage points in Constanta County, unlike Tulcea County, who it's the overall oscillating, and increased, with only 1 percentage points. (see Figure 1) It should be noted that the gross enrolment ratios by level of schooling is determined by reference to the population aged 5-24 years, although the school population includes people aged over 25 who are included in the compulsory education

(based on various national programs such as "Second Chance") or in higher education (as a result of changing employment requirements of some jobs).

Figure 1. Gross enrolment ratios by level of schooling in Dobrogea



Source: NIS, Romanian Statistical Yearbook 2000-2010 editions

As regarding the main investment in human capital of Dobrogea Area, the population of Constanta County is recorded a high interest for the extension of studying years and a superior qualification, which is not connected however with the local labour market demands, thing which generate either a lost of productivity as well as unemployment. As a difference of Constanta County, in Tulcea, the population has already re-directed to a lower to medium level of education in power to ensure quickly incomes through an earlier entry on labour market, here we had been confronted with a scarcity of high qualified personnel.

The two premises of human development: health and education have as a basis for sustaining economic growth, rising incomes and economic stability seen in terms of reducing inequality and poverty.

GDP per head at PPP, in Constanta County is above the national value, although the growth rate is lower than that recorded nationally. In the Tulcea County, the same indicator values are below the national average growth rate was also below the national level.

3. HDI in Dobrogea – evolution and reform

Among the indicators that composed the system of indicators that characterize human development (human development index,

index of gender disparity in human development, index of women's participation in economic and social profile of human development indicators, human poverty index, health indicators, education indicators etc.) I stopped at the synthetic indicator of human development (HDI).

Based on the data provided the United Nations Development Programme (UNDP) in global and national reports made by it [4]; where the Romania's HDI is calculated, and appealing to a range of data from the National Institute of Statistics (NIS) I have determined the human development indexes for the two Dobrogea's counties. In the figure below we may observe the fact that since 1998 till 2008 the HDI values are increasing, its evolution underlining the disparities between the two counties.

On both counties, we may observe a discrepancy of the human development level, Constanta County, presently, having a higher development, meanwhile Tulcea County is situated itself to an average level, the value of the indicator to 2005 reference year being close by that one recorded in Constanta county in 1999 reference year (the year with the most smaller values of the indicator for all analyzed period).

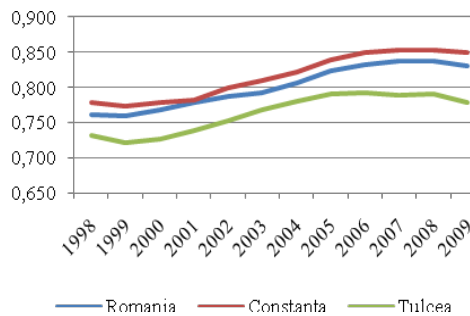
Thus, in Constanta County this indicator values, over the period 1998-2009, are above the national average, but nonlinear, positive gap is reduced in 1998-2001, after which resumes favorable development, since 2003 exceeding threshold of 0.800 which indicates the transition to the high level of human development. Unfavorable evolution, during 1998-2001, of the HDI is a consequence of economic problems summarized by the evolution of GDP, in real terms has declined amid the economic downturn accompanied by lower purchasing power and strong domestic currency depreciation against the U.S. dollar.

HDI values are in Tulcea County consistently below national average - but with a tendency to reduce the unfavorably gap - ranging from 0.731 in 1998 and 0.778 in 2009 as a result of a lower life expectancy than in Constanta County (71.9 in Tulcea and 72.2 in Constanta, 2009 values), a gross enrolment ratios by level of schooling (about 60.4% compared with 87.5% in 2009 in Constanta County) and values of GDP per capita at purchasing power parity below the

national average (in 2009 represents only around 62% of the GDP per head at national level and no more than 50% of Constanta' GDP per head).

The *global economical and financial crisis* that affected Romania beginning with the fourth quarter of 2008 is reflected in the HDI evolution, too. (see Figure 2)

Figure 2. HDI in Dobrogea



Source: UNDP, HDR-2009; NIS, Romanian Statistical Yearbook 2000-2010 editions, the author calculations

The Human Development anniversary Report for 2010 entitled: *The Real Wealth of Nations: Pathways to Human Development* analyzed by examining human development progress in health, education and income since 1970, as measured by the HDI for the 135 countries for which comparable data are available. On this Report Romania ranks 50. The top 10 countries in terms of HDI for 2010 are Norway, Australia, New Zealand, United States, Ireland, Liechtenstein, Netherlands, Canada, Sweden and Germany. Closer to Romania, countries which have entered the top category of human development or "very high degree of development" are Hungary (36) and Poland (41). Romania (50) and Bulgaria (58) are in the second quarter HDI of "high human development", together with Serbia (60) and Ukraine (69).

In 2010 the Romanian live on average four years longer than in 1990, up from 73.2 years and per capita gross national income rose from 8,929 USD per year to 12,844 USD (an increase of 44%).

In terms of education, in 1990, expectations for the years of schooling were 12.5 years, while actual years of study were only 9. In 2010, it expects an average 14.8

years of school, Romanian studying actually only 10.6.

Given these components of HDI, Romania has an index of 0.767 and ranks 50 from 169 countries. Evolution of the HDI over the past 20 years has been increasing with 12% or an annual increase of 0.5% from 0.688 in 1990 to 0.767 in 2010.

The HDR 2010 made some important changes both in composition and manner of calculating of HDI as well as in the inclusion in the HD analysis of new indicators such as: the Inequality-adjusted HDI, Gender Inequality Index and Multidimensional Poverty Index. [5]

In the former editions of HDR the HDI was calculated as an arithmetic average of three indices: life expectancy based on dimension of life expectancy at birth (with values between 25-85 years); education index like an average of literacy rate and gross enrolment ratios by level of schooling (both with values between 0-100%) and GDP per head in PPP as a standard of living index.

In the last edition of the Report, HDI is calculated as a geometric mean of normalized indices measuring achievements in each dimension. The data sources are: life expectancy at birth (values between 20 and 83.2); mean years of schooling (0-13.2) and expected years of schooling (0-20.6) to estimate the access to knowledge through combined education index (0-0.951); gross national income (GNI) per capita in PPP USD (minimum 163 USD – maximum 108,211 USD). This method reforms the traditional vision of HDI and makes impracticable the comparisons.

4. Future of human development

The policies and reforms compatible with progress vary widely across institutional settings and depend on structural and political constraints. [6] Starting from this idea, I would appeal to a quick review of some government's measures made in the last few years, such as: in health domain restricting the medical services package that state covers accompanied by an expansion of the contributors to health insurance budget, also, restricting the number of active units and polyclinics privatization, in education the exit of lyceum from compulsory education system, restricting the number of school

units, reducing budgetary revenues and increasing of the didactic norm, in the economic field, in a economy based on consumption sustained on borrowing, increasing of VAT with 5%, applying of minimum tax last year etc. – to the welfare state to minimal state tough measures given the fact that social spending in GDP are even lower than the EU average (17% of GDP), and public expenses are second lowest in Europe (about 36.3% of GDP) ahead of Ireland. [7]

At national level we are dealing with an increased unemployment, an expansion of informal market [8], leaving of the few foreign investors who have invested in production (such as Colgate-Palmolive or Kraft Foods), low absorption of EU funds, around 50% of national agricultural area is uncultivated and register a negative balance and growing export of agrifood products and the list could goes on.

All these problems are reflected in the onset at national/ regional of *food crisis* – Nomura study placed Romania on 12th place in the world in terms of vulnerability to food crisis, despite the fact that it ranks 25th in the world in terms of arable land area and, theoretically, could provide food for 130 million people [9] -, *energy crisis* - energy network in the former communist countries of Southeast Europe is overloaded and causes many problems, after economic growth recorded since 2000 has led to an energy consumption over the volume was recorded in socialism; the situation is worsening in terms of armed conflict on Arabic countries -, *social crisis* is the first consequence of the economical problems corroborated with the inefficiency of government's measures who was overwhelmed by the chronic budget deficit, it is generating an increase of inequalities and people's demoralization, and are all powered by *institutional and political crises*.

Our crisis comes not only from the socio-economic status, but, surprisingly, is exacerbated by the scarcity of understanding the nature of the problems we are dealing.[10]

The main directions to follow to overcome the crises could be:

- A policy directed to increase public income for balancing our budget who isn't too high, on both income and

expenditure components, but too low. At the end of 2008 many EU members take measures such as: stimulated the necessary supply of cash and trade credits for industry; reduced the tax burden and stabilization of social security costs; stimulated the family's investment - increasing aid and allowances for children; Romania made the opposite.

- To encourage groups of farmers to form cooperatives and invest in their appropriate education; not to punish the agricultural land owners for the inability to use them.
- To support domestic energy suppliers and expand the national use of alternative energy.
... and ... to restore the dignity of workers.

5. Conclusion

“Viewed from the right height, all crises look (more or less) the same, at least as regards their essential characteristics” (said Michael Feiner, Management Professor at Colombia Business School) ...: events start with a “displacement”, expansion of bank credit, demand pressure and prices increase, “euphoria” sets in, bubbles or manias develop, overtrading spreads from one country to another, interest rates, velocity of circulation and prices all continue to mount, financial distress, *crisis* ...till ... the panic feeds on itself until one of three things happens:

- i. Prices fall so low that people are tempted back into less liquid assets;
- ii. Trade is cut off by setting limits on declines, shutting down exchanges, or otherwise closing trading; or
- iii. A lender of last resort succeeds in convincing the market that money will be made available in sufficient volume to meet the demand for cash. [11]

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Higher Education and the Labour Market – Romania Case of Study

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Abstract

In the present paperwork I tried to achieve a SWOT analysis of Romanian higher education through the perspective of national and international trends which outline it, highlighting the interconnections between the higher education supply and the labour market demand. Like any SWOT analysis is focused on an objective, so, I seek the answer to the question: The educational supply is able to respond and to anticipate the labor market demand? In the New Economy context, on labour market began to take shape some features of "creative worker": provider of work that incorporates a high degree of investment in human capital, with emotional intelligence, adaptable and flexible to the requirements of internal and external environment, dependent on HT, mobile and easy to fit in the firm. The educational offer must not only to be linked to the labor market needs but to anticipate them.

Key words: higher education, labour market, new economy, SWOT analysis.

J.E.L. classification: I21, I23, J23, J24

1. Introduction

The Romanian higher education system has undergone massive transformation in the recent years and the reform process is not finished yet.

Romania is participating in the Bologna Process since the time of its launch in June 19, 1999; its purpose is the creation of the European Higher Education Area. Since then and until now has been adopted as a comprehensive legislative framework for the education system to align with the requirements of the various European initiatives to increase student mobility, their

labour market opportunities, to reduce the number of university specializations and to increase participation in masters and doctoral programs.

Synthesizing, commitments so far in the Bologna Process can be highlighted the following requirements that are imposed to the European universities:

1. A common reference framework for qualifications and diplomas obtained in European higher education, based on a system of transferable credits;
2. A certification system of higher education comparable and understandable;
3. The organization of university studies in three cycles: Bachelor, Master, PhD - BMD;
4. Promoting mobility of students, teachers, researchers and administrative staff within the European Higher Education Area (EHEA);
5. Providing a European dimension to quality higher education;
6. Promoting the European dimension of higher education in terms of curricula development and inter-institutional cooperation;
7. Develop strategies for lifelong learning;
8. Enhancing the participation of student organizations to create EHEA;
9. Promoting the attractiveness of European higher education area by students from Europe and other parts of the world;
10. Promoting closer links between higher education and research. [1]

The contemporary economics and social exchanges, are offering to the labour market a triple function of the economy movement mechanism: transmitter, receiver and resonator of the transmutation.

Labor market signals are in the same time economic, social, and societal. The evolution of the employee towards the gradual accumulation of human capital has generated structural changes of the materials and / or financial supply, of the typology and the structure of services. Thus, an increasing

share of resource - knowledge is included in products, their labour evolved into a creative activity.

Labour market received signals from other markets, processes and integrates them in wage bargaining, which generates a reverse flow of information by broadcasters, as a resonance at the restrictions and the limitations imposed by syndicate-employers union rapport and/ or employee-employer.[2]

2. Constraints in the evolution of labour market

European Union (EU) economy, and Romania's, too, is struggling to adapt to the knowledge society that is viewed from different angles:

- some authors consider it as an equivalent or just an extension of The Informational Economy[3];
- others appreciate the Knowledge-Based Economy as a bridge between Informational Society and the so-called "society of conscience, truth, morality and spirit"[4], through knowledge understanding more than high technologies, informatics etc.; it is characterized "by transforming knowledge into raw material, capital, products, key factors of economy and the economic processes in which the creation, sale, purchase, learning, storing, developing, sharing and protecting of the knowledge become predominant and decisive conditions for profit and long-term sustainability of the economy"(author 's translation) [5].

The multitude of terms that attempts to define this phenomenon also indicates that what has not yet emerged, and sat in stable forms can't be labeled clearly and unequivocally [6]; therefore, I will use the generic term New Economy.

A series of specialists [7] believes that the New Economy indicators could be grouped into five broad categories:

1. *Occupations in information and knowledge*. Indicators measured the degree of occupied in the office and office occupations held by managers, specialists and technicians, on the one hand, and the acquisition of education for employment, on the other hand.

2. *Globalization*. Indicators measure the export orientation of production and foreign direct investment. Such as: share of total employment engaged in producing export goods and services, specific weight of the workforce employed in companies owned by foreign owners.

3. *Economic dynamism and competition*. Indicators measure the number of jobs in the most dynamic companies, so-called gazelle companies, the rate of economic „effervescence”, as a result of the emergence of new business thriving and bankruptcy of some traditional businesses, and public offering of stocks value of companies.

4. *Transition to a digital economy*. Indicators measure the percentage of adults connect to Internet networks, the number of domain named „.com” registered, existing communication technologies in schools and the degree to which the central government and local authorities are using information technology to deliver their services.

5. *Technological innovation capacity*. Indicators measure the number of jobs in advanced technology („high-tech jobs”), the number of scientists and engineers in the workforce, the number of patents in circulation, investment in research and development and the activity in capital risk domain (venture capital).

In the context of the new economy structural and operational changes in the labour market will occur:

- expansion of Internet and intranet is one of the fastest, most convenient and least expensive methods of tendering, respectively, demand for labor there are many sites with this profile, as well as communication and structural change in the relations and working conditions;
- explosive growth in the number of sites was accompanied by a significant improvement in the quality and timeliness of information presented;
- activities are increasingly dependent on various specialized computer programs, this makes the preparation of potential candidates to acquire knowledge of their use;
- provision of computers acquired by companies has increased substantially, as well as connecting to the Internet, there are limitations regarding the networking of computers within firms, individual

generalized Internet access (for employees), and there are no statistics to highlight the Member State level productivity gains through the extensive use of information and communication technology;

- company evolution is strongly correlated with the activity of research and development and innovation and knowledge absorption capacity.

Changes in the labor market and employment developments are directly linked with globalization, as changes in technology, changing age profile of the population (demographic aging generating major imbalances in the socio-economic balance: the pension system, social protection, social assistance, equipment with nurseries, kindergartens, etc. versus nursing home.) shrinking population combined with increasing employment, rising divorce, declining fertility and marriage and spreading of the nonconventional family-the single parent or homosexual families - are all factors of potentiating the poverty and the social exclusion.

Concerns caused by economic globalization tend to merge with larger concerns of global capital strength. „Social dumping” has emerged as a major issue throughout Europe, the accession of new Member States in 2004. According to Anthony Giddens [8], it is essential to delineate the well-founded anxieties by the false ones, social dumping being an emotional term with different meanings, the idea that the availability of cheap labor from Eastern Europe creates downward pressure on wages in rich countries at that low taxes in the new Member States, falsely offering them a competitive advantage over those with high levels of taxation. Fears and concerns as regarding the threat of the living standards in rich countries for the accession of the poor are not substantiated; studies on the economic impact of the accession of Portugal, Spain and Greece have shown positive rather than negative effects on EU member states already. In addition, the effect of EU enlargement on the whole is considered rather low GDP of the new Member States represents only 5% of total EU is in the interest of the whole Union that they can prosper.

On the other hand, China's rapid development as a world center for the production of goods, or India, as an own core for outsourcing resources, throws them in the midst of competition not through the low level of wages, but by the high level of quality and technology. A science park in Beijing includes 56 universities and 232 research institutes. High tech clusters appear not only in metropolitan areas around India, but around secondary ones too. There are two examples of countries that have shown adaptability to the context and market demands and labor market flexibility, which, combined with creative management, have generated success. Identifying innovative solutions is essential, mainly because, if until now the main victims of the transfer of production abroad were manual workers, new forms of transfer-dominated India and China affect different groups (doctors, high tech/HT programmers, accountants, journalists, etc.) from the broad branch of services, the most important segment in modern economies.

Social and technological changes associated with knowledge-based economy have led to the emergence of new occupational divisions: at least 50% of employment in knowledge-based economy is occupied by the so called „connected workers”, who use the computer most of the day without to be HT specialists.

Regional Economic Development Specialist, Richard Florida has assigned the term „creative class” which is compound by people from diverse backgrounds, all ages, different sexual orientations, different ethnic groups, which are mainly in the professional category highly skilled managers and professionals and HT specialists. The key for the economic growth is not only the ability to attract the „creative class”, but to translate that advantage into creative economic outcomes based on new ideas, new businesses in high technology manufacturing and Regional Growth. Florida state has add an index designed to measure the distribution of this new social class - the creativity index, based on four factors: the creative class percentage of the total workforce, the percentage of high-tech industry, innovation (measured by the number of patents per capita) and diversity as measured by the „Gay Index” (the percentage of homosexuals to openly declare their orientation). Thus

being said, it was noted that most local economies and vibrant cosmopolitan is characterized by „the three T's”: talent, technology and tolerance. [9]

Currently, most people's lives are affected by their essential job prospects. The relationship between working and non-working became increasingly complex. Labour market policies have to focus on increasing employability and minimizing the precarious employment. Under the given pressures that globalization carries, labour markets suffer discontinuous changes that lead to life situations with negative but also positive aspects, health problems or changing social relations, to better paying jobs and bringing new enjoyment. To manage these situations, the policy of the second chance plays a key role, providing opportunities to start again after the watershed moments of work, family or other fields. If the old welfare state benefits defined in terms of rights (right to employment, education, social benefits), Giddens believes that Europe is at the point where it must redefine wealth in terms of personal autonomy and self-respect. A good society can be defined by the balance between a competitive market, a robust civil society and a democratic state.

The staff appreciation or job performance evaluation is an activity that today is experiencing a very wide distribution area. If a few years ago there was a tendency to apply for employment tests of conventional intelligence (IQ) for hiring them, recently, a new type of intelligence is gaining ground in organizational structures, namely emotional intelligence (EQ). EQ is a relatively recent behavioral model, rising to prominence with Daniel Goleman's 1995 book called "Emotional Intelligence". The early Emotional Intelligence theory was originally developed during the 1970s and 80s by the work and writings of psychologists Howard Gardner (Harvard), Peter Salovey (Yale) and John 'Jack' Mayer (New Hampshire). Emotional Intelligence is increasingly relevant to organizational development and developing people, because the EQ principles provide a new way to understand and assess people's behaviors, management styles, attitudes, interpersonal skills, and potential. Emotional intelligence is the ability of personal identification and effective management of their emotions in relation to

personal goals. Its goal is to achieve our goals with minimal inter and intra-personal conflicts. Even if a person has sufficient knowledge and intelligent ideas, unless he knows and fails to manage their emotions and feelings, may face difficulties in trying to build relationships with others or a successful career. Emotional intelligence is a mixture of self-discipline, motivation, empathy, open mind, tact and diplomacy.

Without attempting an exhaustive description of the defining features of a person employed in the new economy I shall try to emphasize a few trends which are already emerging in the labour market:

- work provider who builds a high degree of investment in human capital;
- adaptable and flexible to the requirements of internal and external environment;
- H.T. dependent;
- especially endowed with emotional intelligence instead of native/conventional intelligence;
- mobile and easily integrated into business or ... more companies / New Economy companies are making efforts to „adjust” themselves so that to attract "the creative worker".

3. Institutions of higher education market

Among the factors that influence the Romanian demand for education, I would mention just a few such as: "the price" of education, income level, the means for promoting education, attractiveness, etc.

According to the study of National Alliance of Student Organizations in Romania (NASOR) [10], the main reason why a student drops out studies is above his low income. More specifically, financial problems are in 71% of Romanian universities the prime factor of dropping out of studies.

Although the number of foreign students coming to study in Romania has doubled in the past decade according to the estimates of the Institute of Education Sciences (around 40,000 persons), they represent only 4% of all students enrolled nationally in all core areas of bachelor. Most foreign students come from Moldova, Albania, Greece, Ukraine, Saudi Arabia, China and Israel.

The main reasons why foreigners come to study in Romania are "low cost and quality of education in Romania, higher than in their home countries, according to the research institute. Foreign students are particularly interested in the faculties of medicine, economics and technical skills.

In terms of educational offer, according to the Romanian Statistical Yearbook 2010 edition in 2009/2010 we had 26 institutions with 190 faculties and 775,319 students enrolled. (see Table 1)

Table 1. Higher education evolution in Romania

Year	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010
Tertiary education institutions	26	24	21	23	23	26
Faculties	237	268	255	185	180	190
Students enrolled (total) - ths pers.	650.3	716.5	785.5	907.3	891.1	775.3
Technical	161.9	164.7	170.9	178.3	188.7	168.9
Medicine and pharmacy	35.0	36.4	40.0	41.4	47.8	50.1
Economics	188.5	221.6	242.3	294.4	281.4	224.0
Law science	59.6	63.6	82.7	116.5	127.4	112.6
University-pedagogy	195.2	218.9	238.7	265.6	235.9	210.1
Artistic	10.1	11.2	10.8	11.1	9.9	9.7

Source: Romanian Statistical Yearbook 2010 edition

4. SWOT Analysis

SWOT analysis strategic concept comes from '60 research of Stanford Research Institute from U.S.A.

With respect to the higher education from our country I have identified the following aspects:

Strengths - quantify the positive effects caused by internal factors

Financial incentives - social grants, scholarships and merit scholarships granted to students, and private scholarships, provided through methodologies and the annexes to the former Law on Education; notwithstanding the fact that only 10% of universities students know of the existence of private sector grants and scholarships for rural students are practically nonexistent. Furthermore, although the state grants student scholarships, they have no consistency in solving existing problems in the sense that fail to cover meals and accommodation needs of students with low incomes, or to stimulate excellence due to the small value of them. Other facilities include student hostels and discounts to the railway.

The *mobility of teachers* rather high compared with the restricted mobility of students.

A *low level of study fee* compared with those of leading academic centers.

The equivalence possibility of diplomas provides a wider range of employment opportunities for graduates of Romanian universities.

Weaknesses - cumulate the negative effects of internal factors

The relatively low visibility of educational institutions at regional, local, national level - the top 500 Universities in the world as shown in a study from the Institute of Higher Education, Shanghai Jiao Tong University, China, in 2004, ranked only 15 are not from USA and for these only 10 are from European Union (EU), none from Romania (hardly in 2006's top was registered the University of Bucharest).[11]

The lack or insufficient development of Centers for Counseling and Career Guidance, which, are compulsory, according to the Ministerial Order 3235/2004.

The restricted mobility of students which is consequence both of the financial problems and recognition problem of skills obtained abroad when students return to the country; 38% of students encountering problems with the recognition and equivalence of credits obtained in the mobility program. [12]

Often students are taught only to reproduce the information, not to understand it.

Low level of staff remuneration system compared with those of leading academic centers.

Theory laboriously studied in universities is insufficiently correlated with the practice work; a possible solution for improving it might be the restriction of the theory hours and reallocation of time in favor of the performance of practical activities.

Opportunities - brings together positive effects caused by external factors

Assuming the idiomatic expression „opportunity knocks softly” but you have to be ready for it I make only a few possible improvements of the educational system, such as:

Implementing student-centered learning[13]

Extension of active learning techniques

A much closer collaboration with business and social environments to form students as potential employers desire.

Threats - includes the negative effects of external factors

"A pessimist is a person who sees a calamity in an opportunity, and an optimist is one who sees an opportunity in a calamity."

The evolution of education is the direct consequence of the demographical trends, therefore *the trend of school population is decreasing* and this fact will had as consequence to restrict the higher education's activity if we not find the way to increase visibility and attractiveness of Romanian educational system at the international level.

The increasing of the *financial problems* and the extension of it at an important part of people will limit young people's access to higher education.

Dotted items above are just a few, a thorough analysis is imperative for a better and realistic reform of Romanian higher education system.

5. Conclusions

Synthesizing the main trends in higher education are:

- massified of higher education;
- decline of public funding;
- the increase of demographic and socio-economic diversity;
- demand for long-life learning of adults;
- unprecedented development of information technologies;
- globalization of higher education market.

At the question: The educational supply is able to respond and to anticipate the labor market demand? I strongly believed that if weaknesses of the system will be removed and opportunities will be capitalized the graduates of higher education have a higher employability and a quick integration in the firm.

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Learning in a Virtual University

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Abstract

The advance to knowledge society is considered, in the world, as a necessary evolution to ensure the durable development in the context of „new economy”, based mainly on intense-intellectual products and activities, as well as to realize an advanced socio-human civilization. In this context the competent institutions to take care the education of citizens are forced to rethink the development strategies by going so far as to change the forms of functioning, and the whole educational process suffers changes designed to make it more flexible and adaptable to the requirements of players in the labor market. This paper intends to argue in a new manner learning, an essential part of the educational process, an activity which takes place in a modern and effective educational environment, the virtual university.

Key words: learning, e-learning, virtual university

J.E.L. classification: A23, I23

1. Introduction

„The teaching process is a series of activities organized and directed that take place in phases, in specialized institutions under the guidance of persons trained for this purpose in order to achieve certain instructive and educative objectives”. [4]

The essence of the educational process is learning-teaching and evaluation.

Teaching is an activity specific for the teacher, through which he transmits to the students its expert knowledge in the field.

Learning is an activity specific for the student, through which he accumulates a smaller amount or more of the knowledge transmitted by the teacher. Learning is achieved both in the classroom, in the

traditional "face to face" system, as well as at home.

Evaluation is regarded as a "complex task of appreciation of the joint working way of the teacher and his students, in an effort to achieve educational goals designed to a higher level of performance." [4]

Beyond these definitions and the theoretical part of the entire process, is a reality that many of us have experienced it in the classroom, at least until high school graduation. In a traditional university, this situation perpetuates, it is true that at a higher level, but the essence remains the same. The teacher teaches – browse sequentially through the didactical material, students take notes, then learn (most of the times "word by word") what they have been taught without asking too many questions about the ideas presented.

The reason that traditional classrooms are prevalent in current educational system is the familiarity of this model, as well as lack of viable alternatives. But giant steps forward that have been made in ICT lead to an education paradigm shift towards a new model of training, a model that is now sustainable.

2. The virtual university

The concept of *teleeducation* – in the sense of distance education – is a term that describes the courses flexibility and the use of the information and communications technology in the educational process and it was projected to meet the individual requirements both of the student, and of the professors who are no longer dependent of a certain timetable. Distance learning takes place when the professor and the students are geographical separated, and the technology, supported most times by the traditional education, is used to cover some educational needs. There are several models of distance education which, depending on the goal had

in view, adapt the education requirement and the available resources:

- *the independent model* – is the model upon which is built the virtual university. The independent institutions oriented towards distance learning can be multidirectional (they insure training in several fields) or unidirectional (they insure training in only one field);
- *the model of the department specialized in distance learning inside an existing educational establishment* – is the model met at present in most universities in Romania.
- *the model of cooperative structures* – the establishments cooperate both in the education activity, and in accomplishing other functions (production and distribution of didactic materials, teaching-learning techniques, administrative actions etc). This establishments do not enroll students directly, but they offer services for the proper education institutions.
- *the model of hybrid structures* – resulted from combining in different forms of some parts of the models described above. Comparing it to the model of the department specialized in distance education from an existing educational establishment (model that has become vast in scope lately in Romania, as well), the advantages of a virtual university are the following:
 - the creation of an administrative structure proper for the development and management of a system based exclusively on distance education;
 - the orientation of the whole educational process towards distance education, and so towards the optimization of its results, the fact that in traditional establishment it is often considered that distance education has inadequate results, being well known;
 - the pedagogy of distance education is much different from the classical one, the flexibility and the orientation towards the student being two of its defining characteristics. In this context, the teaching staff can create their courses so that they may correspond to the new pedagogic criteria without being necessary to make any compromise that permits the adaptation of the didactic material for another type of education, too

(as it happens in the case of departments specialized in distance education from classic educational establishments);

- the distance students requirements can be best satisfied if the establishment is dedicated entirely to distance education;
- the segment of population which this type of establishment addresses to is much larger and more varied from the point of view of its characteristics, than the target population for the traditional establishments.

The new technologies make it possible for the educational organizations, and not just them, to take what is best in the model based on traditional class, but to use the power and flexibility of the ICT-based solutions. E-learning is now seen as a strategic solution, part of a global business strategy for the entire organization. Its primary function is to develop habits and skills of human resources and to make lifelong learning a low-cost labor.

E-learning advantages are easily seen [7]:

- cost reduction;
- personalization of education;
- more efficient scheduling;
- immediate dissemination of the vital information;
- staff motivation profitability;
- facilitation of assessment;
- increased collaboration and access to information.

New aspects of informatics pedagogy that interfere in the analysis and conception of the elements of online learning, are: [1]

- the interface student – informatic system;
- the structuring and organization of the teaching materials (of instruction);
- the surfing into the knowledge field;
- the visual presentation of the multimedia information;
- the using of the software components specific to the informatic system of instruction.

3. Organizing and conducting the learning process in a virtual university

Virtual University is organized around a field of study and an e-learning platform. Here are preparing students for various

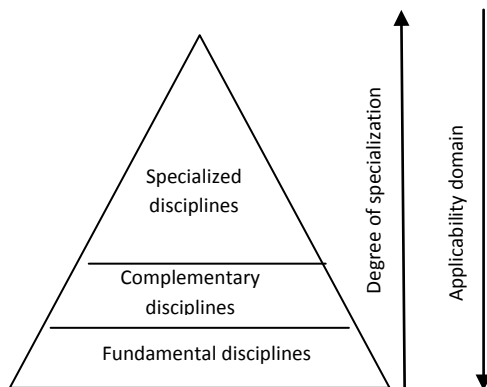
specializations of the domain. These specializations are in narrow areas, clearly defined, for each of them the student must go through three categories of disciplines:

- fundamental disciplines – containing basic knowledge about the studied domain;
- complementary disciplines – containing shared knowledge for several specialties, but not for all;
- specialized disciplines – contains specific knowledge of the area of specialization.

In figure 1. is observed variation in the degree of specialization, as well as the applicability domain for knowledge gained from the study. For a certain degree of specialization the student will have to go through a certain "tree" of disciplines, in a direction well established. Nodes of this tree are the disciplines which must be completed, unable to reach a parent-node if all of the children-nodes have not been completed. This means that the study of certain disciplines is conditioned by achieving the minimum grades (not necessarily 5) to others. Generally, the more the degree of specialization is increased, the stronger is the conditioning.

Depending on the specialization, these trees may be higher or lower horizontally or vertically. Some specializations may have more complementary disciplines, other more specialized disciplines. This is established in the beginning of each academic year by a specialized department within the University, in collaboration with the Ministry of Education and Ministry of Labour, in order to meet the existing requirements of human resources market.

Figure 1. The disciplines studied in the virtual university



It is also possible to go directly to an intermediate level of the tree if they have been successfully completed the tests from children nodes. This makes it easier to obtain more qualifications simultaneously, especially since some related specializations have common nodes in the tree of disciplines. Also because of this the period of time required for university graduation can be shorten if the student already has knowledge of the applicability domain or the specialization. Making an analogy for exemplification, a student who has graduated from a technical computers Faculty will make it easier to go through the specialized disciplines from the Faculty of Cybernetics, Statistics and Economic Informatics and an accountant will move quickly through the fundamental disciplines and even by some complementary disciplines. But both of them will graduate sooner (if there is the assumption of the same external disturbing factors) than a theoretical high school graduate.

The didactic materials that are used in a virtual university (of any type: courses, seminars, case studies etc) are in digital format, and they have the following advantages to the classical format:

- the integration of a variety of learning media: text, graphics, static and dynamic images, sound, films;
- access to materials from vary many sources, some by direct links from the original site;
- due to hyperlinks, there are pages which allow the coming back, the profound study through accessing other pages with similar subject, or the skip to other type on information;
- the integration of the relationships with the professors and with other students mates by Web;
- the reducing of the delivering costs;
- the delivering in time and where it is supposed to be delivered;
- the minimization of the storage spaces;
- the possibility of the student's choice of the part that is printed and of those that remain in electronic format.

The courses consist in several modules and are designed in such a manner that they can indicate an "optimal path" to be covered, depending on each student's individuality. At the beginning it will be a test of student

knowledge, with the sole purpose of determining whether he has knowledge in this field and which is this level of knowledge. Depending on the results of this test are determined the modules which must be completed. At the end of each module the learner will complete a test and depending on the results obtained he will proceed to the next module or will return for improved knowledge. This guidance through elements of course content will be done automatically, whenever the student believes he is ready, without requiring teacher intervention. The work of the latter will however be reflected precisely in the capacity of teaching material to conduct the learning process in the best manner consistent with the features of each student. To provide an education that is adapted to labor market needs, there is no fixed duration of studies. Duration depends on the availability of the trainee, his ability to learn and its previous knowledge.

Another feature consists in the possible existence of "superior qualifications" in which leaf-nodes are in fact other specializations – this characteristic can be used especially in postgraduate training.

4. Conclusions

In a virtual university educational process organization requires greater flexibility in the achieving of one or several qualifications, while also being more restrictive and more individualized regarding the way to move through the disciplines. This together with the distance development of learning process creates the assumption of a student-centered education and its results, but facilitates also the lifelong learning, which are two of the higher education priorities that are set by the European Union for the coming decade.

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Evaluation in a Virtual University

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Abstract

In our days, the computer assisted instruction became a reality. The continuous perfecting of evaluation techniques and their adaptation to be used in training assisted by the computer is a recognized necessity. This paper work presents some theoretical and practical aspects of evaluation, an essential part of the educational process, an activity which takes place in a modern and effective educational environment, the virtual university.

Key words: computer assisted evaluation, virtual university, evaluation in education

J.E.L. classification: A23, I23

1. The concept of virtual university

The model of the virtual university proposed in this article is the independent model of distance education – an exclusively virtual establishment, that will insure the following functions:

- the developing of educational programmes, tutorials and guidance;
- the projecting, producing, stocking, and distributing of the didactic materials;
- the administration and accounting of the didactic process;
- the marketing;
- the evaluation and accreditation of the students.

For the teaching-learning-evaluation process, the virtual university is based entirely on computer assisted instruction – recognize by some as the most important technological innovation of the modern pedagogy.

From the student's point of view, the concept of computer assisted instructional process includes:

- "the teaching" of the courses is done in digital format, usually in asynchronous manner, without excluding the possibility of existence of some synchronous meeting (for example videoconferences) – communication of new knowledge;
- the application, consolidation systematization of the new knowledge;
- the automatic verification of the knowledge resulted from reading a lesson or a group of lessons (didactic evaluation assisted by computer).

From the methodological point of view, in a virtual university the teaching-learning-evaluation activity integrates the following didactic operations, capitalized by computer assistance:

- the information organization is digital, and it is done according to the requirements of the curriculum, but it is adapted to each student's capacities;
- the student's cognitive stimulation through didactic snapshots and questions that aim at discovering some problems;
- the solving of the above didactic tasks through the reactivation or obtaining the necessary information from the informative resources called upon through the computer;
- after having studied some study modules, synthetic reviews are done, which may be accompanied by partial evaluations that have the role to fix the information, but also to find out the possible gaps or problems;
- the insurance of some exercises of stimulation of the student's creativity;
- the didactic evaluation is exclusively computer assisted.

New aspects of informatics pedagogy that interfere in the analysis and conception of the elements of online learning, are: [1]

- the interface student – informatic system;
- the structuring and organization of the teaching materials (of instruction);
- the surfing into the knowledge field;

- the visual presentation of the multimedia information;
- the using of the software components specific to the informatic system of instruction.

In a virtual university, the roles of the tutor and that of the student are changed comparative to those assumed in a classical educational establishment. Thus, the professor's role is modified significantly, the distance between the two participants to the educational process is diminished in spite of the space distance, which is, obviously, greater:

- the professors participate actively to the projecting of the teaching media, doing more than just supplying knowledge;
- in projecting the didactic material, the teacher must pay more attention to the students' working styles;
- the professor is not only a supplier of didactic resources, but also a guide and a consultant in the learning process;
- the teacher becomes an expert in asking the right questions as well, not only in giving the correct answers;
- the teacher offers only the initial framework of the students' activity, encouraging then the personalized orientation;
- the professor presents more views on a certain taught subject, and he/she underlines the important directions of study;
- the teacher becomes, finally, a member of the study group.

The student's role who attends the courses of a virtual university is changed, as well:

- the student surpasses the stage of passive receiver, and contributes actively to creating his own knowledge;
- the student has multiple perspectives over a taught topic;
- the student formulates himself questions, to which he/she looks for the right answers;
- the student gets the capacity to solve complex problems, not only to memorize facts and problem-situations;
- the students work in groups for certain collaborative tasks, thus, the interaction among the study group increasing significantly;

- the student becomes his own learning process manager;
- the student learns to use the significantly increased access to the educational resources.

2. Theoretical aspects of computer assisted didactical evaluation

The didactic evaluation is a controversy enough subject, because through this process are realized classifications, selections, and finally there is decided the destiny of some people. There are more definitions for the didactic evaluation, all having some common points [6]:

- evaluation is a process, an activity in stages developed in time;
- evaluation do not summarize to give marks to students, but refers to some complex domains;
- evaluation involves some measures, comparisons, appreciations, based on which could be adopted some decisions with the purpose to optimize the activity in areas subject of the evaluation and, finally, the results obtained.

Evaluation in education is a compulsory process and could be used to:

- measure the quality and efficiency of the curriculum (at the group level by teachers);
- measure the quality and efficiency of presentation form of a course (at the individual level – a teacher);
- leading and motivating a student in the training process;
- hierarchy of results and knowledge accumulation realized by students.

The theory of the evaluation is developed, at present, as an autonomous domain of pedagogical science, and inside this the formative evaluation represents an efficient solution in the learning process, in the conditions the people trained belong to a diverse social and cultural area.

Formative evaluation (evaluation for learning) is the evaluation strategy who facilitates and motivates the learning process, emphasis the progress of a student, or who, on the contrary, diagnoses the gaps or the obstacles in learning. Its main purpose is to provide the necessary feedback to increase the learning performance, is permanent, and

it takes place in time of respective module or course. Following the feedback received, the teacher could correct the deficiencies and multiply the positive results before the end of the instruction sequence, and could also realize individualized instruction sequences, passing this way to an educational process centered to the individual. The formative evaluation is *criteria*, so the results of teaching-learning process are compared with previously established criteria or standards (usually minimal).

Summative evaluation (learning evaluation) is an evaluation strategy with balance character with the purpose to give marks, and the feedback provided this way is used to appreciate the success of de instruction and the determination of curriculum efficiency. This type of evaluation is realized at the end of the module or instruction sequence. The summative evaluation is *normative*, so the results of the students are compared each others to realize a hierarchy.

3. Practical aspects of computer assisted didactical evaluation

The use in overwhelming proportion of objective items could lead to artificial growth of tests results numerical expressed in marks, mainly thanks to the possibility to guess some answers. This problem specific for the evaluation assisted by the computer could be treated in many ways, to decrease the negative effects.

At the level of the test, there are the following possibilities to discourage the tentative to "guess" the correct answer:

- establish a maximum time allocated to solving;
- create a test from many items subsets, built so that they cover as many subdomains of the respective discipline (for ex. a set of items for each chapter). Any subset could enter in the content of the test with a different number of items, depends on the importance of that subdomain;
- at each launching of the test, the items should be selected by chance from a items bank with big enough dimensions;

- attribution of negative values for wrong answers, the student preferring this way, in the situation he does not know the correct answer, to not fill in any answer and to pass to the next item;
- to be established a minimum admitted performance – minimum number of points to be realized to obtain the minimum admission mark (usually, 5 mark);
- reformulate the same question in more variants (items types) – for the same knowledge which should be tested will be formulated 2 or 3 different items types (for example true/false, multiple choice and completion), and if it is not given the right answer to all the three items, then will not be marked anyone;
- referring the same knowledge subset which should be assimilated will be realized a "basic item", and a "complex item"; the last one could not be solved without knowing the correct answer at the basic item. If the basic item is not solved correctly, will not be given score for the complex item, no matter the way of solving the last one ;
- the items are divided in subset, depends on the knowledge they need to solve them: basic knowledge, medium knowledge, advanced knowledge. If at the subset of items for the inferior level knowledge is not obtained a certain score, will not pass to the subset of immediately superior level, the score remaining the one established until the moment of interruption.

At the level of an item, could be taken the following "security measures":

- the position of correct answer inside an item to be rearranged according an algorithm established by chance;
- to not exist the obligation to fill in an answer;
- establishing the score in a differentiate way, depends on the difficulty of each item (items more difficult have a higher score, the easy one a smaller score).

Those methods could be combined so it will be obtained a higher accuracy of knowledge testing.

In the virtual university two processes of evaluation are conducted via computer: the formative and the summative evaluation.

Formative evaluation process occurs simultaneously with the learning process. After completing each module of the course, the student must take a test. The result will lead to a new chapter (or the final evaluation, if it was covered all the discipline content) or will send back to deepen the study.

The algorithm presented below contains the steps necessary to be followed to determine the optimal structure of a test used for summative evaluation of students.

1) The course must be divided into a sufficiently large number of subdomains (or chapters) to provide the basic knowledge testing. However, this number must not be too high because this will lead to heavy testing, of large dimensions. A number between 3 and 5 subdomains is realistic and serves well the purpose for which it is designed the test.

2) For each subdomain are identified important theoretical aspects, as well as the usual practical problems. For the theory will be created a set of items of different types. For the practice will be created another set of items, preferably with multiple choice and / or fill in the blanks (you can fill in words, numbers, mathematical expressions, logical etc.). The teacher should establish the importance of the theoretical aspects compared to the practical ones, giving each of them a share in the subdomain. (For example theory is 35% and 65% practice). Can be chapters for which there may be a single set of items (made with 100% share), this being determined according to the particularities of each discipline.

3) It determines the importance of each subdomain in the respective discipline. This translates into granting a weighting for each subdomain, regardless of the number of sets of items that have been created.

4) Together with a competent person who know the possibilities of e-learning platform, are set the time to complete a test and maximum number of questions that can form a test. The maximum score that can be obtained is 100%.

5) Depending on the weight that each subdomain has in the discipline, is established for each of those the maximal score that can be obtained. The sum of these partial scores should be 100.

6) For each subdomain separately, taking into account the weight given to theory and practice(step 2), the score is determined for each set of items. The sum of these partial scores must be equal to the subdomain score (set at the previous step). Check if the sum of scores of all sets of items is equal to 100.

7) For each set of items is established the number of questions and the score for each question, so as to respect what it was agreed to step 6.

8) Check again if the maximum score that can be obtained is 100 (for each set of items is multiplied by the number of questions with the score awarded, the sum of these numbers should be 100).

Following the steps described above it will provide a good coverage of the discipline material, and thus increase the content validity of the test.

4. Conclusions

Gaining the knowledge needed to develop the career in a labor market becoming increasingly competitive can not be achieved without promotion of diversity in educational systems. Online learning is a new way of looking at the educational process, in which the means of exchanging and acquiring knowledge changes, and student-teacher interaction is possible both synchronous and asynchronous.

The modern technologies provides opportunities for learning performance evaluation. There are many European projects aimed at using new technologies in higher education, and some of these concerns the improving or efficiency of student assessment practices. This paper work presents some theoretical and practical aspects of computer assisted didactical evaluation, as well as some methods to solve the problems incurred following the use of evaluation technique assisted by the computer, to help the specialists involved in the elaboration of instruction systems assisted by the computer.

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Economic Culture and National Ethics

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Abstract

National ethics constitutes an important topic within the current globalization process, showing that intercultural relations affecting global issues don't limit only to economic reasons, but also cross the barriers set by the classic specialists, entering the era of understanding the power of behavior economy, based on impulsivity, spontaneity and flexibility. This paperwork studies the factors that influence the ethic attitude of a large number of countries, based on Hofstede's studies.

Key words: ethics, culture, globalization, migrationist ethics

J.E.L. classification: A13, F01, F22, Z1

1. Introduction

Globalization determined the increase of the number of competing companies, despite the distance between them, traditional, geographic and cultural. Franke and Nadler (2008) said that new markets and business relations offer countless rewards to the participants. Nevertheless, crossing the national borders often require clients, employees, suppliers, which may have different views on right or wrong [1].

The different perspectives on bribe, intellectual property, negotiation techniques human resources may lead to legal and managerial problems for the organizations with various cultures. Smka (2004) defines the global variations in ethic decision making as an imperative prerequisite for multinational business. The increasing number of multinational companies turned global business ethics into a priority for the economic activity. Also, because of the

economic, social and political circumstances, together with the changes in education and business environment, many countries developed migration generated international relations [2].

Paduretu and Cristian (2010) reached to the conclusion that populations are integrated together with the principles they have, thus diluting national ethics. These cultural changes transform behavior, attitudes, beliefs, moral and social values, aspirations [3].

The well-known Hofstede's research on cultural dimensions often explained the national differences of ethic perception. Inter-nations differences may be caused by the differences between countries, with different views, or by the systematic polarization of people's response to certain factors, people coming from different countries. [4]

Franke G. and Nadler S. researched on the ethic national attitudes based on the understanding of justifications of four types of behavior with moral implications. The researched ethic-related data for 44 countries come from the World Value Survey. Afterwards, the results are processed by a regression on Hofstede's cultural dimensions and on GDP per capita, as a measure of economic development.

Therefore, by this paperwork, we intended to analyze the way that Hofstede's dimensions apply on national ethics and on migrationist integration, starting from Franke's and Nadler's studies.

2. About culture and ethic attitudes

There are many definitions of culture. Hofstede's definition, the most known one, says that culture is the collective programming of the mind which

distinguishes the members of one group or category of people from another [5]. He explains, afterwards (p.10), that culture includes values, and the values systems are essential elements of culture.

Srnka considers that culture may be identified at multiple levels, from microcultures (family, organization) to supracultures (nations with similar economic systems, ethnies, religion, etc.) [6]. For inter-countries comparison, culture may be defined by values, beliefs, behavior standards and models of a national group.

Hundreds of studies are based on Hofstede's research, in order to create a conceptual framework for understanding differences in national culture. Based on questionnaires addressed to more than 116.000 IBM employees in 72 countries Hofstede classifies 50 countries and 5 regions on the cultural dimensions: individualism/collectivism, avoiding uncertainty, distance from the power and masculinity/femininity. Hofstede's initial data were collected in the late 1960s and early 1970s.

Nevertheless, Hofstede (2001) and Kirkman [7] summarize a large series of important correlations between the Hofstede's country scoring and other national variables, after 1990s. This is why Hofstede's dimensions continue to be useful in intercultural research prognosis.

Ethic attitudes involve people's cognitive, affective and behavioral willingness to respond to problems and activities that include social standards of morality and honesty. National culture, organizational culture, personal religious beliefs, economic pressures and other factors may influence judgments, intentions and behaviors.

3. The influence of culture on ethic attitudes

Franke and Nadler (2008) analyzed the cultural values that influence the perception of right or wrong, concluding that morals and ethics are central components of many definitions of culture. Fukuyama is more explicit when considering culture as the inheritance of ethic customs [8]. Franke and Nadler focus on the effects of the four cultural dimensions on ethic attitudes.

- **Individualism/collectivism**

Because the individualism is characterized by self containment, competitiveness and self orientation, the individualists may be willing to ignore, more than others, rules and principles standing in the way of their own interests. Vittel said in 2003 that most of the individualists may be selfish ethic egoists, showing little preoccupation towards the rights of other individuals [9].

But in collectivistic societies, the values standards that individuals have for the inner groups differ from the ones for the outer groups and morality is contextual. The collectivistic people respecting norms, regulations may lead to higher ethic standards and may reduce corruption, especially in those cases when breaking the ethic laws brings a certain amount of risk to the inner groups. Franke starts from the idea that, in various countries, the increase of individualism has a negative impact on the national ethic attitude.

- **Avoiding uncertainty**

People are more receptive to respecting norms and regulations, connected to the desire to avoid risks. Nevertheless, in 2007, Hofstede [10] notes that the importance of rules may paradoxically vary from culture to culture. But avoiding uncertainty does not relate to avoiding risk; unethical behavior may be seen as accepted risks, because it often brings the expected results.

In 2001, Hofstede notes the positive connection between avoiding intercultural uncertainty and the concept that it is acceptable to break unjust laws, and also the negative connection with the trust in the legal system and the police. These kinds of attitudes lead to skepticism regarding strict rules on right and wrong, according to the following hypothesis: in different countries, the intensification of the actions for avoiding uncertainty as a negative impact on the national ethic.

- **Distance from power**

In Cohen's study, 49% of the relations involve negative effects on the distance from power, while only 3% show a positive relation. The employees with a bigger distance from power are expected to follow orders and to sacrifice ethics for the good of the company [11].

Employees are more willing to accept the cover-up of corrupted business actions. Generally speaking, the differences between levels may encourage the one with little power to be corrupted. This is why we may say that in various countries, the increase of the distance from the power has a negative impact on the national ethic attitudes.

- Masculinity/femininity

Cohen's results (1996) on femininity are similar to the ones for avoiding uncertainty, 39% of the replies showing that femininity raises ethic standards, 24%-decreasing. The research at individual level show that women tend to be less self-contained and more hardworking than men, which leads to the idea that women pay more attention to the ethic standards.

Masculine culture prefers large and rapid accomplishments, often obtained through illegal and corrupted means. Masculinity emphasizes competitiveness and material success, based on a higher level of corruption and lower ethic sensitiveness. This is why Franke reaches the following conclusion: in different countries the increase of masculinity has a negative impact on national ethic attitudes.

- The effects of economic development

Hofstede recommends controlling the economic development by testing the effects of the cultural factors, because variables like economy, biology, technology form a better country variable [12].

Research has shown that less developed countries don't always have the legal means to facilitate economic development. Satisfying the basic needs, such as survival, may require sacrificing personal values such as morality. In various countries, higher economic growth has a positive impact on national ethic attitudes.

4. The analysis of cultural hypothesis based on national ethics

Franke analyzed the hypotheses on 44 countries, representing 48 % of the world's population, selected by the validity of the data for the four ethic elements in World Values Survey and Hofstede's four cultural dimensions. The USA GDP estimates are also valid for each country. The sample includes 64.769 respondents, 755 to 2989

from each country. The cultural indices cover almost every dimension and the average GDP varies between 230 USD and 44,471 USD. The ethic values are grouped almost inexplicable on a scale from 1 to 10, varying between 9,5 and 7,54.

Franke's results show that distancing from the power and avoiding uncertainty are cultural dimensions that have a negative influence on ethic attitudes. The expected results of avoiding uncertainty have been more than controverted. The observed negative impact suggests that potential consequences of activities may often involve acceptable risks.

The fake demand for governmental favors avoiding transportation taxes, and so on, involve immediate gain or avoiding losses. The benefits of these activities are known, and the risk of legal consequences may be easily overlooked. The willingness to break the rules and skepticism towards the legal system may also lead to ethic rationalizations as well as to considering governmental benefits to be a right of the people, or the transportation costs to be seen as extremely high.

In Srnka's opinion, distancing from power and voiding uncertainty may be added to ethic decision-making models. Acknowledging these dimensions, that suggests but don't guarantee consistent ethic models, is very important. For instance, Greece, Russia and The Philippines, have values higher than 93, for one or for both dimensions, and at the same time, they are thereof the four countries with the lowest ethical values. At the other end, Japan has a high value for avoiding uncertainty, 92.

Same as for avoiding uncertainty, the expected influence of individualism on ethic attitudes was a very controverted one. Results have shown a negative impact on individualism in analyzing the regressions within the first hypothesis, but the effect is not a significant one.

A possible explanation is that any effect of this dimension may depend on the behavior in question dealing with the benefits or the consequences of the inner groups vs. outer groups. When the benefits are for oneself and the consequences are for society, as avoiding taxes or costs of transportation, the collectivists and individualists may have similar attitudes.

Javidan indicates the fact that what is associated with the economic factors may in fact have cultural roots [13]. Therefore it is logic not to expect that individualism and economic development to have opposite effects on ethic attitudes within the first and the last hypothesis. In exchange, individualism and economic development may have together a negative impact on ethic attitudes, suggested by the results of the regression.

Contrary to the expectations, the results show no effect of masculinity on ethic attitudes. Masculine cultures capitalize on self containment and materialism, but this orientation does not correspond to the tolerance of intercultural behaviors.

Japan for instance, the country with the highest masculine score, has high ethic values, more than the one foreseen by the regression. The insignificant effect of masculinity is consistent to the results of the studies at individual level on gender differences. Although, on average, men are more assertive and women more cautious, their ethic views tend to be very similar.

The regression diagnostics show that ethic attitudes are lower in Brazil and the Philippines and higher in Japan, than the values indicated by the effects of culture and economic development. Brazil and Japan always came forward as countries with unique cultures. Brazil and the Philippines have a history of political turbulences and high income disparities. Tax evasion is wide spread phenomenon in Brazil, and civil riots, poverty and crime rate are part of the day to day life in the Philippines.

At the other end, Japan is a society prosperous and homogenous. The educational system promotes moral education and obeying, reflecting the Confucian inheritance. The Japanese tend to present in public the opinions and feelings society expects, though they may not express the truth. That is why the answers to the questionnaires may be exaggerated.

5. Integration in intercultural ethics

The standard approach of the interaction with the persons belonging to the host-culture suggest that individuals must either adjust to the standards of the host culture, or maintain

their own, at the same time respecting the others.

People with different ethic standards may reach a common ground by intercultural dialogue, in which existing standards are criticized and new standards are created [14].

The desire to learn from other cultures does not mean abandoning one's own traditions and cultural values, though, unavoidably, opening to various ethic approaches leads persons to reexamine their own values regarding uncertainty, distancing from power and the other dimensions analyzed above.

But this kind of approach will gain a larger perspective on the world, though not everybody can make a successful transition to the multicultural perspective. The emigrants must form a third culture, because, besides their own cultural background, they assimilate the culture of the host country and also the ethic norms they have to adapt to.

The emigrants may not to have a precedent in taking the customs and norms of the country they choose to live in. Since these norms that create the link between them and the inhabitants of the host country still don't exist, they must be created by dialogue. Also, it is possible that these norms do not apply to those that have to live by the, or they are not believable for them. These issues are not impossible to fix, but they always appear in situations like this.

The intercultural dialogue on ethics is possible because of the fact that ethic principles are created by man, and passed on by culture. Research have shown a large variety of values and norms that different cultures respect when it comes to friendship, marriage, education, business, politics, indicating the relativity of values and intercultural norms. The process of integration offers an alternative on the ethics based on adjustment or respect. The conflicts between the emigrants and the host country may be solved through a more efficient dialogue.

6. Conclusions

In a basic research on some cultures, the researcher controls the number and the type of the analyzed variables. Nevertheless, the variability between cultures may be limited and it may be impossible to examine the

effects of a cultural feature and keeping other characteristics unchanged. The results suggest that organizations may face ethic conflicts when operating in other areas than the origin countries, conflicts on avoiding uncertainty, distance to power, economic development or other cultural dimensions. Solving the conflicts may require sensitivity to competing goals and attitudes. Acknowledging the differences in ethic perception between the countries is a challenging fact, but necessary for the individuals on the global market.

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Role of Share Based Compensations in Romanian Environment

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Abstract

The article aims to identify the role of share-based compensations. The authors find many studies that consider a positive role of share-based compensation for alignment of agent and principal interests. Studying the determinants of share-based compensation, the article provides relevant information to, mainly, owners and management about the circumstances which use of share-based payment and brings efficiency to the firm.

The authors also, presents the scope of IFRS 2 Share –Based Payment, and identifies share-based payment arrangements in a business combination between owners and managers.

The article provides the results of a quantitative approach, conducted with statistical correlation and regression analysis in order to understand the variables relation and finding out how companies' characteristics are related to a proper remuneration plan in Romania.

Key words : share-based payments, determinants, agency theory, firms' characteristics, opportunistic behaviour

J.E.L. classification: M41

1. Introduction

The role of share based compensations is more frequently discussed. Elaboration of the IFRS 2 „Share based payment” aims to specify in relation to the entity of the recognition request in financial statements of transactions with share based payments. Even if the IFRS 2 goal is to approach a number of more comprehensive problems, in this study we shall use the issues approached by this International Financial Reporting Standard through the use of schemes or share based plans in order to remunerate managers.

Although there are many studies that provide a positive role to share based compensations to reduce and align the conflict of interest between owner and agent, described by the theory of agency, a number of researchers notice that these share based compensations only represent an opportunity in addition to wages, under the circumstances of a pressure exerted on financial reporting.

Thus we notice an opening and development starting from the conventional plans of bonuses and profit sharing to other forms of remuneration and compensation, especially of managers. After 1990, the share based compensations have become quite common worldwide. The most recent studies provide a higher attention to this type of remuneration.

2. Role of share based compensations in settling the conflict of interest generated by contract relations between owners and managers

The role of share based compensations can be studied according to the governing factors of applying these plans. Studying these governing factors of share based compensations provides relevant information in the research of the contract relations between owners and managers about circumstances of assignment and application, that provides efficiency to the company.

Thus, some of the research carried out approached even more carefully the external governing factors in applying the share based compensation plans, that mainly relate to the influence developed at market level or when rising the price of shares.

We mention that all this research related to share based transactions develop under the circumstances of some collapses, foreign scandals and some shortages of financial solutions in settling these problems. All this problems occur under the circumstances of a

range of controversies concerning compensations and remuneration plans of the managers.

Therefore, the implementation of share based compensations is considered it provides a positive role in aligning the interests of owners and managers. These compensations are considered as an innovative instrument of motivating the managers in aligning the managers' behaviour and their influence over financial statements in favour of owners.

IFRS 2 describes the share based payment agreement as a contract between an entity and another party (including an employee) to conclude a share based transaction that gives the right to the other party to receive cash or other assets of the entity in an amount that is based on the entity's price of shares or on the other instruments of entity's equity capitals, or to receive instruments of entity's equity capitals, on condition to meet the requirements specified to come into their own, if there is.

From this definition we identify that, as is described in the agency relation, the owner can consider within remuneration according to performance and share based compensations.

Remuneration of best managers is a delicate and sensitive issue if considering the effect of financial crisis and public feedback to it under the circumstances of paying the managers according to their performance. This type of identified remuneration is important to keep and motivate the best managers and employees, especially under the circumstances of crisis and a lack of currency liquidity.

Many researchers considered that there is a connection between the long term compensation plans and ways of improving the companies' performance. This fact was mentioned in all studies wherein the share based transactions have been analysed. They wanted to align the interests of owners and goals of management. As a result, these surveyed issues can help the managers to obtain a better remuneration by increasing the company's performance and raising the value by the owners, through this having consequences over the remuneration of managers as well. Thus, motivation through which owners determine the managers to work for their goal and their companies help

companies improve the performance.

3. Presentation of transactions with share based payments in financial statements

In order to limit the opportunistic character of managers, IFRS 2 recommends in introduction, various ways of presenting information in order to enable the users of financial statements to understand:

- Nature and dimensions of share based payment agreements;
- Way wherein the fair value of services received or the fair value of equity capital instruments have been determined;
- Effect of share based payment transactions on the entity's profit and loss related to the period and, on its financial standing.

Shares, share warrants or the other equity capital instruments that owners provide, especially to the managers of the companies they administrate and manage, under the circumstances of a contract, as a way of alternative remuneration, seen as a bonus in relation to a currency benefit. In this case it is difficult to estimate the fair value of those additional benefits. Thus, IFRS 2 recommends that the entity should evaluate the fair value of services received from the managers by reporting to the fair value of equity capital instruments provided, but on the date of their assignment.

The IFRS2 standard approaches the share based payment transactions with settlement in equity capital instruments identifying the requirements of coming into their own of various equity capital instruments provided to managers. Thus, if the equity capital instruments come into their own immediately, the manager is not asked to complete a specific period of services before having the absolute right to those instruments.

The practice of providing equity capital instruments and the ways of writing contracts show that services supplied by the manager are stipulated by the compliance with some clauses. For instance, a manager receives shares or share warrants if he has a certain number of years of service. Another clause of providing equity capital instruments is if the manager meets some performance requirements or remain in the service of

entity until that performance requirement is met.

IFRS 2 makes a difference related to the performance required by concluding a contract between owners and managers, namely if there is or not a market requirement. In case when the performance requirement is a market requirement, the estimation as regards duration of anticipated period to satisfy the clauses of coming into his own will be consistent with assumptions used in estimating the fair value of options provided and will not be revised later. According to IFRS 2, a market requirement relates to that requirement on which depend the exertion price, coming into its own or exerting an equity capital instrument that is connected to the market price of an equity capital instrument, such as reaching the specific price per share or the amount specific to the intrinsic value of the share warrant, or achieving a specific goal that is based on the market price of equity capital instruments of the organization in relation to an index of market prices of equity capital instruments.

In case when the performance requirement is not a market requirement, the organization will revise its estimation concerning the duration of period for complying with clauses of coming into their own, if necessary, in case when a subsequent information shows that the duration of period for complying with the clauses of coming into their own is different than the previous estimation.

The IFRS 2 standard also approaches the share based transactions with settlement in cash, in case when the owner provides in the contract it signs with the manager, relations to a future cash payment (rather than an equity capital instrument), based on rising the price of entity's share to a specified level. It is thus provided that the manager can cash by providing a right over a number of shares (even if they are issued at the moment of exerting the share warrants) that are redeemable either compulsorily (for instance severance of the contract), or at the manager's option.

It is required that financial statements should present information that enables the users to understand the nature and dimension of share based payment agreements that exist during the surveyed period, explaining the

way wherein the fair value of services received or the fair value of equity capital instruments provided have been determined, and show the effect of these transactions both on entity's profit or loss, as well as the financial standing.

4. Characteristics of remuneration ways of managers and employees in Romania

In Romania, contract relations between owners and managers as regards the assumptions of agency theory start showing their usefulness in practice as well. At the beginning some clarifications are required over the notion of advantages provided to the remuneration of the members of the Managing Board and directors, the supervisory board and directorate, respectively, as they are presented by the Law no. 31/1990 concerning trading companies.

In the annotations we found information concerning the average number of people hired during the financial year, the breakdown on categories, and personnel costs related to the financial year. At the same time, we found the sum of allowances provided in the financial year to the members of bodies of administration, management and surveillance in virtue of their responsibilities, as well as any generated or assumed commitments concerning the pensions for the former members of these bodies, showing the total value of commitment for each category.

In annotations we also found published the sums of advance money and loans provided to the members of the administration, management and surveillance bodies, showing the interest rates, the main requirements and any returned amounts, as well as the commitments assumed on their behalf as warranties of any kind, mentioning the total on each category.

Related to the application of IFRS 2, the companies that have the category I of transaction at the Stock Exchange of Bucharest stated that in 2009 this standard had no impact over the financial statements (at level of financial standing or performance), the payment methods of the members of Managing Board and directors

being made according to the Law no.31/1990 concerning trading companies. Although the share based payment of managers is still avoided, we suggest to introduce the methods of payment based on shares and share warrants within the Romanian managers' remuneration plans.

Of course, these payment examples are relevant when the price of shares on market increases over the value of the price set previously, the Romanian managers' motivation being that to maximize the price of shares in future. Even if the rise of shares does not mean necessarily the rise of company's value, the income per share can be measured at the same time with, for instance, measuring the return on assets and the return on equity.

Therefore, improvement of performances showed by financial indicators, but also the capital market can be a cause that results in rising the price of shares and hence alignment of goals of both owners and managers, under the circumstances of a specific financial structure.

5. Conclusions

Bonuses based on share or share warrant based payments are a key issue for both executive managers, and owners or shareholders, they being those people remunerated according to their services supplied in line with the IFRS 2. A disadvantage faced in the IFRS 2 application (at least as regards the presentation of financial statements of the year 2009) is that there is not a described, common method, but the fact that it is not applied in any Romanian companies where the state is the major shareholder.

That is why, one of the required challenges is finding those methods and patterns to align the shareholders' interests and requirement of attracting and retaining the good executive directors in the company. It is a problem that should concern all Romanian companies, in order to meet the owners' interest.

Even if right now the capital market in Romania is not important yet in the measuring system of the managers' performance, a selection analysis of those specific performance indicators is required. We consider that tracking of activities segmentation according to maximization of efficiency concerning investments made is important, and in case of capitalizations to stock exchange, identification of indicators related to the capital market and development of earnings from shares is required.

For this analysis frame, at the same time with the positive development of the role played by the capital market, in Romania the requirement of using the IFRS 2 share based payment and development of financial reporting of these remuneration patterns will materialize. The members of the Romanian companies' management bodies will have shares at the companies they manage, thus creating the environment and application opportunities of their methods of payment according to the profitability of shares.

We consider it is required a more precise description related to the remuneration method of management bodies in the trading company, with presentation of information in dynamics, at least on two years, and correlated with the main accounting indicators concerning the company's performance, but with non-financial indicators, too.

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Insurance as a Social Protection Instrument – Direct Research on the Romanian Market

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Abstract

The way in which insurance companies protect individuals is reflected at the level of the whole society. The more developed a society, the better it is protected – through insurance – against the various dangers its members are exposed to. Ethical, socially responsible behavior is not only necessary, but mandatory both in the case of insurance companies and their clients, the insured. The State through its institutions has the role of cultivating responsible behavior. Within wider research on the Romanian insurance consumer behavior and the factors influencing it we analyzed important aspects regarding the social function of insurance, by using both qualitative market research techniques, as well as the market survey. The research showed that insurance is perceived as being necessary, and the subjects interviewed consider that the State plays a major role on the insurance market. In the insurance field, social responsibility is an element necessary for all the actors involved in the insurance mechanism: the insured, the insurers and the State.

Key words: social responsibility, insurance, marketing, consumer behavior, direct market research.

J.E.L. classification: M31, G22

1. Introduction

Social responsibility lead even from antiquity to the appearance of primitive forms of insurance, forms of mutual aid among people exposed to the same risk. By its very nature, the insurance activity not only has the role to protect the insured against a variety of risks, but also to produce benefic

effects for the whole society. Insurance, as a form of protection against a/some risk(s), is a service bought and sold on the insurance market, which is an important component of the financial services market. [1]

The insurance mechanism is based on risk transfer, as insurance transfers the risk from a person to a group which can pay for the loss easier, thus spreading the risk. The insurer organizes on the principle of mutuality a large number of insured persons, exposed to the occurrence of some risks, and indemnifies the ones that suffer a loss, from the fund constituted of the premiums collected from all the insured clients, as well as from the other incomes resulted following the activity of the insurance company [2]

The insurer must balance the premiums received with the indemnities owed, the incomes obtained with the commitments towards the insured. So that the insurance company can honor all the indemnity claims, it has to organize the mutuality of risks on strict mathematical rules.

The purpose of insurance is the mitigation of the financial consequences of the occurrence of a risk, as it is an instrument which offers financial compensation for unfortunate events, the payments being made from the contributions of several parties participating in this scheme. [3]

Insurance is a financial operation, following either from a contract, or a requirement in the law, through which the insurer is bound to take the risk of the occurrence of a certain event, and indemnify the insured for the losses he would suffer as a result of events independent of his will.

In the insurance field, social responsibility is a vital element, being the starting point for all the actors involved in the insurance mechanism: the insured, the insurers and the

State. Social responsibility is the link between the actors, the element which makes the insurance market function properly.

Ethical, socially responsible behavior is not only necessary, but mandatory both in the case of insurance companies and their clients, the insured. As far as the insured are concerned, the main purpose of insurance is their financial protection. The insured must have a socially responsible behavior, because if they did not have it and there were various illegal practices in their behavior – such as over insurance (this implies the insurance of a good at a value exceeding the real value of the good insured and it is not a legal practice) or the overvaluation of loss etc., this could affect the insurance mechanism.

The way in which insurance companies protect individuals is reflected at the level of the whole society. The more developed a society, the better it is protected – through insurance – against the various dangers its members are exposed to.

The countries where the insurance sectors is prosperous are developed countries like the US, France, Germany, the UK – countries where insurance is not perceived as a secondary product, an extension of basic needs (satisfied by material production), but have the status of a primary need. [4]

2. The functions of insurance and social protection

The functions of insurance are the more complex the more developed the insurance industry is in a country. The main functions of insurance are the following: the function of financial compensation for loss due to the occurrence of one or several risks, the function of prevention of risks and losses, the function of distribution, the financial function, the control function, the saving function, the function of reduction of costs to the state.

1) The function of financial compensation for loss due to the occurrence of one or several risks. Insurance has the role of contributing to the repairing/replacing of goods damaged or destroyed, of compensating for losses the insured are responsible for according to the law, and of granting amounts in the case of events concerning people's life and integrity. [5]

2) The function of prevention of risks and losses. This function is achieved through financing measures of loss prevention for natural calamities and accidents. Prevention can be made by building dams to protect against floods, through draining, reforestation, irrigations in areas affected by draughts, through consolidating buildings, through creating programs for information, educational programs for the insured, etc. Social responsibility in this case can be attributed to the state, but also to potential insured clients and insurance companies. For instance, so as to prevent floods with disastrous effects – like this year's floods – starting with October 2010, insurance companies together with the Commission for Insurance Supervision (CSA) have announced that they will initiate a reforestation program for areas where forests had been cut down or on the shores of waters in the afflicted areas. [6]

The mandatory home insurance [7] may be seen as a measure that can help in the prevention of risks and losses.

Moreover, prevention can be made through setting insurance terms that would force the insured to have a preventive behavior. For instance, through practicing the franchise – the insured participates in covering part of the loss and is thus forced to have a preventive behavior.

3) The function of distribution. This is manifested in the process of forming the insurance fund available to the insurance company, then in the process of directing the fund to its legal destinations. Likewise, taxes are directed towards the budget, and the due contributions to the state social insurance fund. [8]

4) The financial function. Revenues come from the fact that not all insurance policies have as a result the occurrence of the risk and from the gap between the moment of collection of the premiums and the moment when the loss occurs and the indemnity is paid, period when the amounts collected from premiums can be invested by insurance companies.

5) The control function. This is a complementary function of insurance [9] aimed at identifying the causes which produce loss, the way in which insurance premiums are set and collected, the way in which the payment of indemnities is made,

the management of the insurance fund and of the legally constituted reserves, the way in which the insurer meets its financial obligations, etc. The control is made by specialized bodies of the insurance companies. An important institution for control on the Romanian market is the Commission for Insurance Supervision.

6) The saving function. This is a function specific to life insurance, the insured having the possibility, in the case of certain policies to benefit of the amount insured and to participate to the profit obtained from the amounts invested when the insurance contract expires.

7) The function of reduction of costs to the State. Due to insurance social protection costs can be reduced. Thus insurance companies support the State in social and medical assistance, pensions, compensations for work related accidents and other domains. [10]

By their nature insurance services have an important role in society which makes social responsibility indispensable in the activity of insurance companies.

The economic role of insurance is extremely important, as they contribute to the development of national economy both by loss prevention and compensation, and through the fact that they represent an important means of saving and investment (for instance insurance can help you earn a supplementary income after retirement; get a loan for building a house etc.)

The role of insurance companies is to correctly assess the commitments towards the insured and to manage the funds collected from them. The insurance fund is used to cover the losses produced by the events insured, in the case of property insurance and third party liability insurance, and to pay the amounts insured in the case of life insurance, to finance activities related to loss prevention, to constitute reserve funds at the disposal of the insurance company and to cover the administrative expenses of the insurance company. The insurers must try to increase the amounts obtained from premiums by investing them, but at the same time they have the obligation to have the necessary liquidities to honor the payment obligations arising from the insurance contracts.

Insurance can be considered the easiest and most efficient social tool for protection against risks. Specialists consider that by pricing risk, insurance provides incentives for reducing risks [11]

There is a certain social role in the provision of insurance. Many technological and scientific ventures were possible because insurance helped spreading the risk. [12]

The relation between the insurer and insured is based on trust and good-will, on the social responsibility of the parties involved.

3. The methodology of the direct market research concerning the perception of the social function of insurance

Within wider research on the Romanian insurance consumer behavior and the factors influencing it we analyzed important aspects regarding perception of the social function of insurance, by using both qualitative market research techniques and quantitative methods.

The study of the way in which insurance services and insurance companies are perceived in Romania, the perception of the potential insured regarding mandatory home insurance in Romania, the influence of socio-cultural factors on the behavior of the consumer of insurance services, the attitude of the insured towards illegal practices in insurance can be studied by using direct market research.

Direct research is the main method used in market research to obtain the necessary information. [13] Function of the type of information to be obtained, market research can be divided into quantitative research and qualitative research. [14]

In the current market survey we used both methods of research, as we aimed at generating ideas related to the analyzed phenomenon through qualitative research – ideas related to the insured behavior, which we then tried to quantify with the help of quantitative research.

The qualitative research was conducted among Romanian people who are over 18, from an urban as well as a rural environment, by using semi guided interviews. We have actually conducted two series of interviews:

first a qualitative research took place in October-November 2009 (59 insured, aged over 18, from urban and rural environment), and the second qualitative research was made in April 2010 (59 insured, aged over 18, from urban and rural environments).

The survey was conducted on a sample of 1068 persons, with a probability of 95% and a margin of error of +/-3%.. The research was conducted based on a face to face interview with the subject with the help of a written questionnaire completed by the interview operator. The interviews took place between April - May 2010.

4. Main results of the direct research concerning the perception of the social function of insurance

From the analysis of the replies of respondents in the qualitative research we can conclude that for the vast majority of respondents, the concept of insurance is related to the idea of **protection** (see more about this subject in [15]). Only a small part of the subjects interviewed see in insurance an investment tool.

Overall, insurance products enjoy a positive perception. However, there is an important number of insurance consumers who do not have a favorable opinion on the insurance products present on the Romanian market, a small number of subjects interviewed with a neutral opinion ("they are all the same" etc.), and there is also a fairly large number of subjects who do not have an opinion due to insufficient knowledge of the supply.

The insurance products perceived as being attractive are RCA and CASCO insurance, followed by life insurance, home insurance, property insurance, health insurance. A small part of the subjects interviewed said they did not find any type of insurance attractive. Respondents consider insurance services necessary and they trust insurance companies. The majority stated that they had a good opinion about the company with which they closed an insurance contract.

Starting from these data, the quantitative research was designed and a questionnaire was created. The data was gathered based on the latter.

In Table 1 we can observe that the most feared risk for the interviewed subjects is earthquake risk (see more about this subject in [16]).

Table 1. The most feared risk

	Female	Male	Total
Financial risk	9.18%	14.98%	24.16%
Earthquake	16.39%	9.27%	25.66%
Floods	5.99%	3.18%	9.18%
Theft	3.37%	10.67%	14.04%
Other	9.74%	6.27%	16.01%
No Answer	2.34%	8.61%	10.96%
Total	47.00%	53.00%	100.00%

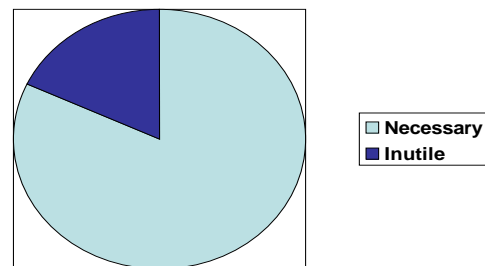
Source: data resulted from the survey

The general perception on the insurance industry was studied this time by using the Likert scale, the subjects investigated being asked to express agreement or disagreement with a series of statements regarding the insurance industry. By analyzing the responses, we can state that insurance in Romania is perceived as necessary, even though you have to make a financial effort, and the activity of insurance companies in Romania is benefic for the population.

In Romania insurance services are perceived as necessary, yet inaccessible. Moreover the crisis is perceived as severely affecting the insurance sector in Romania; however the subjects consider insurance necessary during the crisis (see more in [17]).

In the quantitative research we studied the opinion on mandatory home insurance and the answers have shown that mandatory home insurance is perceived as being a rather good measure: mandatory home insurance (MHI) in Romania is perceived as necessary by 81.9% of the subjects interviewed, the rest considering it useless (see Figure 1).

Figure 1. Perception of the utility of MHI



Source: data resulted from the survey

In the quantitative research we studied the attitude of the insured towards illegal practices using the semantic differential scale (with five levels). The answers to the question: "What is your attitude towards illegal practices in insurance? I condemn these practices 5 __ 1 I understand them) have revealed an ethical behavior, the subjects having an unfavorable view on these and condemning them (a 4.8 score).

To the question whether, in Romania, there is a mentality for or against insurance the majority of subjects consider that there is a pro insurance mentality: "Pro. The Romanians purchase insurance because they are afraid of possible accidents" etc. The interviewed subjects, who consider that there is a mentality against insurance, justified their answer by saying that the causes of a mentality against insurance are poverty and the lack of knowledge.

Regarding the role of society in the development of the insurance industry the opinions of the majority are positive, the subjects interviewed considering that the industry can develop because "There is a certain level of risk awareness among Romanians" etc. The subjects interviewed that consider that the role of Romanian society in the development of the insurance industry is not important justify their answer by the low level of incomes of Romanians.

Concerning the role of State institutions in the development of insurance, the opinion of the respondents is that the State should play a major role through legislation. However, a large part of the interviewed consider that the institution of the State encourages only to a low degree the development of the insurance industry.

The majority of subjects consider that there are cultural differences between us and other states which determine the way in which we purchase insurance.

5. Conclusions

The direct research has revealed that the subjects interviewed have a good perception regarding the role of insurance as a social instrument, as a protection tool against different risks. From the results we can deduce that there is a pro-insurance attitude and that, if the economic level allowed it, the

society, through its members, would support the insurance sector.

Another important aspect that should be noticed is that, in the opinion of the respondents, the State should play a major role in the development of the insurance sector and in the social protection of Romanian citizens through legislation and by assuring the economic security of citizens.

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The Contribution of Accountancy Intelligence to the Development of the Economic Intelligence

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Abstract

Organizations of all sizes and kinds are challenged by the needs of information management. Given the increasing competition in the current business environment, organizations are paying more attention to the knowledge as a key element in obtaining competitive advantages. One way for the organizations to create a knowledge management is, according to the experts, through the economic intelligence.

The economic intelligence representing a way to manage and control the information, may be applied to all economic sectors and not only, since we may talk of cultural, social, legal, accounting and financial intelligence.

The economic intelligence mainly addresses users that want up to date information to make the best decisions in a framework of a defined strategy. It is also of interest to policy makers who create the context for other's strategies or, more generally, to suport creativity processes.

Key words: economic intelligence, accounting intelligence, financial intelligence, knowledge management.

J.E.L. classification: M4, M40, M41,

1. Introduction

In the present conditions, the use of quality resources and the achievement of a proper relation with the market are not sufficient so that the organization may attain competitiveness and performance, the manager facing permanently challenges generated by competition on the one hand, and by the business partners, technical and technological suppliers, clients or

„producers” of regulations, laws and institutional, administrative, fiscal mechanisms on the other hand. This complex medium, in which the only safe thing is a change, must be very well known by the management, so that it may be intelligently mastered and exploited. The ways, means and mechanisms necessary to cope with such challenges have already been made and improved in time, especially by the large companies, but also by state specific organisms or by private or mixed agencies and organisms. All this has started to be known what the specialists call „economic intelligence”.

The field of economic intelligence has not been yet delimited with enough precision, the sense given in speciality works being quite general, it is associated respectively with activities of identification, search, collection, treating, diffusion and exploitation of information necessary for the decision substantiation at the level of company, organization, corporation, etc. The economic intelligence is conceived in the spirit of ethics with authority structures, especially with those belonging to state (sovereignty) and to organizations.

Initially developed under the form of technological supervision, the economic intelligence has proposed actions from this domain: the anticipation of technical and technological innovation; the protection of technological advantages; the detection of technical and technological threatens; the protection of material and imaterial patrimony of an organization, etc. Once with the diversification of activities for meeting the informational needs of an organization, the economic intelligence appears as an assembly of activities, techniques and instruments by which the information is used to achieve actions or in other words, this becomes an action and the enterprise

involves faster and surer to competitiveness and performance.

2. The concept of economic intelligence

In speciality literature, the economic intelligence represents an assembly of actions coordinated by research, the processing and diffusion of information necessary for the economic actors. The useful information is the one needed for different decisional levels of organizations or collectivity to elaborate and function in a coherent way of tactics and strategies necessary to attain the organization objectives in order to ameliorate its position in the competitive environment.

Most specialists summarize the economic intelligence in the form of the following axes:

- economic supervision (getting pertinent information);
- protection of informational patrimony (non admittance of secrets);
- assistance in decision – making (analysis, decisional cartography etc);
- influence (diffusion of information or of a way of behaviour and interpretation which influence strategy).

The entire steps of economic intelligence are translated in starting some actions which integrate into organized measures in the following way:

- *Definition of informational needs* according to the strategy of economic entity, with the aim to identify priorities and consequently to fix the orientation regarding the collection of information;
- *Selection of information available in organization;*
- *Collection of open information* using adequate research instruments to allow the keeping of only pertinent information;
- *Taking into consideration the informal information* which often offers the higher extravalor for the organization alongside network and ground activities;
- *Selection and processing of gathered information* using information

processing instruments and consulting experts in the respective field, especially the chartered accountants (general accountancy is primarily a structure of the organization informational system.

- *Diffusion of information to the right persons in the right moment in the most adequate way*, commissioning a scheme of information circulation and implementing an exchange culture within the organization to enable the loss avoidance and insulation of information;
- *Environment influence by lobbying* actions, using information as action lever which enables the promotion of organizations interests in a legal framework;
- *Getting everybody adhesion* and commissioning of devices which enable the distribution of information within the organization according to a vertical hierarchical axis as well as a transversal one, the economic intelligence being, from this point of view, a vector of organizational culture.

As regards the functions of economic intelligence, in the speciality literature one can distinguish four functions of economic intelligence: management, memorization, network, analysis:

- *Management.* Economic intelligence is in the organization service. In this way it is led by the manager, who has to define his objectives and the main questions he has to answer. At the beginning the questions must remain open, in order not to exclude, if possible the eventual key-information which might come out of the context. Ethics and deontology are advised by this function.
- *Memorization.* This is the only one specific to economic intelligence. Memorization duty is to keep the explicit information and knowledge of the organization, maybe obtained owing to economic intelligence. It may be organized in a project of knowledge engineering. It is about a structured referential in which the main data are compatible with the structure of information system and

which answers to some coherent, internal or external norms.

- *Network.* Frequently we can distinguish: an external network – made of persons who do not belong to the organization (employees acquaintances, clients, suppliers, business partners etc) and an internal network – the organization employees may serve as experts for a question and supply information.
- *Analysis:* It is about the correspondants of economic intelligence network who supply pertinent questions and validate the answers offering various choices for the organization.

If on a theoretical level it follows the management and protection of strategic information that is useful to all decision - making factors, on a practical level the economic intelligence represents a state of mind, a way or an instrument to collect and process all data information that are necessary in the decision - making process.

3. The process of economic intelligence in a modern vision

Some advisors in economic intelligence state that its commissioning needs first of all an evaluation of organization strategic culture, beginning with:

- an audit stage of economic intelligence;
- a follow up of competitors methods, especially of methods used by the large groups;
- analysis of the best practices within the organization.

This conception on economic intelligence may encounter some difficulties:

- „The audit of economic intelligence” can give rise to some dangerous actions for the organization, as it entrusts to an outer intermediary the role to make the employees to talk about sensitive subjects.
- The scientific works about economic intelligence showed that a manager is not able to formulate the knowledge objectives without avoiding the great deviations of perception and interpretation.

- Such an audit, even one correctly done may met two errors: the client is told things which he has already known or he is told things which he does not like to hear.
- The follow up of competitors methods can lead to imitation, mimetism, but if this is donea correctly, it can bring a richness of ideas and eliminate inhibitions.

The difference between economic intelligence and business intelligence

Economic intelligence distinguishes from business intelligence, because the latter corresponds in reality to a particular category of applied information.

The phrase business intelligence is commonly used as a synonym of decisional informatics, a concept which covers a much too limited perimeter and whose usage is focused on the control and activities optimization rather than on the global knowledge of opportunities and strategic threatenings. Furthermore, business intelligence especially relies on operational prestructured, quantitative data, already available in the internal informational system, and very little on qualitative or external multiform data.

4. Accounting and financial intelligence – new territories of economic intelligence

Economic intelligence advises any person who manages any public or private organization, a director of an organization, organism or administration, no matter their size or activity. However, mention should be made that it is quite often met in the large groups. In this context the chartered accountants have to play a part in the development of economic intelligence.

In methodical terms, economic intelligence consists in a pluridisciplinary measure, to the extent in which the information analysis needs environ – mental, juridical, technical, economic, commercial, accounting and juridical competences. Knowing progressively the need of implication of all economic actors makes it easy the role of chartered accountants on this subject, especially in case of extension of economic intelligence at the level of new

territories such as accounting and financial intelligence.

The appearance of the concept of accounting and financial intelligence is justified by a public policy by which it is desirable to assure the keeping of a number of strategic organizations in the state patrimony.

The vulnerability of enterprises in actual conditions peculiar to an economy in crisis represents a problem all over the world. With this aim in view the public powers, especially the Ministry of Economy, Commerce and Affairs Environment and the Ministry of Public Finances intend to mobilize the chartered accountants to identify the organization weak points and to find solutions to solve them in a partnership with the advised public services.

The chartered accountants are specialists categories directly advised by economic intelligence. First of all, they need a better administration of their own information and the protection of those having a strategic character. They also have to correctly administrate and protect information about their clients. It is important to mention that the chartered accountants play a main role in the relationship with their partners, their clients respectively, in order to explain them the games connected to economic intelligence. The competences in the field of administration of organizations accounting and financial information offer the chartered accountants a total legitimacy for the development of a new field, that of accounting and financial intelligence.

Chartered accountants are the main actors of accounting and financial life, they being the ones to capture, interpret and spread information. They also develop indicators and graphics which enable the organizations the management of all the accounting and financial information available to them.

Accounting and financial intelligence is a strategy for the managers regarding the protection of their patrimony and for the development of their activities. They are assisted by the chartered accountants, who can present information to third parties as regards the organization financial stability, who can objectively make a lecture of the financial standing and who also can comment on the organization patrimony and financial standing.

The account users are finally in the position of understanding the organization vulnerability starting from the analysis of annual accounts and their evolution in time.

It may be about bankers, shareholders, credit suppliers and other suppliers who must be assured as regards the organizations financial solidity through the quality of financial information registered in the annual accounts. It can also be about the public powers who want to sustain the strategic activities and who have to understand the organizations vulnerable points so as they may offer the necessary support.

The chartered accountant represents the first ring in the chain of expert's report. He understands and he integrates very well in the field of systemic analysis, as the organization is more or less an economic microsystem put to uncertainty and risks which may appear in their operational environment.

5. Conclusions

The economic intelligence has become a subject of major importance for many enterprises and organizations or institutions owing to the important flow of information handled, world competition ever more intense and to the development of the regulation actions. The actions of economic intelligence are not unknown for the actual organization in the conditions in which we speak about modern, competitive and performant enterprises.

The success of the activities of economic intelligence is conditioned by the relations between the organization and its system of information, on the one hand and the local, regional and national administrations on the other hand. Most of the information necessary to enterprises comes from this area, either it is about policies and strategies, or that appears the need of information of regulations, laws and standards, or that it is useful the participation to the assurance of a good social medium.

Economic intelligence is not applicable only to the sectors of economic life but it also adjusts to the following fields: humanitarian, cultural, social, sportive, juridical and even accounting and financial. In this context, the most important role as regards the accounting and financial intelligence belongs to the chartered accountants, who have to be placed

within these measures so as they may join leaders of companies (creators of values and working places) but also of third parties who come into contact with the company (bankers, social organisms, public finances, employees, etc). If this placement is achieved from the manager's point of view, the objective of the chartered accountants will be that of reducing uncertainties about the risks the enterprise is subjected to.

Strictly referring to financial intelligence, this can be looked upon between the manager quality and enterprise financing, as an extension of the manager's horizon on the organization imaterial capital and the achievement of actions in the vision of a sustainable development or as a means through which new connections with partners are invented to contribute to the sustainable development.

All this is nothing else but the result of a synergy given by different sources of organization intelligent finance respectively: public, private and individual. Whwn the manager will succeed in achieving a good management of internal and external information and will resort less to bank finance in favour of intelligent finance sources, less expensive for the organization will surely succeed to regtister the company in the category of competitive, performant and intelligent ones.

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Brand Loyalty- a Valuable Asset

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Abstract

Brand loyalty represents a significant factor which leads to the development of business competitiveness and also it is one of the most frequently implemented marketing initiatives by the practitioners. The question of how loyalty develops has been subject to an abundance of research, leading to an expansive body of literature on loyalty determinants. This article focuses on brand loyalty as an important company asset. Defining the concept and typology of brand loyalty supports practitioners and researchers build successful relational marketing strategies.

Key words: brand, loyalty, brand loyalty, brand equity.

J.E.L. classification: M310

1. Introduction

Brands have become a major player in modern society. In fact they are everywhere. They penetrate all spheres of our life: economic, social, cultural, sporting, even religion. Because of this pervasiveness they have come under growing criticism [1]. As a major symbol of our economies and postmodern societies, they can and should be analysed through a number of perspectives: macro and micro-economics, sociology, psychology, anthropology, history, semiotics, philosophy and so on [2].

2. The brand and its significance

There is strong disagreement between experts concerning the definition of a brand. Each author comes up with his or her own definition, or nuance to the definition. The problem gets more acute when it comes to

measurement: how should one measure the strength of a brand? What limited numbers of indicators should one use to evaluate what is commonly called *brand equity*? In addition, there is a major schism between two paradigms.

The first one is the customer-based and focuses exclusively on the relationship customers have with the brand (from total indifference to attachment, loyalty, and willingness to buy and re-buy based on beliefs of superiority and evoked emotions).

The second paradigm aims at producing measures in dollars, euros or pounds.

The financial approach measures brand value by isolating the net additional cash flows created by the brand. These additional cash flows are the result of customers' willingness to buy one brand more than its competitors', even when another brand is cheaper. Why then do customers want to pay more? Because of the beliefs and bonds that are created over time in their minds through the marketing of the brand. In brief, customer equity is the preamble of financial equity. Brands have financial value *because* they have created assets in the minds and hearts of customers, distributors, prescribers, opinion leaders.

These assets are brand awareness, beliefs of exclusivity and superiority of some valued benefit, and emotional bonding. This is what is expressed in the now classic definition of a brand: 'a brand is a set of mental associations, held by the consumer, which add to the perceived value of a product or service [1]. These associations should be unique (exclusivity), strong (saliency) and positive (desirable).

This definition focuses on the gain in perceived value brought by the brand. How do consumers' evaluations of a car change when they know it is a Volkswagen, a Peugeot or a Toyota? Implicitly, in this

definition the product itself is left out of the scope of the brand: 'brand' is the set of added perceptions. As a result brand management is seen as mostly a communication task. This is incorrect. Modern brand management starts with the product and service as the prime vector of perceived value, while communication is there to structure, to orient tangible perceptions and to add intangible ones.

3. Brands-important company assets

There are very few strategic assets available to a company that can provide a long-lasting competitive advantage, and even then the time span of the advantage is getting shorter. Brands are one of them, along with R&D, a real consumer orientation, an efficiency culture (cost cutting), employee involvement, and the capacity to change and react rapidly. This is the mantra of Starbucks, Apple and Zara.

Successful brands are the most important assets of a company. Specifically, those assets represent the knowledge created in the minds of consumers as a result of all of the marketing programs executed for those brands. In one sense it can be viewed as the result of the total resource investment in marketing the brand. All the marketing activities including product development, market research, advertising, promotion, distribution, sampling, and others act to create a brand image in its target audience.

Firms may choose from among three main branding strategies which link products to the company [3]. One strategy employs individual brand names for different products without an explicit connection to the company or to each other. Procter & Gamble has employed this branding strategy with brands such as Tide, Bold, Cheer and many others. Each brand has its own brand identity and can develop its own brand equity. In the unlikely event of a Procter & Gamble product catastrophe, each brand would be rather insulated from adverse publicity. Indeed when toxic shock syndrome claimed users of one of Procter & Gamble's brands, there was virtually no link to the company's unrelated brands. One difficulty is that the company's identity is so removed from individual brands that a consumer looking for Procter & Gamble quality might wonder whether Fab (Colgate-Palmolive) or Dash (Procter & Gamble) is a Procter & Gamble brand.

4. The concept of loyalty

Loyalty is defined as repeated purchases of particular products or services during a certain period of time. For this reason brand loyalty is measured using the purchase frequency of a particular brand [4] or the possibility of acquiring it. Researchers measure five types of behavior during certain time intervals to operationalise loyalty in a competitive market: (1) the percentage of customers buying a brand, (2) the number of purchases per buyer, (3) the percentage of customers who continue to buy the brand, (4) the percentage of customers who are 100 percent loyal, and (5) the percentage of customers who also buy other brands-duplicate buyers [5]. However, this kind of behavioral definition has been criticized for its limitations in predicting future behavior; therefore it is difficult to distinguish between repeat purchase behavior attributable to convenience and commitment.

Another argument is that behavioral loyalty does not explain multi-brand loyalty in the context of consumers who buy two or more brands interchangeably [6].

Jacoby & Chestnut (1978) explored the psychological meaning of loyalty. A psychological approach implies attitudinal loyalty that includes cognitive, affective, and conative elements [7]. Oliver (1999) defined loyalty as „a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior". Researchers have thus proposed a two-dimensional conceptualization of loyalty by adding the attitudinal dimension [8]. For example, Dick and Basu (1994) classified loyalty into four different categories based on repeated patronage and relative attitude. The categories are loyalty, spurious loyalty, latent loyalty, and no loyalty. Research findings support two-dimensional measurements as more accurate in determining a customer's future behavior [9].

Reviewing research, it becomes obvious that the notion of customer loyalty is blurred. At its core, customer loyalty deals with relationships between suppliers and their customers and can be distinguished from other loyalty aspects, such as brand loyalty,

which refer to a more abstract attachment, such as that towards a brand.

Within German customer loyalty literature, the notion of customer loyalty is even more faceted [10]. The German word for customer loyalty, 'Kundenbindung', encompasses both 'customer loyalty' and 'customer retention', wherefore [11] distinguishes an active, supplier-focused component and a passive, customer focused component of customer loyalty or 'Kundenbindung'.

In the supplier-focused perspective, customer loyalty is seen as a bundle of measures that aim at improving relationships with customers. The supplier is in the center of attention and the customer is only regarded as the factor at which success of customer loyalty becomes manifest. Here it becomes clear that this approach contains a conceptual deficit. It is the customer who eventually decides on whether customer loyalty management is successful or not, because all activities undertaken by a supplier can only be geared at influencing customers to be loyal. A customer-focused perspective therefore has to be added to evaluate the success of customer loyalty management.

Within the customer-focused perspective, customer loyalty is conceptualized taking into account customers' complex characteristics. These can either be approached as customers' directly observable actions and/or take into account their attitudes and intentions. Since customers' actions are directly influenced by their attitudes and intentions, it is obvious that these have to be scrutinized [12] to understand and manage loyalty.

A third perspective identified by Dorsch, Scott, & Scott (1998) is a synthesis of the former two approaches. The relationship-focused perspective directly examines the relationship between suppliers and customers. Accordingly, the objects of study in this perspective usually are buying behavior in retail contexts and long-term relationships marked by frequent interaction between suppliers and buyers in industrial contexts.

It is clear that the supplier-focused perspective with its instrumental approach is significantly different from the other two approaches. Distinguishing the customer- and

the relationship-focused perspective, however, is difficult, because both focus on the customer. Eventually, even within the relationship-based perspective, a customer decides on the initiation, continuation, and development of a relationship. Therefore, researchers like Henning-Thurau, Gwinner, and Gremler postulate to focus exclusively on the customer-based perspective. And in fact, the customer-focused perspective dominates current research on customer loyalty.

As this approach serves as the basis of this study, details of the customer focused perspective are given below [13].

Within the customer-focused perspective, two separate approaches have to be distinguished, the behavioristic and the neo-behavioristic approach.

While the behavioristic approach dominated research until the 1970s, Jacoby & Chestnut (1978) introduced the neo-behavioristic approach. Instead of exclusively considering observable behavior, as in behaviorism, neo-behaviorism accounts for customers' attitudes and intentions. The two approaches will be detailed in the following section.

5. Brand loyalty - behavioral and attitudinal perspective

Brand loyalty represents a favorable attitude toward a brand resulting in consistent purchase of the brand over time [14]. It is the result of consumers' learning that only the particular brand can satisfy their needs. Marketing literature presents two approaches of the study of brand loyalty. The behavioral perspective views consistent purchasing of a brand over time as an indication of brand loyalty. Behavioral measures have defined loyalty using indicators such as the sequence of purchases and/or the proportion of purchases [15].

Repeat purchasing behavior reflects reinforcement and a strong stimulus-to-response link. This perspective regarding loyalty may represent a lack of commitment to the brand and it can also reflect a repeated buying experience based on inertia.

The cognitive perspective to brand loyalty reflects and points out that behavior alone does not indicate brand loyalty [16]. Loyalty

implies a commitment to a brand that may not be shown just by measuring continuous behavior. For example, an individual or a household might purchase a particular brand because it displays the lowest price on the market. If the price increases, the buyers may shift to another brand. Therefore, this situation presents the case in which continuous purchasing does not reflect reinforcement or loyalty. The connection between the purchased good and the reward is not strong. One may state that some of the drawbacks of the behavioral perspective can be overcome when loyalty relates both to attitudes and behavior [17].

Brand loyalty ranges from the habitual buyer to the satisfied buyer, to those that like the brand and finally to those who are truly committed. Its role is to generate value mainly by reducing marketing costs: it is much easier for a company to retain its existing customers than to attract new ones [16]. Competitors have difficulties in communicating with satisfied brand users, because these people have very little motivation to learn about alternatives. The competitor brand encounters a lot of problems. A common and significant mistake is to neglect existing customers while trying to attract new ones [1].

Loyal customers may, in some cases, entice others by using the product or advising others to use it [20].

6. Types of brand loyalty

Brand loyalty is a complex phenomenon which displays at least seven alternatives.

In emotional loyalty, unique, memorable, reinforcing experiences create a strong emotional bond with a brand. Positive word-of-mouth is likely to be very high [8].

In identity loyalty, the brand is used as an expression of self, to boost self-esteem and manage impressions. Branding prospects into related product categories are good.

In differentiated loyalty, brand loyalty is supported by perceived superior features and attributes. Demonstrations and trials play a significant role here, becoming very important tools of marketing tactics. In contract loyalty, a consumer believes that continued loyalty earns him or her special treatment, but a competitor can question

whether the consumer's trust is being exploited [16].

In switching cost loyalty, a consumer is loyal because the effort involved in considering alternatives and adapting to a new alternative is not worth the expected return. Sometimes, the consumer may even be dissatisfied but will remain loyal because a competitor is perceived to be same. Competitors can undermine loyalty by making it easy to switch through, for example, product design, training and terms [18].

In familiarity loyalty, brand loyalty is the result of top-of-mind brand awareness. This kind of loyalty is defended and attacked by constant, attention arising advertising that builds top-of-mind brand awareness.

Finally, in convenience loyalty, brand loyalty is based on buying convenience. This type of loyalty may be attacked by the expansion of a competitor into convenience channels.

It can be concluded that some types of loyalties are relatively easy to change because the habit is only superficial, sustained by buying convenience or the fact that the brand is the first to occur to mind [19].

Brand loyalty plays a significant role in customer-based brand equity. It reflects how likely a customer will be ready to switch to another brand, especially when that brand makes a change, either in price or in product features. As brand loyalty increases, the vulnerability of the customer base to competitive action is reduced. There are at least five potential levels of loyalty [14]. These levels do not always appear in the pure form.

However, the five levels provide a feeling for the variety of forms that loyalty can take and how it influences brand equity [1].

The first loyalty level is the non-loyal buyer who is completely indifferent to the brand. Each brand is perceived to be adequate, and the brand name plays only a small role in the purchase decision. This buyer can be named a switcher.

The second level includes buyers who are satisfied with the product or at least do not show signs of dissatisfaction. These buyers are considered to be habitual buyers.

The third level consists of those who are also satisfied and, in addition, have switching costs, such as the costs in time or money associated with switching to another brand. This group represents switching-cost loyal consumers.

On the fourth level we find those that truly like the brand. Their preference may be based upon a symbol, a set of use experiences or a perceived high quality. Segments at this fourth level might be termed friends of the brand, because there is an emotional attachment. Committed customers are the most valuable clients of a company and they form the top level clients in the hierarchy. They feel pride in being users of a brand. The brand is very important to them either functionally or as an expression of who they are. Their confidence in the brand is so strong that they will recommend it to others.

The brand loyalty of existing customers represents a strategic asset that, if properly managed and exploited, has the potential to provide value in several ways. A loyal set of customers can reduce marketing costs, since it is much less costly to keep a customer than to gain and regain, and it provides trade leverage over others in the distribution channel. Customers can create brand awareness and generate reassurance to new customers. Loyal customers will also give the company time to respond to competitive threats [1].

7. Conclusions

In order to fully understand the concept of brand loyalty, this article presents both the client and the company perspective.

The above analysis of the marketing literature concludes that brand loyalty, from the consumer perspective, is considered to be the commitment to re-purchase a preferred product or service consistently in the future, regardless of situational context or competitor's marketing efforts. Loyalty is viewed as a component of brand equity, because loyal consumers tend to exhibit more favorable responses to a branded product than the clients who do not have loyal intentions or switching consumers. The perceived quality of a brand is considered to be the subjective judgment of consumers with respect to a brand's overall excellence and superiority, which leads a customer to

purchase a brand over another competitor brand. The concept of perceived value attributable to a brand is a function of aligning the price of purchase and costs associated with the ownership of a brand's product and the expectations of consumers.

Brands are intangible assets, assets that produce added benefits for the business.

This article also includes the firm's perspective related to the best way of managing brands in order to obtain profit. Due to the fact that brands are now recognised as part of a company's capital (hence the concept of brand equity), this article argues that they should be more exploited.

8. Acknowledgment

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Financial Innovations

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Abstract

The article presents that financial innovation have played a vital role in some bank failures; as the markets undergone significant changes over recent decades, this in consequence has brought some new instruments and techniques into practice in both national and international financial markets. This has resulted in international banks operating in a more risky environment. These financial innovations have facilitated the management of risks in a better way in both dealings and operations.

Financial innovation as derivatives are a kind of insurance policy, they can be used as a hedge against the unfavorable movements in currencies, interstates or commodity prices derivatives are just a shift in risk, also they can be used to limit, manage and manipulate risk in different manners.

Key words: financial markets, derivatives, management of risks

J.E.L. classification: G12, G13, G14, G20

1. Introduction

International financial markets have changed dramatically in the past decade and are likely to continue changing at an even higher pace with the help of information technology. The Euro bond market has proven fertile for the introduction of many experimental techniques that are designed to meet the requirements of investors and issuers in the market. In today's world, investors and issuers are confronted with dual currency bonds and reverse-dual currency bonds, futures options and swaps. In the recent past, with the rapidly increasing popularity of the internet, many issuers are using the internet for issuing bonds. All these

innovations are the result of the combination or modification of basic contracts, and if the pricing of bonds and forward contracts and the like is understood, in many cases the price of complex sounding instruments can be estimated. [1]

In 1983 Sibley argued that product innovation arises because of constraints—namely—regulation—competition and risk—placed on a bank. One of these constraints can act as a catalyst for financial innovation that allows bankers to bypass the rules. Eurocurrency markets were developed in such a way where bankers wanted to bypass the regulatory framework. Financial innovations are designed to benefit one of the parties involved in the contract. The benefits can range from lower cost of capital for the issuer to higher returns for the investors. Also, they help in reducing risk, tax cuts and in foreign currency exposure. These financial innovations have also been introduced following some market imperfections. When the product offered in the market are a result of market imperfections then, the product life cycle is shorter as once the policy makers take some action, the popularity of the product declines and hence with time the product vanishes, but on the other hand there are some products that have a rising product life cycle and once confidence is gained with the technique it lowers the cost and increases the volume; currency swaps in the 1980's followed the same life cycle.

Financial innovations go hand in hand with information technology. The remarks made by the Vice Chairman Roger W. Ferguson, Jr. at the financial services conference 2000, "...my colleagues at the Federal Reserve Board have often noted, technological innovations affects not just banking, financial services and regulatory policy, but also the direction of the economy and its capacity for continued growth..."

From these remarks it is obvious that innovations are chained together and change in one line will affect the other line of business.

Recently it has been seen that even the most conservative organizations have tried to adopt new technology. As a result of the Internet revolution many banks have been observed offering online services to their customers and many brokerage houses offering trading business online. Also, with the invention of mobile phones, the prices of many instruments and currencies are available in a short time period to our handsets. Many banks have realized the importance of information technology and therefore they are now making huge investments in technology. Apart from investing in IT they are also trying to upgrade their infrastructure; these investments are being made not only to provide electronic-based services but also to manage their risk positions and pricing. As mentioned above, the Internet has made it possible for small financial institutions to reach their customers at reasonable costs through offering online retail banking; this has not only increased the customer base but also reduced costs.

Financial and technological innovations bring many benefits but they also carry some risks. If banks fail to recognize these risks or lack knowledge of the products and services they offer then these innovations can turn out to be disastrous. The financial innovations will be examined and then technological advancement will be considered.

2. Understanding new instruments

In the recent past many firms have revealed financial losses as a result of new innovations being offered in the market. Many people consider them to be financial instruments of the devil. These disasters in the past have raised questions among the managers about what precisely these derivatives are and why are they being used?

We would like to mention two quotes by people involved in the business of dealing with derivatives:

a) Based on recent press reports, the current media definition sometimes seems to be: "A derivatives transaction is any financial transaction in which a large amount of money is lost";

b) Top management, whether corporate or otherwise, failed to understand the nature of the products being used in their treasuries or trading operations.

On the other hand, many investment bankers, accountants and financial economists argue that miss-selling is rare and believe that fraud and misusing or misunderstanding of derivatives have caused all the disasters in the past. Therefore, they believe that derivatives did the job what they were supposed to do. Secondly if one looks at the history, all the derivatives related disasters were as a result of human error and not the result of derivatives, though the disaster vehicle was a derivative instrument.

Derivatives may be taken as an example of financial innovation since many banks have recorded losses resulting from trading in derivatives. To examine them it is important to know their mechanics. Derivatives provide a low-cost and precise method of transferring risk from those that are exposed to it, but would rather not be to those that are not but would like to be. Derivatives can also be defined as a contingent instrument, since they consist of financial instruments or commodities. Both parties involved in a derivative transaction have more flexibility than the underlying asset themselves. This flexibility is result of the buying and selling of derivatives in well established markets. [3]

The difference between the traditional risk management by banks and derivatives is that before these financial innovations banks were concerned mainly with credit risk. With the invention of derivatives, banks can now generate business by transferring risks between different parties. Therefore, now banks rather than having the traditional function of intermediation between depositors and borrowers can now intermediate in risk management with the help of derivatives. Another reason for the popularity of derivatives among the banks is that they are off-balance sheet, meaning that they do not appear on the bank's balance sheet, since the capital required for financing these derivatives costs less than if bank were to finance these derivatives themselves. Derivatives are also popular among banks because they broaden the type of intermediation they undertake. [4]

In addition to the above mentioned derivatives, the new financial innovations

within derivatives are hybrid derivatives. These are the hybrids of the derivatives such as futures, options and swaps. Floating rate notes, note issuance facilities and swaptions fall into this category. All these instruments normally come with a form of credit risk. The risk associated with these instruments is usually counterparty risk, that is one party will fail to meet the obligations. For this reason, before entering into such type of contracts the bank should carry out a careful analysis. Since derivatives are traded on established exchanges they are also subject to market risk. For example, in the case of options, banks normally try to match out option market risks; this is done by keeping option "delta neutral". This delta indicates the absolute amount by which the option will increase or decrease if the price of the underlying asset moves by one point. In addition to market risk, derivatives also expose banks to liquidity risk, operational risk and legal risk.

3. Approaches for managing financial risks

Risk management in banking over the period of time has shifted from the traditional management of liquidity and credit risk to management of off-balance sheet operations. In modern banking, risk management is focused on both what is on a bank's banking book which is on balance sheet assets and liabilities and also trading books which mainly consist of off-balance sheet financial instruments. Different approaches are used in order to curb the financial risks that banks can be exposed to. These approaches are briefly explained one by one.

Credit risk analysis

Credit risk can be minimized by banks in four ways:

1. **Loan pricing:** depending on the credit worthiness of the borrower, loan pricing should include the administration costs, market risk and the risk premium. The risk premium depends how risky the borrower is. Loan pricing itself has a self-deceiving factor in it. If the loan is highly priced then the borrower will find it hard to pay back and eventually he will default. Therefore careful consideration is needed when pricing the loan. It should be noted here that the loan

price should exceed the risk-adjusted rate and includes any loan administration costs.

2. **Credit limits:** this is another approach to safeguard against credit risk. During the Asian financial crisis of 1997-1998, many banks undertook this approach. In this method credits are made to certain class of borrowers.

3. **Collateral:** banks require collateral to reduce the credit risk. Again in such an approach banks have to value the security regularly as it might have fallen below the value of the borrowed amount. This is what banks in Japan experienced as the loans taken were collateral against the property and once the property prices fall banks found it hard to recover loans.

4. **Diversification:** diversification can also be useful to reduce the credit risk of the bank. Too much investment in one particular sector can result in a bubble which can burst any time and become disastrous for banks. Therefore it is important for banks that they should diversify their lending to different sectors in order to reduce credit risk.

Interest rate risk

Banks manage their asset liability management (ALM) by two techniques which are gap analysis and duration analysis. From both of these techniques the most widely used is gap analysis as it can also be used to manage liquidity risk.

1. **Gap analysis:** Gap analysis is the most widely used ALM technique, where "gap" is the difference between interest-sensitive assets and liabilities for the given time interval. When the bank uses gap analysis it values and classifies its assets and liabilities according to the date these assets and liabilities are reprised. When the gap is negative, it means that sensitive liabilities are greater than sensitive assets; similarly when the gap is positive, it means that sensitive assets are greater than sensitive liabilities. When the ratio between sensitive assets and liabilities is one, this means that both assets and liabilities match. The ratio is obtained by dividing sensitive assets by sensitive liabilities. Therefore it can be said Gap analysis provides an overall picture of balance sheet mismatches. Gap analysis, these days, is not used in isolation now, yet it is an important technique for managing interest rate risk (Figure 1.).

Figure 1. Interest rate GAP

Sensitive Assets		Sensitive Liabilities
	GAP	

Source: Chew, L., *Managing Derivates Risk*, John Wiley and Sons, New York, 1996

2. Duration analysis: Duration analysis is a risk management technique, which measures the impact on shareholders' equity if a risk free rate for all maturities falls or rises. Duration analysis helps by allowing the possibility that the average life of an asset differs from its respective maturities. Since it is an additive it can be applied to a portfolio or to a firm's assets and liabilities. This is done by calculating the duration of all assets and liabilities and then taking the weighted average of all assets and liabilities. Subtracting the latter from the former shows the duration of the entire portfolio. This duration analysis shows the interest rate sensitivity of the firm's balance sheet. A question arises here: what about those assets these are insensitive to interest rates? If that is the case then one takes duration equal to zero.

It is useful for a firm to calculate the duration of the equity as it serves two purposes. First, it identifies and quantifies the exposure of equity to interest rates and second, it suggests appropriate actions to eliminate such exposures or to bring sensitivity to an acceptable level.

Several reports have been published about what are the best practices in risk management especially for derivatives. The Basle Committee for banking supervision and the International Organization of Securities Commissions (IOSCO) has also published risk management guidelines, recommended specially for those banks and securities houses that deal in derivatives.

Those banks and financial institutions that have incurred losses as a result of trading in derivatives have mostly failed to institute a proper managerial, financial and operational control system into place. For banks to deal

with innovative products they have to look at their foundations to establish whether they are strong enough to bear any damage occurred because of the failure in dealing with such instruments. [2]

4. Conclusions

Financial innovations bring some fruits in the form of huge profits but they can also turn out to be beasts if not managed properly. It is therefore important to keep the basic finance rule of "high risk high return" in mind as when banks trade in derivatives they can get high returns and enjoy the profits earned by trading in such derivatives. But at the same time they should also bear this finance rule in mind, as high return cannot be earned without taking high risks. Therefore it is important for the management to understand the risks and the mechanism of products that they are doing to use in future. [5]

Following bank collapses in the past, it has now been realized that it is important to hire people who have some background of mathematics and statistics, so most of the fund management houses are more interested in employing people who have degrees in actuarial mathematics. These are the people who are going to manage the business in future and most important understand the instruments.

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The Role of Information Technology on the Banking Industry

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Abstract

The article presents a study which aims to analyze the role of information technology (IT) in the banking industry. Technological innovations have enabled the industry to open up efficient delivery channels. IT has helped the banking industry to deal with the challenges the new economy poses.

Technology is also changing the supervisory and regulatory landscape. It is creating new tools for supervisors and new supervisory challenges. Technology-driven issues such as privacy and the nature of electronic communications have reached the forefront of the policy agenda. And the line between electronic banking and electronic commerce is becoming more difficult to define clearly.

More than most other industries, financial institutions rely on gathering, processing, analyzing, and providing information in order to meet the needs of customers. Given the importance of information in banking, it is not surprising that banks were among the earliest adopters of automated information processing technology.

Key words: *information technology, banking industry, risk management, electronic banking*

J.E.L. classification: G12, G21

1. Introduction

Information technology has changed the way people bank, the way they invest and the way they earn profits. In other words, IT has changed the face of banking and banking supervision.

More than most other industries, financial institutions rely on gathering, processing, analyzing, and providing information in order to meet the needs of customers. Given the importance of information in banking, it is not surprising that banks were among the earliest adopters of automated information processing technology.

2. The impact of information technology

Financial institutions, as compared with other industries, rely more on gathering, processing, analyzing and providing information in order to meet their customers' needs. This is the reason why banks were the first to start automated information processing technology. According to Roger W. Ferguson, Vice Chairman, the Federal Reserve Board, there are three reasons why financial institutions have been and still are heavily investing in technology. First, financial institutions anticipate a reduction in operating costs through such efficiencies such as streamlining back-office processing and the elimination of error-prone manual input of data. Second, institutions find ways to serve their current customers and attract new customers by offering new products and services and at the same time enhancing the convenience and value of existing products and services. Third, with new technology, institutions have been able to implement sophisticated risk – and information-management system and techniques.

Another reason for innovation is change, many banks and financial institutions had to contend with change, which is not only rapid but also more complex. Even the established financial institutions and companies are not sure who exactly their competitors are? Behind all this lies the Internet. The Internet performs many functions cheaply and

flexibly. Gary Reiner, chief information officer of GE, one of the pioneers of the Internet, describes how the company set out to build its own electronic-auction site. "It was less expensive than we thought", he says. This change has brought a dramatic fall in the cost of handling and transmitting information and also in the way banks and other companies reach their customers and the products and services that they offer. Organizations therefore have to be run properly and employees have to be well trained in order to keep up with the pace of this new information technology era. The introduction of the Internet has brought people closer to each other but on the other hand in the financial services sector it has brought disintermediation. For years old banks in particular enjoyed intermediation between the lenders and the borrowers. With the passage of time and with the invention of new technologies and systems, intermediation has decreased. Disintermediation can be clearly seen in the market with the lenders directly going to the borrowers without appearing on a bank's balance sheets. [1]

It is therefore important for the financial institutions to invest in what it is called "Internet strategy". Bill Gates said that banking is necessary, but banks are not. This is one of the signs of threat for banks, as many companies can reach their customers through online services easily and at less cost.

3. Risk management and electronic banking

Advancement in information technology has made it possible for retail and wholesale customers of banks and other financial institutions to access and have delivered a range of products and services at the click of their mouse button. This type of banking is mainly referred to as e-banking. Development of e-banking carries benefits as well as costs. In other words electronic banking has modified the traditional risks and benefits associated with banking. Risks in general can be characterized as strategic, operational, legal and reputational, so it is to be said that it has increased the overall risk profile of banks. This increase in risk profile

can be associated with the speed of change, technological advancement and global nature of open electronic networks, integration of electronic banking with computer system and dependence of banks on the third parties for providing information technology, whereas benefits can be characterized as greater customer base, lower costs and high profits. [2]

With the increase in risk profile of banks, The Basle Committee on Banking Supervision's Electronic Banking Group (EGB) has issued risk management principles on e-banking. Banks will have to follow the existing risk management principles, but in addition they will have to address specific risks created by banks electronic activities. The committee therefore believes that it is the responsibility of management and the board of directors to make sure they have taken necessary steps to review and modify their existing risk management policies.

Since banks have integrated their electronic banking activities with the computer systems, consolidated risk management should therefore be given importance for all banking activities.

Taking all of the above points into consideration, the committee has identified fourteen Risk Management Principles for electronic banking institution. These principles are not an absolute requirement, as with the pace of change they will soon become outdated. Still, they provide a guideline for risk management of e-business. These risk management principles fall into three main categories: Board and Management Oversight; Security Controls; Legal and Reputational risk management.

As mentioned above, senior management and the board of directors have more responsibility of making sure that the bank has updated its strategies and risk management policies, since they are responsible for developing the institution's business strategy. It is therefore their responsibility to make sure the decisions take by them are explicit, informed and strategic as to how the bank is going to conduct its e-banking services. Therefore, they are responsible for making the initial decisions over policies and controls to address risks. Also, it is the management's responsibility to approve such controls that are related to maintenance and development of security.

With the proper security infrastructure in place banks can easily cope with internal and external threats related to e-banking systems and data. [3]

The second category of principles is security controls; security controls means that appropriate authorization and authentication measures, logical and physical access controls, adequate infrastructure security to maintain appropriate boundaries and restrictions on both external and internal user activities and data integrity of transactions, records and information are all in place. It is also important for banks to have a proper audit system for all the transactions that take place through e-banking.

The third category of these principles is related to legal and reputational risk: consistency and timeliness is essential for successful e-banking. It also protects against business, legal and reputational risk. It is therefore the bank's responsibility to provide e-banking to all end users under any circumstances. To minimize operational, legal and reputational risks it is important for a bank to have effective incident response mechanisms in place. To meet customer's expectations banks should have a business continuity and contingency plan. These measures will help banks to reduce legal, reputational and operational risk. [4]

Since rules and regulations vary from place to place these principles can therefore be taken as a guideline to enhance a bank's performance and reduce risks.

4. Conclusions

Banks and financial institutions will continue to experiment with financial innovations and technological innovations and electronic, information-based services. Particularly with the invention of the internet, there is a great potential for growth and experimenting different innovations. At this stage it is therefore unknown as to what payoffs will these financial institutions will get once they have heavily invested in these new technologies. As every innovation has some drawbacks, banks should therefore be prepared for worse scenarios, as it has been experienced that many computers and sometime systems go down bringing the entire office world to an untimely end. For this reason it is management's responsibility to keep abreast with the new systems and technologies and make sure it is sure updated with the flow of information technology.

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Sustainable Development Through Global Performance

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Abstract

Sustainable development is the macroeconomic concept of global performance. The three pillars of sustainable development, namely economic, environmental and social can be found at the level of a company through its overall performance. So, nowadays we can't speak only of financial performance without mentioning the social and environmental performance. A company reaches its goal of performance not only if achieves its financial (economic) goals but also if is simultaneously responsible regarding its employees, customers and the community in which it operates.

Sustainable development is a way in which we perform the everyday activity, a way to act to ensure a balance between the limits imposed by the environment, the needs of present and the future needs. Referring mainly to economic entities we define sustainable development as a new philosophy of development, to assure business sustainability in a turbulent and constantly evolving environment.

Key words: sustainable development, global performance, social responsibility, environmental performance.

J.E.L. classification: G39

1. Introduction

Currently the main objective of an organization is not simply to obtain profit. To achieve sustainable development at the level of organizations they must collect performance at three dimensions: environmental, economic and social. In the current macroeconomic context ignoring

social and environmental issues can lead to loss of international market shares of large corporations, more than this, they are forced to bear costs of greening the area of activity and spend considerable sums for loss control to regain consumer confidence.

If in the last century the fore was on financial performance, companies have now realized that this is only the outcome of the race, but the race itself and the vector is the success of today's racing, in the context of sustainable development of society, is what we call overall performance. Bachet since 1998 found that performance should not be reduced to the sum of partial performances, considering that performance is "an emergent property that shouldn't be reduced to the amount of partial performances, but to an overall performance which is based on a virtuous link between the economic and social and on a long-term concern for success." [2]

Each company should consider a "fair evaluation" of performance: the economic dimension, the environmental dimension and the social one. Overall performance of the company is defined as aggregating economic performance, social performance and environmental performance. So always, the overall performance of a company will be valued by the exchange with the environment. The three dimensions mentioned are embedded in what is called Triple Bottom Line (TBL), a concept introduced in literature by Elkington in 1980. The concept of Triple Bottom Line (TBL) focuses entities not only on the economic value added, but also on social and environmental values that they create or, conversely, destroy.

2. Sustainable development – Literature review

What is sustainable development? The best known definition of this concept is mentioned in Our Common Future or "Brundtland Report" prepared by the World Council on Environment and Development in 1987, which gives the following definition of the concept: sustainable development is the development that fulfills the present's needs without compromising the ability of future generations to fulfill their own needs (WCED, 1987). It seeks to not compromise the environment's ability to produce for future generations and this feature is captured very well in what we call sustainability and its weaknesses are as follows: population, climate change and energy consumption. In 1992 the World Summit in Rio de Janeiro has developed and adopted Agenda 21 as a tool to promote the concept of sustainable development. It argues that sustainable development is that development that will not damage and does not compromise the environmental, economic and social development, which depends on the continuous development[9].

"Sustainable development is loyalty against future" [16]. We believe that sustainable development is the concept that best describes the present and future. According to Tietenberg [23] if a project maximizes the value of the present benefits but with loss of future generations it should have a share in present earnings to be set aside, whereas an "inter generations" compensation fund.

Analyzing the literature we found that there isn't a generally accepted definition of this concept from both practitioners and academics [14] although in this moment there are over 100 definitions in circulation [9].

Development is represented by highlighting the following objectives[21]:

- Economic (creating wealth for all on the base of sustainable production and consumption);
- Environmental (conservation and management of the resources)
- Social (social equity and participation of all groups).

How can we define sustainable development taking into account these three objectives? Sustainable development is the

one that is based on the principle that the three dimensions must be balanced to avoid prioritization of an objective on the expense of the other two.

At the level of organizations operationalization of the concept of sustainable development is achieved through the concept of either overall performance of the organization or societal responsibility. And for this we need the concept introduced by Elkington, Triple Bottom Line that involves economic prosperity, environmental compliance and improve social cohesion [17] So TBL or Triple balance can be defined as an approach for measuring organization's overall performance according to its triple contribution to the three aspects mentioned above. It is an approach that takes into account the financial result, the social and environmental balance of organizations [22].

There are others voices that do not entirely agree with this approach, saying it was incomplete. Various authors like Neculai Tabără, Emil Horomnea, Marcel Nuță and Roxana Dicu believe that sustainable development should not be reduced to measuring the three dimensions, it must be added also the interaction between them. They believe that "the true value added of sustainable development regards the management of interactions between the three dimensions" [21]. Thus, it is proposed a new concept, namely the integrated performance.

Considering the term "sustainable" from the expression we are discussing, sustainable development can be defined as a "development within the carrying capacity [18,5,9]. So what is sustainability? According to Dragomir [6] sustainability is a concept that implies a fair allocation of resources regarding processes run on a global scale. In this context, equity assumes responsibility for the rational use of resources for opportunities of present generation, so as not to impede the opportunities of future generations. Brundtland United Nations Committee in 1989 gives the definition of sustainability which in 1987 was awarded to sustainable development. So according to him these two terms are synonymous.

But there are a number of authors who claim that the organization must make a distinction between those two terms, namely

sustainability and sustainable development [20]. So, according to them sustainable development is the process that ensures the sustainability of an organization, it is the ultimate goal of the organization. Here we remind of Bouquin's words that we can extrapolate defining sustainability as the outcome of the race and sustainable development as the race for sustainability, the vector of future successes. Sustainability is an objective that aims to be achieved at the entity's level and sustainable development is the macroeconomic principle.

Another concept of great development that is considered the foundation of sustainable development is social responsibility, as defined by the European Commission as a concept that means the voluntary integration, by enterprises, of social and environmental concerns into their business and their relationships with stakeholders.

3. Overall performance - microeconomic concept of sustainable development

In the current globalization of world economy, a company that registers performance is a "company that creates added value for its shareholders, satisfies customers demand, takes into account the opinion of employees and protects the environment. Thus, ownership is pleased that the company has achieved the desired return, customers have confidence in the future of the company and in the quality of its products and services, company's employees are proud of where they work, and society benefits through policy adopted by the enterprise, of environmental protection"[10].

In a world of competition that has gained increased impetus as a result of environmental change and increased risk with increased financial and economic turmoil and with the internationalization of trade in goods and capital, achieving "excellence" in business is the path of survival and development of businesses in a competitive economy. Peter and R.W. T.J Waterman in 1995 likened the concept of performance with excellence, today a fundamental criterion for any organization that is founded on four essential factors: the efficiency of the organization, social identity,

achievement and reputation of the organization.

One way to achieve excellence is performance, now it is talked more about the overall performance. This new approach to performance is known as sustainable development, which has three objectives: increasing economic and financial performance of the company, effective development of environment and encouraging social development. Thus we can say that overall performance is the sum of economic and financial performance, environmental and social performance. According to some Romanian authors the concept of global performance is used to evaluate sustainable development strategies and to report on the societal responsibilities of different partners [21].

In Romania, there were also concerns towards the approach performance from a global perspective, especially in the context of national economic approaches on the line of integration into European Union. We recall in this regard concerns of authors such as [28,25, 21].

As Bouquin [3] says in his paper "Controle de Gestion" if financial performance is just the "outcome of the race", overall performance is the race itself or "the vector of future racing success" [1]. For long time overall performance was reduced to the financial dimension. This is to achieve the desired return on shareholders by turnover and market shares that would lead to continuity of business [21]. In the present financial performance is no longer sufficient to be able to assess a company's business. So the performance concept has expanded to take into account social responsibility (a term used by the European Commission) or societal responsibility of the organization to all stakeholders. It should be noted that this also includes environmental issues.

Overall performance concept is present in the literature to assess the implementation of business strategies in the context of sustainable development. The concept is the reflection in the management system of the macroeconomic concept of sustainable development [4]. Marc Lepetit (Financial Consultant, a member of a working group of the General Commissariat of Plan, on the overall performance issues) defined the overall performance as "a multidimensional

concept, economic, social and societal, financial and environmental, which covers both the company and human society, the employees and the citizens." For Reynaud overall performance is the aggregation of economic, social and environmental performance [19].

In the context of sustainable development global performance can be defined as a multidimensional effect, economic, social and societal, financial and environmental that concerns both organizations and employees, human communities and citizens [21].

For sustainable development of a company, the strategy and value creation can't be dealt with strictly financial terms. Corporations must apply the principle of balanced development, based on various aspects. A well-known example is the concept of multidimensional performance evaluation focused on the theory of Triple Bottom Line. It is a concept that aims to enhance the non-financial and non-accounting dimensions of performance and responsibility of a company. The concept of Triple Bottom Line focuses companies not only on the economic value added, but in particular, on social and environmental values that they create or, conversely, destroy [7].

TBL performance also requires involvement in all three areas of reporting: economic performance, social performance and environmental performance [12]. So, in general terms, economic performance relates to all aspects of the company's economic interactions. Traditionally, financial indicators refer to an entity's profitability and aim to provide useful information for both management and company's shareholders. The environmental dimension of a company's performance regards the impact on natural systems, including ecosystems, land, air and water. Environmental performance include information that characterizes the quantity of energy consumed and its origin, treatments resources, management of exhaust emissions, spills, waste, residues, etc., how to exploit the land and environmental management.

Social performance can be measured by analyzing impacts of the company on stakeholder locally, nationally and globally. This can be seen as the company's impact on employees and the local economy, impact that can be quantified by information on

employees (number, wages, holiday bonuses, etc.) or by information about payments to suppliers (local economy) Social performance focuses on the interactions of the company, engaged human resource and any other individuals with whom contacts are established. Social performance indicators include: relations between employees, work safety and health and human resources, the report salary / cost of living, elimination of discrimination of any kind, local community rights, community development impact, customer satisfaction etc.

Lebas illustrated in 1995 these two new dimensions of performance, the social and environmental performance through the performance tree [11]:

Figure 1. Performance tree



Source: Lebas, 1995: 25

In the broadest sense, TBL is a philosophy that drives corporate performance. In a narrow sense, the concept refers to the tactics of measurement, management and reporting of business performance beyond financial dimension and in terms of an integrated vision of the entity, with clear evidence of the economic, social and environmental impact. To highlight the social impact (social performance) organizations should refer to its reoccupation concerning health insurance of population, activities consistent with sustainable development requirements, etc., while the environmental performance requires actions of the organization in order to protect environment, to give a certain quality of manufactured a products.

In the present context, both in Romania and in any economy in the world performance involves "ensuring the viability of the firm in terms of domestic and international competition, within the

restrictions imposed by sustainable development" [8].

4. Conclusions

Sustainable development and globalization set new standards of performance that exceeds the economic field, both for domestic companies as well as international ones. So, these standards should be integrated into corporate strategy development to ensure sustainability of activities undertaken by harmonizing the economic, social and environmental objectives.

Sustainable development is a concept based on three pillars: economic development, social development and environmental protection, even if over time it has been brought into question a fourth, namely cultural diversity. To this macroeconomic concept it can be associate different concepts at microeconomic level among which we remind overall performance and sustainability.

Why overall performance evaluation is needed? Because as we have seen exclusive financial performance reporting limits the information provided that is why it has emerged the need to report information on overall performance thus distinguished also non-financial aspects. In this context, TBL reporting has become an invaluable tool because it captures the three dimensions of performance: social, environmental and economic.

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Population, a Decisive Component of Creation and Size of Labor Resources. From Theory to Reality

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Abstract

There is no doubt that the population seen in its various sides is actually a crucial component, active and dynamic long-term, closely linked to motor factors of society and economic activity, demographic potential of a country, influencing state and the social and economic development of the country.

Population is the human community that is identified by a specific set of features and links their development, while also being an issue analysis for the various sciences, including the economic one, due to the fact that demographic change can influence some mechanisms of functioning of the economy, including the labor market.

Key words: demographic potential, lively resource, demographic explosion, demographic inplasion

J.E.L. classification: R23

1. Introduction

Population is both a factor and a basic resource, the creation of human resources, only resource of all things living there until today. Man, as a constituent part of the population, labor force to adapt and transform objects continuously work to achieve its goals. Population, viewed and analyzed in its twofold aspect, but at the same time consumer and the producer is an element of prime importance in economic and social development of any country. From the consumer point of view is identified with the total population of the country has human potential, ie the total population of that state, and in terms of the manufacturer, the population generates employment resources, however different in terms of numbers, experience and their preparedness. For

developed countries and the decline of labor may be offset by capital resources or by replacing it with the importation of labor from less developed countries. For less developed countries, developed or even lacking sufficient capital resources, low population and labor force may affect attempts to revive the national economic growth can block any trend of accelerating growth and reducing economic disparities and social. The purpose of subsequent analysis is to decipher changes in the structure of the population in Romania, as the main determinant of the level of labor resources and the effects of demographic phenomena generated by the labor market.

2. Human resources, a source of wealth of a nation

Human resources component of national wealth is a strong determining influence on the level and pace of development of economy as expressed in the principle of education, research ability, scientific, cultural and artistic values that have a people, this is an argument for shall be deemed that no wealth, except human resources, as would be consistent from the point of view, is only transitory and misleading.

If the elements that compose the accumulated wealth and natural resources attracted the economic cycle, makes direct economic activity, rates and proportions of economic development, human resources influences the economic development process. Thus, level of education, research capacity, experience gained over time, are factors that influence the dynamics of labor productivity and thus economic development level and dynamics. As a result of difficulties in quantifying these factors, human resources viewed from this perspective are not taken directly in the calculation of national wealth, which is obvious only indirectly.

Human resources can be examined from another angle, namely as part of the national wealth of a state, the people expressed through his stock. In general, the notion of the stock of real property may be sold, ie those that can be put on the market. When the economy was slaves, they could be considered part of the wealth of that state. In the current system of market economy, people are not real property belonging to someone say they can not sell itself, but what they can sell on the market and more specifically the labor market is their workforce, as expressed by the various specialized activities or not, that people carry. As the value of the stock, it is expressed by the value of production measured by revenues made it work without factor. In fact, the stock of people, people in general can be expressed by all physical and intellectual endowments of a nation, contributing to a portion of national wealth. Even when talking about the national wealth, our thoughts go to all buildings, productive equipment and consumer durables, monetary gold and foreign investment, all of which are based on certain human labor, physical or intellectual and consumed today, yesterday or one hundred years ago.

3. Quantitative and qualitative aspects of population

Developing economic and social development policies in general, but especially those in the labor market, among other things requires knowledge and analysis of quantitative and qualitative aspects regarding population of a country.

The population of a country is defined mention Trebici must „as an aggregate, an amount, a community of people living on the land and properly defined.”[1]

The quantitative approach is performed using volume indicators and human resource structure that relates to livestock population and its structure after several variables, the most characteristic being the age group and sex. Number of population, the fundamental feature analysis, are all people exist in a country at a time.

The analysis of the light of its herd to a structured whole time. In this case the entire population is represented by a well-defined

and can be any intersection when the tangent to the axis of time, so people can say that number is an indicator of time. The best known and used for determining moments of a herd populations are 1 January and 1 July.

This population number set at January 1, namely 1 July according to the definition of the National Institute of Statistics, „The population consists of people living in that locality, having the residence in the village at that time. It is calculated using the last census, corrected for the natural population growth, external migration balance, the balance of migratory movement by changing their residence, and migratory movements to balance the change of residence between the census and recorded phenomena moment.”[2]

The fundamental equation for determining a stock

$$S_F = S_I + I - E, \text{ where (1)}$$

S_F - closing stock; S_I - original stock; I - input; E - output; and in line with the definition given above, the stock population on 1 January and 1 July, can write the relationship:

$$P_C = P_R + (N + I_E + I_D + I_R) - (D + E_E + E_D + E_R),$$

(2), when we consider that:

$P_C = S_F$ - the current population, the total population registered on 1 January, namely 1 July; $P_R = S_I$ - the last census the total population registered; $I =$ [births (N) + immigration external (I_E) + immigration due to changes of residence, (I_D) + immigration due to change of residence (I_R)]; $E =$ [deaths (D) + external migration (E_E) + emigration due to changes of residence, (E_D) + emigration due to change of residence (E_R)], and knowing that:

$N - D = S_N$ - natural increase; $I_E - E_E = S_E$ - external migration gain; $I_D - E_D = S_D$ - balance migratory movement with change of address; $I_R - E_R = S_R$ - balance migratory movement with change of residence then equation (2) can be written as:

$$P_C = P_R + S_N + S_E + S_D + S_R \text{ (3)}$$

Analysis taking into account population age structure of population shows the effect of demographic factors. The economic analysis of population structure using large age groups, as follows:

Young population P_T	0-14 years	0-19 years	0-14 years	0-19 years
Adult population P_A	15 - 59 years	20 - 64 years	15 - 64 years	20 - 59 years
The aging population P_V	> 60 years	> 65 years	> 65 years	> 60 years

Differences in terms of the age groups is mainly due to different visions of the concept of labor resources used by various statistical analysis, group wants to highlight the fact this population, namely the working age. Analysis of the adult population who actually identifies with the working age population, just highlights the economic dependency ratio, ie the number of inactive persons per 100 active population, according to the relationship:

$$R_D = \frac{P_T + P_V}{P_A} \times 100, \text{ where (4)}$$

R_D - economic dependency ratio; P_T – young people; P_V – the elderly population; P_A – adult population

Analysis of the category vârstnice population age structure, highlights the demographic aging of the population. Where[3]:

The share of elderly in total population	Demographic considerations in terms
< 7%	Young population in terms of demographic
7% - 12%	Population aging demographic that is going to
> 12%	Population aging population

Population analysis taking into account gender, viewed as an important variable, leads to a simple classification of male and female populations, thereby, the degree of masculinity, femininity that can characterize a population.

Therefore, for further analysis using the combination of this variable with age, highlighting both the potential limits of a population and reproductive changes in the structure of a population. For example, Trebici be noted that the “so-called feminization of a specific population - the rural population, the working population in an industry - has significant differences depending on age”. [4]

Also the analysis of population by age and gender can shape the same time both a past picture, providing an explanation and a picture of the future, due to the influence that this combination of variables has on the natural growth and population growth rate.

The qualitative approach of the population has a number of issues related to the average nominal and real income per capita, the education level of population groups such as reflecting population with higher education, elementary middle and in the general population, the state health of the population overall and by various socio-professional categories, the overall level of human development, reflected in the human development indicator.

Over time, the qualitative analysis of human development has undergone several stages. In nineteenth-century, classical economic thought from the perspective of people just appreciate the factor of production, so they were considered real car which provides a certain amount of productive labor, which in turn are necessary for some maintenance costs for to function in a regular and continuous. Subsequently this concept has been treated and discussed by other sciences such as philosophy, which sees human development from the perspective of an individual's personal development, sociology, emphasizing the possibility of a consumer to choose freely on the market, goods and services required; psychology, which believes that human development is based on a specific motivation when individuals perform a particular task.

Several decades ago, the concept of human development was used to highlight the investment in human capital, but about two decades ago, this analysis becomes more comprehensive human development, the concept acquires new cotonații. Science now calls for a new approach to human development, which arises from the need for each nation should re-orient reconcepă and policies in order to reflect and decide how they can be involved for the aspirations of people to be made for the most part.

More broadly, human development reflects the development and use of human and material potential of the national economy, the extent to which the nation uses the factors of production, it combines and

structures to achieve maximum efficiency. As a result of the quantitative expression of such a complex phenomenon is quite the hard, in 1990, Human Development Report issued by the United Nations, introduces a unique method to quantify the global extent of human development by combining several indicators into a single indicator, internationally known as the human development index and Romania as the human development indicator.

The global dimension of human development indicators integrate the significant determinants longevity measured by life expectancy, educational attainment measured by adult literacy rate and average duration of education, standard of living, measured by gross domestic product per capita.

The significance of human development indicator allows characterization of both human development and development experience comparing different countries or regions in economic and social progress, and highlighting social and economic policy priorities, where these areas require intervention from the state.

4. Developments in the population of Romania

In recent decades, Romania has experienced significant changes in population structure. Some of these changes was due to both the communist political decisions that have influenced the evolution of demographic phenomena, in particular birth and demographic transition period.

During the twentieth century, except for periods of two world wars and the 1990s, the population was growing, given the natural growth before 1967 and maintained artificially, through an aggressive pronatalist policy between 1967 and 1989. The sharp decline in birth rate since 1990, confirms that high levels of Romania's population, recorded in previous years were maintained by the constraints of the communist regime.

Negative demographic trend of the volume registered in Romania, after 1990, and the rise of the phenomenon is due to external migration. First departures occurred in the first years of freedom of representatives of ethnic groups, such as those of German,

Hebrew and Hungarian, on the other hand, a significant number of people leaving the country for the opportunities opened immediately after the change political regime, as manifested in this situation for labor migration.

Determining factor for defining and structuring a viable strategy for sustainable development of the country, people should remain the central element on which to focus the full attention of both policy makers and the entire Romanian society. In this regard, we need a vigorous intervention as the only alternative that can be taken into account but not to stop the decline, a goal difficult if not impossible to achieve in the short and medium term, but to reduce the degradation of its future structure.

In support of these considerations, the following lines are some statistics on population trends in Romania.

5. Overview of the population of Romania between 1930-1989

A brief picture of the population of Romania between 1930-1989, reveals an upward trend and may even say uniform, as the figures in Table no 1. Population census held in Romania in 1930, there were 14,280,729 people registered a number, for nearly six decades later Romanian population to increase by 8,870,835 persons, representing a 62.11% increase.

The permanent population annual growth between 0.31% and 2.26%, due primarily to increasing birth rates as a result pronatalist policies promoted by Romania in this period. Referring in particular birth and birth in general, the great Romanian Vladimir Trebici demographer, said that although "apparently an elementary biological event, birth, is set under a large number of social, economic, cultural and frequency of births in reflecting the national population in the final analysis, cultural models involving complex social institutions, attitudes and values in society as a whole." [5]

Pronatalist policy measures aimed at our country, the first prohibition of abortion and on the other hand, financial support to mothers and families with children. Abortion was considered an offense and enrolled in the Criminal Code in 1948 and was then approved by Decree 456/1955, but only if it

was done by a doctor and for certain categories of pregnancy risk. In 1956, he was introduced as first aid for families with children called the state child allowance.

In 1957, Decree 463 regulating what is called abortion on demand. In accordance with the provisions of this decree, the normal course of pregnancy termination was made possible only at the request of the pregnant woman and the measure by which to achieve this medical act to take place only in medical institutions or public health centers. The results recorded in the period 1957-1966, points out that legalizing abortion, has increased their number and therefore have produced negative demographic effects, which have resulted in lower and lower annual rates of growth between birth 0,88% and 0,59%.

Table no. 1 - Evolution of number of population in Romania during 1930-1989

Year	Total population	Difference from the previous year in %
1930	14280729	
1948	15872624	
1956	17489450	
1960	18403414	
1961	18566932	0,88
1962	18680721	0,61
1963	18813131	0,7
1964	18927081	0,6
1965	19027367	0,52
1966	19140783	0,59
1967	19284814	0,75
1968	19720984	2,26
1969	20010178	1,46
1970	20252541	1,21
1971	20469658	1,07
1972	20662648	0,94
1973	20827525	0,79
1974	21028841	0,96
1975	21245103	1,02
1976	21445698	0,94
1977	21657569	0,98
1978	21854622	0,9
1979	22048305	0,88
1980	22201387	0,69
1981	22352635	0,68
1982	22477703	0,55
1983	22553074	0,33
1984	22624505	0,31
1985	22724836	0,44
1986	22823479	0,43
1987	22940430	0,51
1988	23053552	0,49
1989	23151564	0,42

Source: <http://www.insse.ro>, *Statistical Yearbook 2007 and own contribution*

Following the situation in 1966 has issued Decree 770, and with it took place and changes to the provisions of the Criminal Code on abortion. Thus, art. 482 is that defined the crime of abortion is termination of pregnancy by any means done with the consent of the pregnant woman. In 1985, abortion was permitted under certain conditions on December 26, 1989 to defend a new decree repealing the decrees 770/1966 and 441/1985 and Articles on abortion.

Some of the effects of these legislative measures have influenced the evolution of birth in Romania, as statistical evidence presented in table no. 2. If during the years 1930-1938, the birth rate exceeded 30 per 1,000 live births during the period of the Second World War, due to a psychological climate of fear and uncertainty, the reproductive rate of the population began to decline or due to lower marriage or following the breakup of many families due to moves of population concentrations and mobilization.

Even after the war, following a period of declining birth rate value, reproducing population is steadily declining, reaching a minimum in 1966 to 14,3 births per 1,000 inhabitants, as a result of free practice surgical rate cuts pregnancy that occurred in the period between 1957-1966. As a result of this effect since 1966 prohibiting surgical abortion, the consequences of this measure is reflected in the fact that at the end of 1967, recorded a sharp increase in the birth rate, reaching a value of 27,4‰, compared to 14,3‰, as indicated in the previous year.

Table no. 2 - Birth rate in Romania during
1930-1989

Year	Birth rate	Year	Birth rate
1930	34,1	1973	18,2
1938	29,5	1974	20,3
1940	26,0	1975	19,7
1950	26,2	1976	19,5
1955	25,6	1977	19,6
1960	19,1	1978	19,1
1961	17,5	1979	18,6
1962	16,2	1980	18,0
1963	15,7	1981	17,0
1964	15,2	1982	15,3
1965	14,6	1983	14,3
1966	14,3	1984	15,5
1967	27,4	1985	15,8
1968	26,7	1986	16,5
1969	23,3	1987	16,7
1970	21,1	1988	16,5
1971	19,5	1989	16
1972	18,8		

Source: <http://www.insse.ro> Statistical Yearbook 2007

In the coming years due to pronatalist demographic policy and the existence of legislative measures listed above, there was an ongoing phenomenon identical to that shown in the 1957-1966 period, ie a trend of steady decline, but at a somewhat slower pace, reaching is in 1983, the value of the years 1966. Following the introduction of new coercive measures, the birth rate in Romania in 1983 after a slight upward trend, reaching values exceeding 16 births per thousand inhabitants in 1986, because between the years 1986 to 1989 to maintain the values relatively constant.

6. Conclusion

The man regarded as the most important competitive factor in any economy, is a common resource and also a key resource, vital to conduct any economic activity and therefore potential demographic changes in the structure of a country influences the level of employment resources employment, a fundamental dimension of the labor market.

There is no doubt that the population seen in its various sides is actually a crucial component, active and dynamic long-term, closely linked to motor factors of society and economic activity, demographic potential of a country, influencing state and the social and economic development of the country.

Population is the human community that is identified by a specific set of features and links their development, while also being an issue analysis for the various sciences, including the economic one, due to the fact that demographic change can influence some mechanisms of functioning of the economy, including the labor market.

In quantitative terms, until 1990, over six decades the population of Romania has experienced a consistent upward trend, registering a growth of 62.11% compared to 1930, because after this year so far to show a continuous and uninterrupted decline, so that the end of 2009 Romania's population is in decline with 1,736,761 people, compared to 1990.

7. References

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Expressions of Continuous and Uninterrupted Decline of Population in Romania, at Labor Markets

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Abstract

This paper is meant to emphasize the importance of the demographic factor, which is a crucial component in the long term, the creation and sizing of labor resources. The offer of work which has the general background population, ie the number of people of working age and their ability to provide services needed in society, is essentially a variable that depends on demographic phenomena and processes. Based on these considerations, the analysis in this chapter is to decipher changes in the structure of the population in Romania, as the main determinant of the level of labor resources and the effects of demographic phenomena generated by the labor market.

Key words: population, labor market, population declin, demographic explosion, demographic inplasion

J.E.L. classification: R23

1. Introduction

Multiple valences of human resources, crucial component of long-term, the creation and sizing of labor resources, to enhance their role in effective utilization of the country's economic potential, there is simultaneously combined, pooled and propagated in the long term and more plans. From these considerations, we started to analyze the demographic potential of the Romanian products to decipher changes in population structure over time as the main determinant of the level of labor resources and the effects of demographic phenomena and processes that generate them on the level of employment of labor resources, a fundamental dimension of the labor market.

Population is both a factor and a basic resource, the creation of human resources, only resource of all things living there until today.

2. Overview of the population of Romania between 1930-1989

A brief picture of the population of Romania between 1930-1989, reveals an upward trend and may even say uniform, as the figures in table no. 1. Population census held in Romania in 1930, there were 14,280,729 people registered a number, for nearly six decades later Romanian population to increase by 8,870,835 persons, representing a 62.11% increase.

Table no. 1 - Evolution of number of population in Romania during 1930-1989

Year	Number of population
1930	14280729
1948	15872624
1956	17489450
1960	18403414
1965	19027367
1970	20252541
1975	21245103
1980	22201387
1985	22724836
1989	23151564

Source: <http://www.insse.ro>, Statistical Yearbook 2007

The permanent population annual growth between 0.31% and 2.26%, due primarily to increasing birth rates as a result pronatalist policies promoted by Romania in this period. Referring in particular birth and birth in general, the great Romanian Vladimir Trebici demographer, said that although "apparently an elementary biological event, birth, is set under a large number of social, economic, cultural and frequency of births in reflecting the national population in the final analysis, cultural models involving complex social

institutions, attitudes and values in society as a whole." [1]

Pronatalist policy measures aimed at our country, the first prohibition of abortion and on the other hand, financial support to mothers and families with children. Abortion was considered an offense and enrolled in the Criminal Code in 1948 and was then approved by Decree 456/1955, but only if it was done by a doctor and for certain categories of pregnancy risk. In 1956, he was introduced as first aid for families with children called the state child allowance.

In 1957, Decree 463 regulating what is called abortion on demand. In accordance with the provisions of this decree, the normal course of pregnancy termination was made possible only at the request of the pregnant woman and the measure by which to achieve this medical act to take place only in medical institutions or public health centers. The results recorded in the period 1957-1966, points out that legalizing abortion, has increased their number and therefore have produced negative demographic effects, which have resulted in lower and lower annual rates of growth between birth 0, 88% and 0.59%. Following the situation in 1966 has issued Decree 770, and with it took place and changes to the provisions of the Criminal Code on abortion. Thus, article 482 is that defined the crime of abortion is termination of pregnancy by any means done with the consent of the pregnant woman.

In 1985, abortion was permitted under certain conditions on December 26, 1989 to defend a new decree repealing the decrees 770/1966 and 441/1985 and Articles on abortion.

Some of the effects of these legislative measures have influenced the evolution of birth in Romania, as statistical evidence presented in table no. 2. If during the years 1930-1938, the birth rate exceeded 30 per 1,000 live births during the period of the Second World War, due to a psychological climate of fear and uncertainty, the reproductive rate of the population began to decline or due to lower marriage or following the breakup of many families due to moves of population concentrations and mobilization.

Even after the war, following a period of declining birth rate value, reproducing population is steadily declining, reaching a

minimum in 1966 to 14.3 births per 1,000 inhabitants, as a result of free practice surgical rate cuts pregnancy that occurred in the period between 1957-1966. As a result of this effect since 1966 prohibiting surgical abortion, the consequences of this measure is reflected in the fact that at the end of 1967, recorded a sharp increase in the birth rate, reaching a value of 27.4 ‰, compared to 14,3 ‰, as indicated in the previous year.

Table no. 2 - Birth rate in Romania during 1930-1989

Year	Bith rate	Year	Birt rate
1930	34,1	1965	14,6
1938	29,5	1970	21,1
1940	26,0	1975	19,7
1950	26,2	1980	18,0
1955	25,6	1985	15,8
1960	19,1	1967	27,4

Source: <http://www.insse.ro>, Statistical Yearbook 2007

In the coming years due to pronatalist demographic policy and the existence of legislative measures listed above, there was an ongoing phenomenon identical to that shown in the 1957-1966 period, ie a trend of steady decline, but at a somewhat slower pace, reaching is in 1983, the value of the years 1966. Following the introduction of new coercive measures, the birth rate in Romania in 1983 after a slight upward trend, reaching values exceeding 16 births per thousand inhabitants in 1986, because between the years 1986 to 1989 to maintain the values relatively constant.

3. Population dynamics in Romania after 1990

The dynamics of any population can be analyzed taking into account the number of people, but only in close correlation with the development of natural growth.

As can be seen from the statistical data recorded both in the table. And in table no. 2 and 3, 1990 was characterized by the increased value in terms of number of population who are currently registered to our country, that 23,206,720 people.

In the last two decades, Romania was marked by continued and significant decrease in the population, the difference in effective population during 2009-1990 being -

1,736,761 people.

The largest annual decrease recorded in 2002 and 1992, when Romania's population decreased by 613,600, ie 396,115 persons.

Table no. 3 - Evolution of number of population in Romania during 1990-2009

Year	Number of population	Actual difference from the previous year
1990	23206720	
1991	23185084	-21636
1992	22788969	-396115
1993	22755260	-33709
1994	22730622	-24638
1995	22680951	-49671
1996	22607620	-73331
1997	22545925	-61695
1998	22502803	-43122
1999	22458022	-44781
2000	22435205	-22817
2001	22408393	-26812
2002	21794793	-613600
2003	21733556	-61237
2004	21673328	-60228
2005	21623849	-49479
2006	21584365	-39484
2007	21537563	-46802
2008	21504442	-33121
2009	21469959	-34483

Source: <http://www.insse.ro>, POP 102A and own contribution

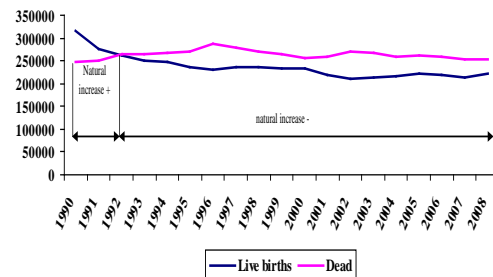
The continuous reduction of the population was mainly due to the manifestation of both a negative natural increase and external migration has also a negative balance, the main factors which directly influence the number of people in any country.

Natural increase, the difference between the number of live births and deaths, is a biological and social phenomenon, generated by the manifestation of pure demographic events such as birth and death, while expressing the refreshment of a population, in terms natural movement of the components which are not subject to migration flows. As can be easily seen from chart no. 1, only 1990 and 1991, is also recorded positive values of natural increase as a result of demographic policies were imposed until 1990 in Romania.

As regards Romania's demographic policy after 1990, it is characterized by removing constraints imposed by the previous regime and the liberalization option in terms of birth, with the result, even in 1992, recording negative values are still far.

Registration negative natural growth shown in chart no. 1, after 1992, is due to the decline in births and maintaining a relatively constant number of deaths.

Chart no.1 - Evolution of natural increase in Romania during 1990-2008



Source: <http://www.insse.ro>, POP 201A and 206A

Thus, the loss in the last two decades a number of 1,736,761 people as well as continuous and uninterrupted decline of population in Romania is not only due to negative natural growth outlined above, but also a negative balance of external migration, which characterized the population of Romania by 1990, issue revealed by statistical data expressed in table no. 4.

Since 1990, large negative values are observed to decrease at a rate more or less until 2001, when the first recorded positive growth, a very small amount and only for one year.

Situation by 2001 can be explained both by the large number of people who have migrated and they as can be seen from the in table înregistrate no.4, a general downward trend, recording over the light oscillation period and the small number of immigrants registered at the beginning of the analysis, which over time begins to increase, but at a much lower rate than of emigration, reliefându is clear that during this period Romania has lost an important part of the population.

From 2002 until 2007, known migratory growth again negative, but a much lower intensity than the previous period. In the last two years recorded positive growth of migration, much higher than in 2002, but covers only a small part of the loss of population registered in the past. This is due to the small number of registered emigration in 2007 and 2008 and the growing number of

immigrants, coming especially from Moldova, as shown by official statistics.

Table no. 4 - The balance of migration in Romania between 1990-2008

An	Immigrants	Emigrated	Migration balance
1990	0	96929	-96929
1991	1602	44160	- 42558
1992	1753	31152	- 29399
1993	1269	18446	- 17177
1994	878	17146	- 16268
1995	4458	25675	- 21217
1996	2053	21526	-19473
1997	6600	19945	-13345
1998	11907	17536	- 5629
1999	10078	12594	- 2516
2000	11024	14753	- 3729
2001	10350	9921	429
2002	6582	8154	- 1572
2003	3267	10673	- 7406
2004	2987	13082	- 10095
2005	3704	10938	-7234
2006	7714	14197	- 6483
2007	9575	8830	745
2008	10030	8739	1291

Source: <http://www.insse.ro>, POP 309A, 310A and own contribution

The balance of migration, the difference between number of emigration and immigration, shows not only quantitative aspects but also qualitative. Thus, a positive migratory balance, means that the recipient country populations attraction exercises in other areas, but as this balance is greater, the higher the force of attraction, in which case the number of immigrants is larger than the migrants. A negative migration balance, highlights the attractiveness of a country, the more pronounced, as the negative migration balance is greater, in which case the number of emigrants outnumber immigrants.

Throughout the period of analysis in Romania as a total negative migration balance of 298,569 persons as a result of the emigration of a number of immigration of 404,396 people and 105,831 people, which took place during this period. This figure means that Romania has been a source of attraction, on the contrary there were a range of other receivers of the population in Romania, due to numerous reasons. The above figures are part of official statistics, but must take into account that in addition, its product and forward and illegal migration, whose number may not even be estimated.

It should be noted that after 1990, in

Romania migrations occurred mainly in two major causes of migration that is aimed at family reunification and labor migration. The first of these took place following the fall of the communist regime and the opportunity to open borders, free movement of people, leaving in 1990 favoring a massive number of Romanian, that 96,929 people, mostly ethnic Hungarian and German. The phenomenon continues in the coming years, but occurs at a somewhat reduced intensity. The second issue is the European labor market opportunities and perhaps even international, who has absorbed a significant proportion of the population in Romania.

After I noticed that in terms of livestock, the population of Romania is characterized by a pronounced decline demographic analysis of population dynamics, its structure continues to age.

To analyze population trends in Romania in terms of age structure, are used to divide the population by large age groups, choosing the third option mentioned in subsection classification, as a result that is closest to its limits than legislation in Romania.

Table no. 5 - Structure of population by age group in Romania during 1990-2009

Year	1990		1999	
Age group (years)	Total population	%	Total population	%
	23206720	100	22458022	100
0 - 14	5468676	23,56	5214951	23,22
15 - 64	15324421	66,03	15315279	68,19
> 65	2413623	10,41	2927792	8,59
Year	2002		2009	
Age group (years)	Total population	%	Total population	%
	21794793	100	21469959	100
0 - 14	3779298	17,34	3245775	15,11
15 - 64	14954474	68,61	15019959	69,95
> 65	3061021	14,05	3204225	14,94

Source: <http://www.insse.ro>, POP 102A and own contribution

It is recalled that the third classification includes population between 0 and 14, 15 and 64 years and more than 64 years, the ranges are bounded to reliefării and analyzing the working age population, the labor force in Romania employment laws in force[2] is represented by the working age population between 16 and 57 years for women and 16-62 years for men, that the status of unemployed person has any attached certain conditions must have under the laws of

Romania a minimum age of 16 years and under EU law at least 15 years of age.

Following these arguments in the table no. 5 presents the structure of the large age groups and calculated the percentage of each age group in total population over the past two decades.

Population numbers presented in this table represent the number registered on July 1, for the situation to be as current. It should be remembered that the number of population is calculated by the National Institute of Statistics, the two times of the year ie 1 January and 1 July.

The figures in the table above shows that the biggest differences are recorded in the age group 0-14 years. Thus, in 2009 this group recorded a 6.01 percent decrease compared to 1990 due to continued decline in birth rates, demographic characteristic process of Romania after 1990, it has been amply highlighted in the assessment of the number of people.

Compared to 1990, the age group 15-65 years, recorded at period end analysis an increasing share of the total population, the right of a lower intensity of only 2.77 percentage points. This is due to the shift premium natural population age groups in the second, the transformation over time of the young population of the early analysis, the working age population, where birth rates have a standard higher thereafter decreasing gradually and evenly.

Third age group, recorded in the last twenty years, an increasing trend with 3.24%. In 1990, the population over 65 years owned a share of 10.41%, was part of Romania among the countries with an aging population. Subsequently, over time there is a tendency to increase that percentage, so that after 1994 the aging demographic change, and so far its mark on our country. The emergence of this process is primarily due to demographic decline birth rate in a more sustained than the reduction of mortality, ie the negative natural increase was registered in Romania, after 1992, also highlighted in the analysis part of the herd population.

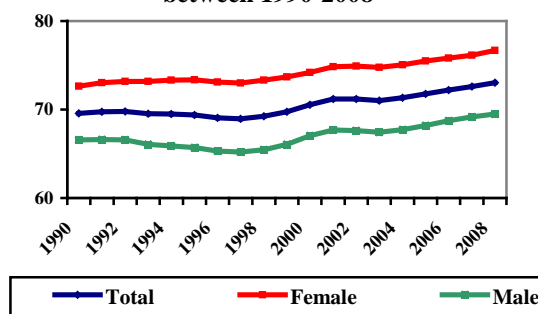
4. Qualitative features of population dynamics

After the quantitative aspects of what occurred in population trends in Romania, is necessary to continue and an overview of the quality.

In this regard, some qualitative aspects of a population refers to life expectancy at birth, educational level, per capita gross domestic product, in fact constituent elements of human development level. As a result of the methodology for calculating the human development indicator is fairly complex and not the main subject of this thesis, we will stop only an overview of the evolution of these qualitative elements of Romania's population since 1990.

Life expectancy at birth, or as is also known as the average life expectancy in the period 1990-2008, is shown by chart suggestive no. 2.

Chart no.2 - Life expectancy at birth for the population of Romania between 1990-2008



Source: <http://www.insse.ro>, POP 217A

Overall, life expectancy at birth of people in Romania increased from 69.56 years in 1990 to 73.03 years at the end of 2008. This increase, however, and some have both positive and negative swings. Thus by 1992 life expectancy at birth increased by 0.22 years, because after this year and by 1997, this indicator to have a descent trend. After 1997, there is an increase in life expectancy by the year 2001, life expectancy being 71.19 years. In 2004, there is again a decrease, because after this year and so far, life expectancy is increasing.

We find that life expectancy among women is higher than among men, due to the fact that mortality in the second half of life is higher among males, as we saw in the

previous analysis. Thus in 1990, there is a difference in the average duration of 6.09 years for female persons, because at the end of 2008 this difference to be 7.19 years. Also, during the 19 years life expectancy for males increased by 2.9 years and 4.15 years among women. Overall, in Romania the average life expectancy increases, both among women and among men, those with different values as quite significant.

Evolution of education of the population, is another indicator that influences the development of human resources.

The population of Romania, contained in different stages of education, where presents an important qualitative leap.

Although the analysis in terms of education level of a population, or the degree of coverage of population at various stages of education is generally intended for long periods of time, usually one hundred years, in order to obtain an analysis able to render a general trend and not a temporary, even analysis of past 14 years, positive developments can be observed in the level of training of the population in Romania.

Compared to 1997 [3], at the end of 2008, noted significant changes in terms of population covered by primary and secondary education, as well as that contained in higher education. If the first category there is a loss of 3.06 percent, the second is an increase of 2.66 percent, those contained in formal higher education was in 2008, 2.8 times more numerous than in 1997. During this period, it also notes a slight increase of persons enrolled in secondary education, but acealași time and a 0.38 percent decrease of persons following a vocational school, secondary education while maintaining relatively the same level.

Qualitative assessment of the development of population dynamics and requires evidence of the third significant determinant of human development indicators, namely gross domestic product, reflecting the gross amount of the final output of goods and services produced over a period of time by economic to operate within national boundaries.

Increasing amount of human development indicators, as is apparent from the data recorded in the table no. has made Romania a pass from the category of countries with

medium level of development in the category of countries with high human development. Location of Romania in this category took place in 2004 [4], when the human development indicator was 0.805. It resulted from the index of life expectancy at birth of 0.78%, level of education of 0.9% and GDP per capita index of 0.74%, life expectancy is 71.5 years and GDP per capita is \$ 8.480. If in 1990 the worldwide number of 160 countries, Romania is ranked 60, with a value of 0.786 human development indicators, in 2007, Romania ranks 63 out of 182 numbers states, the same indicator registering a value of 0.837. From information provided by the 2009 Human Development Report, which contains data relating to 2007, Romania is surpassed by the OECD member states, the countries of Central and Eastern Europe and the Commonwealth of Independent States, is above the level reached by the countries of America Latin, South and East Asia, the Arab States.[5]

5. Conclusion

In quantitative terms, until 1990, over six decades the population of Romania has experienced a consistent upward trend, registering a growth of 62.11% compared to 1930, because after this year so far to show a continuous and uninterrupted decline, so that the end of 2009 Romania's population is in decline with 1,736,761 people, compared to 1990. Continuous reduction of the population in Romania after 1990 was mainly due to the manifestation of both a negative natural increase and external migration has also a negative balance, the main factors which directly influence the number of people in any country.

6. References

- [1] Trebici, V., *Demografia*, Editura Științifică și Enciclopedică, București, 1979, pag. 226
- [2] According to Law 19/2000 on public pension system and other social insurance rights of the standard retirement age, increasing installments from 2000 to 2014 among both women and men, the women from the 57 years old in 2000, up from 60 in 2014, and the men from the age of 62 years in 2000, up from 65 in 2014. Currently, in 2010, the

- standard retirement age is 63 years for men and 58 years for women
- [3] <http://www.insse.ro>, SCL 103A and own contribution
- [4] <http://hdr.undp.org> și Human Development Report 2006
- [5] <http://hdr.undp.org> și Human Development Report 1992, 1998, 2002, 2007-2008, 2009

European Union's Reactions to the Global Financial Crisis

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Abstract

This study addresses the role of European institutions in their efforts to combat the effects of global financial crisis. Emphasis is placed on the European Union's contribution in the initiation of measures to limit the global financial crisis. This study seeks to explain the causes of the financial crisis while stressing the decisions taken thereon, to prevent such a phenomenon in the future.

Key words: Lisbon Treaty, economic and monetary policy, global financial crisis, crisis unit, European economic recovery plan.

J.E.L. classification: K33

1. Introduction. First reactions of the European institutions to the global financial crisis

The occurrence of the global financial crisis makes the object of certain diplomatic negotiations both at regional and global levels, while searching for the most appropriate measures in order to limit its negative consequences, but mostly to eliminate the causes that could possibly trigger it. In such sense, obviously the most sustained diplomatic activity in view of combating the consequences of the global financial crisis has been developed by the European Union, on one side, and by certain groups of states, on the other side. [1]

At the European level, the institutional perspective of the European Union's economical and monetary policy, the way it is defined by the treaties in force and it is implemented, strongly outlines the distinction between the supranational and intergovernmental components which are

typical for the European institutional system. In such sense, such a perspective, settled at Maastricht and completed at Amsterdam in what concerns "The Stability Pact", acts in such manner that the monetary policy is clearly defined in what concerns the instruments and objectives, while the economical policy is left in the responsibility of the Member State, establishing nothing more than its parameters and mechanisms of coordination. Consequently, there is an enormous disproportion between the objective of a common economical policy and the existing instruments at the European level.

In what concerns the competence of enactment and action regarding the supranational and intergovernmental components of the economical policy, the Structure of the European Union implies three pylons in the light of the Maastricht Treaty : the first pylon - exclusive competences of the European Community, the second pylon - competences in matter of security and external affairs and the third pylon - comprising domains of action under the exclusive competence of the member states, regarding the cooperation in matters of justice and internal affairs.[2]

2. The institutional perspective in force and the Lisbon Treaty

The Lisbon Treaty leaves unaltered the forming phase of the "general requirements" of the national economical policies established in the European areas yet, in the same time, it brings certain improvements in what concerns the surveillance phase of their application, thus strengthening the role of the Commission and changing the classic framework of legislative competence established by the previous treaties.

The measures considered by the

Maastricht Treaty on the European Union regarding the surveillance phase of the "general requirements" application and the protection of the European Union's financial interests, haven't reached any result. The harmonization and assimilation techniques have encountered the striking differences between the Member States' legal systems and the impossibility of cooperation has proved to be difficult to achieve, hence the multiple projects of international conventions which have never been ratified by the Member States.[3]

In such conditions, the Lisbon Treaty interferes in order to concile the radical distinctions of competences and legal techniques existing in the area of fiscal law and of criminal law at the European Union's level.

Thus, the Lisbon Treaty substitutes the traditional mechanism of the three pylons with a bipartite classification of the communitary and national competences into exclusive and shared competences. In matters of exclusive competences, the latter refer to the domains in which the European Union may act, while the Member States have the possibility to interfere only with the Union's consent or to implement the European policies. In matters of shared competences, the Member States may interfere as long as the Union's hasn't act yet, thus on grounds of reverse subsidiarity.[4]

In this new classification of the competences between the Union and the Member States, the policy of freedom, security and justice, the hard kernel of the third pylon, is being assimilated in the area of shared competences. Such fact allows the direct interference of the Union in the national legislation of the Member States, strenghtening in the same time the legal instruments of action of the Union at the financial interests' protection level.

The specific enactment approach introduced by the Lisbon Treaty is represented by the technique of unification, guaranteed by the provisions of articles 69A-69E in the Treaty, which has turned out to be much more dynamic than the assimilation, cooperation or harmonization technique, introduced once with the Maastricht Treaty.

In this new framework, the Commission may address autonomously "an advertismant" to the Member State which economical

policy proves incoherent, regarding the general requirements, and becomes owner of a power of "proposal" and not only of "recommandation" of the act by means of which the Council decides the existence of the excessive deficite, with the consequence of making necessary the unanimity of votes in the Council in order to counter the respective proposal.

Yet, such significant improvements cover the surveillance phase only regarding the application of the "general requirements, not also that of their formulation, fact confirmed textually by art. 2 TFEU, which, after itemizing the Union's "exclusive" and "concurrent with that of the Member States" competences, depending on the sections, adds the following distinct expression : "The Member States coordinate their economical and occupational policies with the forms provisioned by the present treaty, while their definition rests in the responsibility of the Union" (par. 3) as well as art. 5, par. 1, TFEU, according to which "Member States coordinate their economical policies inside the Union. In other terms, the Council adopts measures, specially the general requirements for these policies".

The Lisbon Treaty, as we mentioned earlier, does not add anything new from this point of view. Consequently, the affirmation is wrong when stating that for the time being the coordination of its concurrent competences exteriorizes by means of regulations, as for example "The Stability and Growth Pact" or by means of directives, as in the case of services.

Letting aside the difficulties encountered during the process of ratification of the Lisbon Treaty, one asks himself whether such institutional framework is at the same level as the problems that the Union must face, once the global financial crisis has blown. We stopped at the discrepancy between the objectives and instruments and the rigidity of the automatisms, but we shouldn't ommit the low transparency and the democracy of the decisional processes, denounced by an ample specialized literature.[5]

3. The perspective and the proposals of the European Council

The global financial crisis is being considered thus, exceptional, being able to occur one single time in a generation and one can ask himself, firstly from the point of view of the economical science, how much can it to alter the presuppositions on which the European economical government lies. For the moment, the scholars from the European institutions are called to research, more modestly, what kind of requirements may come out from the first Union's reactions on the crisis, for a reorganization of the government.

Initially, the procedures provisioned by the European treaties substituted the majoritarian Member States interference and only after the European institution regained ground, among which, the most successful is the European Council, which has adopted a series of decisions extremely important for the future of the government.

First of all, there has been settled the implementation of an informal mechanism of alert and change of information and evaluation of the state of things. Practically, we speak about the creation of a new cell of crisis, to which all Member States in difficulty must address, by giving information on the difficulties in the financial system the president of the Central European Bank, the president of the European Commission, the president of exercise of the Council, but also the other Member States. In such sense, the national authorities of surveillance, that is the heads of the central banks, are invited to meet monthly in order to exchange information.

Second of all, being obvious the necessity of consolidation of the European financial section, especially that of transnational groups and of urgent application of the measures proposed by the Ecofin Council, in order to improve the coordination of the surveillance, the European Council has developed a "high level group", by inviting firstly the national surveillance authorities to reunite at least once a month in order to exchange information. "The high level group", presided by Jacques de Larosiere, former governor of the National Bank of France has been charged with the task of guaranteing, among others, major European

cooperation, for the surveillance of the financial stability.

This last measure has been imposed also for the considerent that the European directives can be translated in different rules in the Member States, the plurinational bank groups are unable to act with homogenous rules, let alone the fact that information about these banks is not put at the service of the national authorities. Additionally, the European banks, analogue to the American ones in terms of dimension and debit, are submitted to the regulations of certain states smaller than the USA, hence the information that they are too important banks for a single state to save them. For these reasons it has been proposed the constitution of a new surveillance authority beside the European Central Bank (CEB), which delimits the action lines, at least for the banks in the Euro zone, as well as the common requirements of capitalisation and surveillance.

At its turn, the Commission declared that a surveillance of the banks organized on a national basis limits the capacity of an effective supranational surveillance and it interfered also in the activation, together with the Member States, of a part of the private banking system, in such manner that to guarantee once again the competition and the acces to the private loan in the framework of a stable and effective private system.

In a report to the European Council from the 26th of November 2008 [6], the European Commission proposed an „European economic recovery plan” concentrated on a financial loan of the European Union for the stimulation of the economy in the Member States in the framework of the "Stability and Growth Pact", which after its revision in 2005 guarantees the necessary flexibility regarding the observance of the deficit report/GNP. Furthermore, the plan consists of immediate budgetary measures of a total amount of 200 milliards of €, consisting, on one side, of measures adopted at the communitarian level of a total amount of 30 milliards of € and, on the other side, of measures adopted at the national level of the total amount of 170 milliards of €. Beside these measures, the plan comprises a series of priority actions that the European Unions should undertake in the context of the Lisbon Strategy, conceived in order to adapt the European Union's economy for the

challengings on long term, to develop the potential growth and to continue the implementation of the structural reforms.

The same way it treated the financial backups of the banks, and implicitly of the real economy, the Commission seems to assume the fact that the crisis can be faced with emissions of idle money, which would impose several significant modifications to the European government. All these are available also for the institutional perspective. In such sense, the Commission, insists, several times, on the necessity of coordination between the Member States, yet without indicating instruments, headquarters or inovative procedures.

A more ambitious proposal regarding the stopping of the negative effects of the global financial crisis has been handed in by the political man, Guy Verhofstadt, president of the Alliance of Liberals and Democrats for Europe (ALDE) inside the European Parliament, which stipulates :

- creating an European agency of financial reglementation in the framework of a global net of analogue agencies, all being governed by the same regulations and standards.
- an insitution, possibly inside the CEB, with the task of fixing *clearances* for the requirements of the interbanking loan, considered a better alternative to fixing statal guarantees or to instituing an European intervention fund, equivalent to the Europeanization/cost collectivization of the nationalizations.
- creating a governing authority claimed to follow a social-economical policy of convergence, which, despite the harmonization, implies the fixation of certain parameters in which the Member States in the Union or inside the euro zone should develop in order to achieve, together, the purpose of a more integrated and competitive European economy.

Finally, Guy Verhofstadt brings into discussion the fact that the global financial crisis has constituted a lesson for the Member States outside the Euro area, which suffered pressions on their currencies, much more higher than those of the states inside the euro area. If opening once again the debate over the necessity of adopting euro in certain states is a sort of prelude for an expansion of the euro zone, the actual asymetry between

the monetary union and economical union would dilute. In the same time, the financial crisis implies a general deceleration of the economical growth in the following years and the final growth of certain countries like China, India and Brasil.

4. Final conclusions

The ideas mentionned in the paragraphs above demonstrate the fact that the problems of reform of the European government do not consist of the difficulty of identifying an alternative institutional perspective for the one in force, but of matters of context, or in the presence of a series of variables which condition the feasibility and of unpredictable interactions between them.

Instituing an authority of governing the economy in a less fragmented Europe that that of our days and concentrated mainly on the Member States ministers of economy, is not justified only by the internal requirement of the European Union to identify a political interlocutor for the CEB, but also for the uncertainty of the global financial perspectives.

In such context, the Lisbon Treaty, which adoption overlaps temporarily with the highest moment of the global economical crisis, interferes on the purpose of protecting the European Union's financial interests by measures constituting the premice of a new institutional and legal organisation at the communitarian level.

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The Crisis – Basic and Repeatable Economic Phenomenon

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Abstract

Beginning in 1825, the global economy has had a cyclical development. Growth and progress have not been determined by linear chaining but by circuitous development, by ups and downs, by phenomena such as crisis, depression, revival and prosperity. Piles of books were written, several Nobel prizes have been won on these issues, which are at the heart of economic theory. The economic policy inspired by this theory has achieved something notable and laudable at the same time, it has managed to reduce and prevent the conversion of sine wave peak in a crisis. The business cycle has thus been reduced to two significant stages: economic growth and recession. Crises have been avoided or have been changed into something bearable. However, in two famous cases, economic policies have failed to avoid serious crises: 1929-1933 and the present. These are unprecedented cases, of a scale and bearing consequences unparalleled by any other phenomena. On these two phenomena and especially on the second we will focus when we try to find the meaning of this lesson on crisis.

Key words: economic crisis, public policies, recovery.

J.E.L. classification: E20

1. Introduction

We have learned from the lessons of others and our own experience that the moment called crisis is the event of implosion-explosion of maximum intensity, which includes a great variety of economic phenomena and processes, and which has the highest temporal concentration and spatial coverage. It's in its nature not to pass unnoticed. It's annoying, it determines reference points, it changes government

matrices, it revises and renews discourses, in a word, it is worthy of study and this is exactly what it gets. The generation that lives the crisis writes down the lesson through its leading scientists. It should be told and taught in order for it to be learned and taken into account. But what actually happens is that the lesson is given an historical character, packed and sent to the past with the label: "to those interested in the subject". Once it got there, the information ages, it becomes relative, or is simply lost. If this phenomenon would happen more often, these notions would maintain their actuality. Unfortunately this is not the case, since the next big crisis is experienced by another generation, third and fourth, and it is interpreted in a different language and is depending on another paradigm.

And another thing: crises do not teach us the same thing: Although the crisis is a series of negative phenomena, it leaves an empty space behind. During a crisis and after it, most people have lost something. They learn their lesson from their mistakes and the lesson takes the form of a set of statements designed to teach their offspring, a century later, what you should not do to avoid danger. Others, however, learn and pass on a different lesson, a lesson that teaches one not only to survive, but also to gain a profit from a crisis. Passing on this lesson (irrespective of its nature) in time will probably be either considered a distant alternative or will simply be lost.

2. The Economic Crisis as a Basic and Repeatable Phenomenon

The world is not considered to be literally in a crisis until the moment the streets are flooded with unemployed people. Remaining in virtual form and preventing wave breaking through resorption, is a proof of wise policy; but the ultimate proof would be to prevent the formation of the wave itself. The hardest

lesson the crisis teaches us refers to these particular moments. Social riots are actually the last outbursts with sparks and tragedies of latent economic conflicts, present in all stages of the cycle but only manifesting by explosions in the crisis phase, when mass unemployment reaches a peak. We are talking about conflicts of facts and ideas, insurmountable contradictions between production and consumption, between real and nominal economy, between views of micro, macro and global, between current events and theoretical orthodoxy, one that provides no explanations and no solutions for what happens in the real world. This is a time when economists are blamed for all ills, including of deception and the occult, and when economics are viewed with suspicion. In front of the battlefield now occupied by people without jobs, politicians are forced to admit what have not admitted previously, namely that the economic balance is nothing without social peace. And they are forced to admit that because, as noted J.M. Keynes's speech on 'outcome' crisis of the '30s: "... Men will not always die quietly. For starvation, which brings to some lethargy and a helpless despair, drives other temperaments to the nervous instability of hysteria and to a mad despair. And these in their distress may overturn the remnants of organization, and submerge civilization itself in their attempts to satisfy desperately the overwhelming needs of the individual. This is the danger against which all our resources and courage and idealism must now co-operate" (Keynes, 1919, p. 213). Keynes was an interventionist with a liberal soul. He wrote these lines not out of a great attachment towards the cause of the proletariat, but because the facts and events required such a conclusion. A good model of economic policy is only effective if it is based on the human factor, if its main focus aims at engaging the entire workforce.

We insist on stating that such moments should be avoided because they generally involve 'crazy' solutions that elude not only the status quo of economic logic, but logic in general. Consider two examples, which belong to the same areas that have prompted Keynes to also write less brilliant texts. First, being preoccupied and even obsessed with finding solutions for labor market development, he advocates to discourage saving and encourage investment. With the

specter of unemployment under his eyes, he found the sources of investment and especially their less important destination. He accepts any source of investment, including the budget deficit. And more than that, if an investment has a multiplier effect and generates jobs, the investment may even be counterproductive. According to his 'logic', Keynes said that "...If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-trying principles of laissez-faire to dig the notes up again [...] there need be no more unemployment [...] and its capital wealth also, would probably become a good deal greater than it actually is." (Keynes, 1970, p.147). In other words, what Keynes tries to say is that people filled streets are so dangerous for the future of social peace that even meaningless work is an alternative "better than nothing. Taken out of context, Keynes' words are simply absurd. We can understand him only if we refer to the time and the context in which his statements were made, to what made possible in a country with healthy traditions that gave Europe prices, faced with an explosive rate of unemployment of up to 60 % in industrialized areas of the Ruhr basin, and we refer here to Germany, where a person like Hitler became the 'democrat' leader of the country only because he promised them jobs. The time of such statements should be viewed from this perspective, when such a crisis synthesizer context can be 'exploited' fully for the future of a nation. Secondly, Keynes is known as the author of an infantile way of thinking: what does the economy have and what does it not during the crisis? It has excess labor and idle capital. It has no money, real money, because the crisis is one of credited money. And, forcing his way to the following conclusion, he suggests loud and clear that the gold standard is a 'barbaric relic'. The economy should be given what it lacks and the money printing press seems to be a perfect solution. Such reasoning is still seen today, encouraged by the current crisis (see Krugman 2008). Those who afford it would make such a statement. The choice between a visible 'no pain' inflation and unemployment, which can only be an explosive tragedy, also requires 'crazy'

solutions.

The crisis is a moment of truth to the extent that it puts things into place; mainly it places nominal economy, enlarged by volatilization, on the foundation provided by the real economy. It's a time when the institution of bankruptcy is required to purge and cleanse the territory, to do its duty to bowl over those who have excluded or gave up formal and informal healthy practices, those who by selling illusions, not only compromised the game, but in addition, turned the GDP in a huge and disappointing wheel of Swiss cheese. For this to happen, the market should be allowed to do its duty. But this did not happen either in 1923-1933, nor today. In other words, the cleaning mechanism is transformed and perverted.

The crisis is a moment of compromise because this is the moment the fundamental institution entrusted with the arrangement and rearrangement of competitors based on their results is questioned. From this point of view, the ideas from studies published after 1929-1933 do not differ fundamentally from those published today. Like today, we learn that we have developed on the right side but park on the left to find solutions and to get out of the blind spot. And once we get here, we request the state as the ultimate authority able to reconcile what has proved to be irreconcilable.

This is the moment when the state shows what it knows best: to privatize profits and socialize losses. Now is its chance to appear as an abstract entity beyond and above the people, the vast category of losers, and close to the few winners without the risk of being anathematized. This occurs because in these circumstances, there appears to be an objective necessity for the support and regulation required from the state, that the tragic reality requires. The "arguments" that support its help are many and perverse. Market-regulating mechanisms are disturbed. And this is because, in times of a crisis more than in an uneventful period, the state is courted in order to guarantee contracts and in order to become corrupted, in order to provide employment under conditions of safety for those who have failed in private enterprises, ending in bureaucracy and paralysis. Using its mechanisms of redistribution, the state takes from those who played by the market rules in order to make

gifts to those who should be punished. The principle of equivalence is rejected in favor of manipulation practices: money does not return to those from whom they have been taken, but to those who have created holes, to companies that do not comply with rules of the game, to companies artificially created that in the future shall come in competition with those that can cope with the crisis without state aid.

There is information that gives hope, this being that, in general, the attacks are transient, they come, creating serious problems or disorders, and go. A new cycle begins when they leave the scene. Regardless of its nature and duration (if annual, decennial or centennial), a cycle always reaches a peak of crisis. What is happening today, comparable only to what was witnessed in history from 1929-1933, is part of the long Kondratieff centenary cycle. If we are tempted, which is only natural, to compare the current crisis with that which took place in early 20th century, we have every reason to believe, at least out of inertia, that this crisis has also a beginning and an end. When it comes to establishing temporal benchmarks, only the big players in the world have a say in this matter. It is no accident, and we intend to prove that the U.S. was the triggering factor of this phenomenon in both cases. The same country will undoubtedly dictate the end. Naturally, the contagion spreads quickly in a globalized world. For exactly these reasons, this crisis requires global and adequate responses. Despite its various amplitudes and higher velocities of spreading the primary impulse of response is still present: "the center" seeks refuge and solutions at the expense of the "periphery".

Regardless of the level of indebtedness, (states to states, companies to companies and vice-versa, and all of the above to IMF, WB or ERBD) to end the crisis, despite cooperation and various requests for joint efforts, does not consist in detachment from the world's way to act, a world of domination, asymmetric and irreversible effects, just as Francois Perroux inspiringly described it, that is, from large to small and never vice versa, regardless of the level of indebtedness (states to states, companies to companies, companies to state, and vice versa and all these to the IMF, World Bank and EBRD) and the nature of indebtedness.

"The accuracy" of this phenomenon, able to cover any discriminatory practices and abuse of power, transforms outrage into futility. The world has become so accustomed to this way of being of the world (so mundane) that the states at the "periphery" expect "quite rightly" and with delight to be notified when their ordeal will end. It is undoubtedly true that this comparison reveals many other differences and similarities between now and then. There is hope that lies hidden somewhere in the background: the current crisis should be shorter. Existing technical and material resources, means of intervention and specific skills entitle us to think so. Besides, beyond a certain limit, which is difficult to trace the econometric parties involved to overcome this are becoming more numerous and larger. Leaving aside for the moment the technical and economic reasons, political and financial crisis maintain this phenomenon called, we will focus on another cause, which explains, from a different point of view, the emergence of the crisis and its repeatability. In other words, we try to answer a perfectly legitimate question: What happened between 1929 and 1933 and what happens today will happen in the near or distant future? Will this phenomenon occur again at the end of the century in support of Kondratieff's (1984) theories and of the assumptions of other theoreticians of the cycle?

We dare to give an affirmative answer, and at the same time not support our beliefs on technical reasons. Rather, we believe that what really counts is human nature responsible for the repeatability of these phenomena, which because of their ugliness and their devastating consequences should remain "unique" / "single. "

We do not pretend that we develop a pioneering work when we say that human nature may be responsible to a great extent of what is called economic cyclicity. Keynes's psychological reasons that urge individuals to refrain from spending or on the contrary, to increase their appetite to consume, prove that the great economist was a great connoisseur of human nature. People's interest in investment or consumption, their preference for cash, the evolution of "average belief", credit conditions, "fundamental psychological law" that explains the behavior of individual consumption as depending on

the evolution of income, caution, transactional and speculative reasons, etc. Here are just some of Keynes's concepts that have as their central point the human nature.

A fairly large number of economists still base their studies on the economic crisis on behavioral patterns (such as adaptive responses to the euphoric mood, panic, excess, debt, appetite, etc.) invoking greed as the all-encompassing cause of the chaos generated by the crisis.

What we are trying to further emphasize is that the proper environment may trigger a potential crisis. It is a result of the action and reaction of two categories of players: one the makes offers and another that stimulates demand. An assumption is necessary for a clear understanding of the phenomenon: today, just like during 1929-1933, the crisis actually began in the context of loaning money. Although the events in 1929-1933 suggested an overproduction and a consumption crisis and in the present, the real estate market crisis and the panic on Wall Street, they actually mean the same in both cases: the collapse of confidence in loans. Built step by step, the type "bubble" permissive environment of overly packaged and excessively secured products has been created by common "contribution", suppliers and customers joined in a dance of madness, enslaved in a game built from trust and "human frailty".

Post factum, after the frenzy has dropped and the game proved to be a sand castle, the guilty are instinctively sought and the blame is thrown: on the stock exchange market that has made possible to sell illusion in tempting installments, on the banking system, which made possible the stock market's casino-type transactions and have poisoned the market with no coverage products, on the insurance companies that have played their clients' money on the stock market, on the shadowy world of intermediaries, which have facilitated the systematic emergence of synthetic products, on the rating agencies who have staged the show giving high marks for dubious initiatives, etc.. If we are open to a minimum of objectivity, we should admit that the stock markets, banks, insurance companies, etc. are not entities that feed themselves. Their inputs and outputs bring in play a greater or lower number of participants.

Current crisis manifestations entitle us to say that we passed the limit. In 2005, two years before the start of the crisis, America had the highest rate of indebtedness. Meanwhile, in 1993, the savings rate was negative. In spite of this and despite all the warnings, loans reached dizzying levels. The offer was so generous that loans with rates of 2-4% profit and which exceed government bonds were successful. Failure or delay in repayment of the loan, the banks' inability to make payments, the stock market collapse, etc. announced an impending crisis and the destruction of a system.

However, the show continued until the giants began to crumble. Individual life plans tailored after the concept of "permanent income" of Nobel Laureate Friedman were not taken into account. Keynes' "beastly spirits" had prevailed. Secondly, indebtedness, regardless of who is in debt, has the same meaning: you loan in order to spend more than you earn. The assumption that the debt capacity is limited is well known. As well as the statement claiming that indebtedness is not a positive thing. Chances are you feel worse as borrower than as lender. Also, the concept of deficit has an ancestral validity when it defines the difference between inputs and outputs. Minor differences consist of units of measurement, solving methods and the consequences resulting from debt. We do not claim to say anything not already known.

We should take into account that consumption and investment loans based on future income have increased and are accompanied by greater exposure of all economic players. The way in which innate aversion to risk affects financial flexibility, acceptance of risk during periods of economic growth, unquestioning trust in future income, temporary financial imbalance in conjunction with stages of economic tension, "the aid" offered by the banking and financial system through its own examples (massive cuts of their rates of capital), says much about the trend described above. We believe that the consequences of indebtedness deserve special attention. In a medium sized entity (family, business), indebtedness and debt return is one and the same problem.

The one who assumes the loan risk is the one that after the onset of the crisis is punished for the audacity of overcoming his/her limitations. His "grief" is an effect of miscalculating. This does not apply to large companies or the state. These mistakes are not always paid by those who commit them. State intervention, regardless of the manner in which it occurs, is a "socialization" of losses. Neither the large companies nor the State can be in bankruptcy without causing serious imbalances. In these cases, there is usually "someone" who pays for the mistakes of "someone else" who took the risk. The fact that not only large corporations or euphoric promoters of prosperity, but the entire population is involved in paying for the mistakes of others, turns the crisis not only in a psychological certainty of the fact that underestimating risk comes into conflict with the aversion to risk of each of us, but also in a time of maximum social tension when the basic elements of human cooperation are shattered.

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International Trade Crisis

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Abstract

This article captures a brief history of the negotiations of the Doha Development Agenda (DDA), analyzes its deadlock and offers some suggestions for a successful Doha deal. First, this study shows that the nearly decade-long negotiation stalemate is caused by the opposite perceptions between industrialized countries and developing ones on agriculture, as well as by the influences of economic crisis on the world trade. Subsequently, some proposals are presented to solve the current crisis from the international trade, starting especially with the goodwill of the WTO members, as well as the countries with observer status within the institution.

The main conclusion is that the US must exercise a leadership position in completing the Doha Round and the developing countries must embrace the open trade with a positive attitude beyond DDA.

Key words: Doha Round, failure, commercial crisis, farm protectionism, North-South clash.

J.E.L. classification: F13, F51, F53, G01

1. Introduction

Accelerated globalization and strong competition between the world states make the attempts to regulate emerging global issues more difficult. Perhaps, the most significant example in this regard is the endeavour to liberalize international trade in goods, services, intellectual property rights, mainly, but not generally, in order to improve what is known in the literature as the Doha Round failure, pointing out "*the institutional crisis and reform*" [14] within the World Trade Organization, for almost a decade.

What exactly is the Doha Round, why does it stain the plausible image of the global institution, obtained with difficulty from 1995, and how it came to the current collapse of world trade, are the questions that will represent the starting point in this study. Noticing what ordinary people do not know about this continuous cycle of multilateral trade negotiations which has its origins in the capital of Qatar, from 9-14 November 2001 and what were the key factors that have contributed to the impasse of this round are the main steps of the paper.

2. Literature review

Regarding the international trade crisis caused by the non-conclusion to the Doha negotiations started in 2001, followed by the blockage that led to further delays in these negotiations, and the economic recession that has entered later, in every corner of the Earth, were published many works of foreign authors.

Thus, a detailed history of the fourth WTO Ministerial Conference and the hazy future of the next negotiations, were approached by J. François and H. Meijl, S. Kinnman and M. Lodefalk, F. Ackerman, C. F. Bergsten, Aaditya Mattoo and Arvind Subramanian, A. Bouët and others. According to them, the Doha Round – known to specialists as the "*Doha Development Agenda*" – faced a long series of launch-delays [12, p.351], an issue that led to still ambiguous negotiations in a number of the key areas. Moreover, Aaditya Mattoo and Arvind Subramanian stressed the fact that after the Geneva Conference in July 2009, it proposed the revival of the Doha process, collapsed since 2005. This effort is needed to resolve the differences between the traditional powers of the world (USA, EU) and the new emerging countries (China, India, Brazil), such as on the peace of liberalization [17, p. 25]. Also, from the

scenarios made by Bouët and Laborde, Kinnman and Lodefal in their researchs, we can extract the idea that the economic cost of a failed Doha Round would lead the world trade to a decrease of 7.7% and if the tariffs, applied by the strong economies, continued to increase, the world welfare would be reduced to 353 billion dollars [15; 9, p.1]. This issue displeases not only the developing countries, but also Pascal Lamy himself (the Director-General of the WTO), who states that if the country had slipped into the kind of protectionism, as in the 30s, the contraction of international trade would have been catastrophic [23, p. 10].

In terms of research defining aspects of the most controversial area of the negotiations, also found on the Doha Development Agenda, an essential contribution had Kym Anderson, Will Martin, Giovannia Anania, J.-Ch. Bureau and Patrick A. Messerlin. According to them, the high agricultural protectionism, illustrated by defending the national farmers and their production through favourable agricultural policies, is embraced, with predilection by the two "elephants" or a better term should be the two "dinosaurs" – the United States and the European Community [18, p.6]. The desire to benefit from broader agricultural policies, allowing a large amount of tariff reductions in this area and its derivatives, results in the European area from French practice.

Before and after the Doha, the agricultural sector was granted in the WTO negotiations, a special place and that because, it is as important as vast and complicated. Moreover, the existence of "several agricultures" according to Messerlin, with different levels of the protection have made the liberalization of "hard core" farm products such as sugar, rice, milk, and beef [18, p.7] to be broached in the Ministerial Conferences that followed the 2001. But unfortunately, the policy of an "uniform agricultural tariff" (the same tariff for all agricultural products) is expected for almost a decade, a matter which shows that agriculture contributed assuredly, and hasn't ceased to do so, to the current collapse of the commercial nature [2, p. 541].

Emphasizing the same point, Anderson and Martin reported that it is ironic how the agricultural policy is so controversial, given its low importance and declining in the global economy [3, p.4] and also relying on the fact

that the DDA negotiations on agriculture have been affected, much more than some others may have believed, by the outcome of the dispute settlement mechanism of WTO [2, p. 548].

Outlining this topic, it is appropriate to recall the relevant research effectuated by Hoekman et al., Esty, Levchenko et al., Baldwin and Evenett, Wilkinson, according to which, the deadlock, within the international trade and specially within the World Trade Organization, has its origins in the failure of the ministerial meeting in Seattle (1999), continuing with Cancun (2003) and Geneva (2009). During the last conference there was no significant progress made, as DDA negotiations were indefinitely suspended and the period for completing the Doha Round was extended [6; 11; 21]. Moreover, the crisis of legitimacy facing the WTO at the beginning of XXI century, concretized in the protests presented at the major international economic meetings and also the role of organization, in terms of globalization, are questioned by many researchers [11, p.7]. But there is a solution for it; in the first place, it should aim to restore credibility through a freer trade around the world, serving the interests of the global community, raising the awareness among the important goals and values, such as poverty reduction, environmental protection, public health promotion [11]. And how all this were not enough, in the 2008 year, a significant "contribution" to the recent commercial collapse acquires the current recession (less than commercial loans) [16, p.1] with reference to which, Baldwin and Evenett stressed the idea that trade is not the cause of economic crisis, but is likely to be one of its most significant casualties [6, p. 1]. This matter was understood in the 2009 G20 Summit, showing that the rejection of the protectionism, being critical in times of financial uncertainty, and also the lack of new tariff barriers in trade or investments represent the most successful solution in mitigating the trade effects of the crisis, in general, and in completing the Doha Round, particularly.

Concerning the fall of international trade, Levchenko et al. stated that this collapse is global in nature, and dramatic in magnitude [16, p. 1] because the most trading partners

are affected, and trade with virtually all parts of the world fell by double digits.

Although there are differing views vis-à-vis the current crisis in the international trade, a sum of the relevant remarks of the researchers in the global transactions lead to the idea that rebuilding the reputation of efficiency, lost by the WTO, depends on the long-term installation of a trade regime in a broader global governance structures, enhancing thus the legitimacy of international trade policy [16; 11].

3. The beginning of the Doha Round

In the last three decades, the global trade agenda has expanded considerably to include just the agricultural products and the trade in services during the Uruguay Round (1986-1994), the intellectual property rights (1994), the environmental issues (1995), followed by the investment, the competition policy, the government procurement and the trade facilitation (1996), and finally, the development-related goals during the Doha Round (2001-present).

Launched in the hope that it would inject a new life into the global economy which entered into decline following the attacks of 11 September 2001, and that it would strengthen the multilateral trading system to enable it to meet the challenges of XXI century, the fourth WTO Ministerial Conference gave birth to a new round of negotiations, known as the "*Doha Development Round*". Its task was to improve the trading system which had become more open, with national markets more interconnected, with goods, services and capital that moved more freely from a large number of participants [4], compared to the setting up WTO. In a narrower sense, its primary purpose was limited to reducing the trade barriers and the development gap between countries, with an emphasis on poorer countries marginalized by that date, in terms of the world trade.

4. The gradual deepening of commercial collapse

Although, initially, members agreed to reach a common point on the completion of the round by 1 January 2005, because of the

difficult and intractable problems that have been on the negotiating table (it is appropriate to mention agriculture – considered the most controversial area, as well as access to markets for industrial products), the deadline could not be reached.

However, the hope wasn't lost and two years later, during the Hong Kong Conference, the negotiations were resumed, but the difficulties mentioned above remained present at that time. Nevertheless, members agreed to the full completion of the Doha Work Programme and for the successful conclusion of negotiations by 2006 [10, p. 580], but it wasn't to be so. Nonetheless, during the meeting of China, member states agreed on arrangements which included several significant figures, such as deadlines for getting rid of agricultural export subsidies (2013), cotton export subsidies (2006), and also included a commitment to development, under which exports from less developed countries should enjoy free access, at least up to 97% after 2008 [10, p. 582]. From this moment, the emerging countries have gained a more positive attitude vis-à-vis a possible successful conclusion of Doha Round in the following meetings.

Therefore, the Ministerial Conference in Geneva (2008) agreed on a "saving package of elements", known as "*Lamy draft*" [5], composed of different ways of solving problems related to agriculture and market access of industrial products. In accordance with this draft, US and EU should reduce their agricultural subsidies by 30%, respectively, 80% [6]; also, developing countries have been given certain privileges, resulting in tariff reductions on "sensitive products", the use of the Special Safeguard Mechanism when there is an import surge of more than 40% by volum, a customs tariffs protection for strategic products etc.

The invitation to international trade of less developed states, manifested by Lamy in this Conference and during the negotiations that followed, bothered industrialized countries, which, according to Bhagwati, refused significantly to reduce their agricultural subsidies that are considered to distort trade and to be "*universally recognized as intolerable*" [5]. This aspect led to intensive negotiations that collided with major differences between the rich and poor, so now, at the beginning of 2011, we are in a

collapse of the Doha Round, meaning a loss of credibility in the international institution that issued it. Because of this aspect, the specialized press is crossed more frequently by articles whose titles are some more sarcastic than others, like: "*The Doha blues: institutional crisis and reform in the WTO*" [14] or "*Doha Round is dead or just in trouble?!*" [19] or "*Doha Round: Do not breathe, but still lives*" [6] and the list goes on, dividing into two camps, supporters and critics of this cycle of multilateral trade negotiations and implicitly, the World Trade Organization as a whole.

5. The commercial crisis causes

Any major event is based on a few causes more or less important and those that led to what we call today the crisis in international trade are memorable. These causes are as numerous as the domains found in the Doha Development Agenda. Thus, we can announce, without restraint, that the multiplicity and complexity of the issues negotiated in 2001 and continued in the Ministerial Conferences that followed (Cancun - 2003, Hong Kong - 2005, Geneva - 2009) have been more characterized by their lack of progress than their success. This is due, on the one hand, to the incompatibility between the purpose of the DDA and the "mercantilism" [10, p. 583] of states, and on the other hand, to the less favorable environment for trade negotiations.

To understand those mentioned above, we use concrete examples, while arguing the option for the title of this paper.

Thus, in the first case, we already know that the Doha Round was meant to be a development round focused on liberalization and open markets both among developing and poor countries. The Ministerial Declaration emphasizes this detail: "International trade can play a major role in promoting economic development and poverty reduction. We recognize the need for all our peoples to benefit from increased opportunities and welfare gains that the multilateral trading system generates them. Most WTO members are developing countries and we are looking to place their needs and interests at the heart of the Work Programme adopted in this Declaration" [22].

However, the initial emphasis placed on development has transformed rapidly into a blurred and faded one, so that, the main actors on the world commercial market, like USA, EU and not only, have pursued their own merchant interests, being concerned only with the accumulation of as many privileges from the main commercial partners, such as reduction or elimination of tariff subsidies. But developing countries refused to grant favors before industrialized countries provided substantial commitments in the domain of agriculture which led the policy at the edge of the abyss, often blocking the negotiation process. Also, in the 2008 year, a delegation of U.S. interest groups went to Geneva, in order to monitor and even to instruct U.S. negotiators to achieve substantial compromises that can lead to billion state budget revenues resulting from trade. There are just, some of the so-called mercantilist positions of developed countries that have bothered developing countries and their reaction was quite strong. The idea that major international players watched, just, their own "commercial prosperity" [10, p. 585] could not be refuted neither then nor now, no matter how much we want it, moreover, the generous agricultural protection of EU and U.S. has accelerated the international trade crisis. Even today, the problem of excessive protectionism has not been resolved and is still "*the biggest threat to world economy recovery*" [7], according to German Chancellor, Angela Merkel. In conclusion, due to different expectations, as a result of a possible completion of the Doha Round, the enormous tensions between North and South trade negotiations have an unmistakable echo and are difficult to control.

The second reason, that led to the current impasse of the cycle of multilateral trade negotiations begun in Qatar, relates to the international shaken environment by the end of 2007 on American continent and with the beginning of 2008, on other continents. As a result of financial crisis, born on Wall Street, global trade was frozen, generating new protectionist sentiments. On the other hand, this recession has had some negative effects, including slowing global economic development, which led in 2009, to a decline in the international trade with up to 2%, considered the most drastic reduction in the

volume of transaction from the crisis in socialist economies since the '80s.

Due to the fact that the most affected by this decline were poor countries, because the investment flows decreased and also they could not sell consumer products to industrialized countries, their hope in the economic recovery and an aid in the development of remaining not competitive sectors was limited to successful completion of Doha Round in the near future.

If we were to answer to the second question surprised at the beginning of the paper, referring to the destroying by the Doha Round of the plausible World Trade Organization image, we can highlight only one and concrete aspect, taken from a totally different context but adapted to the problems mentioned above, the fact that "Nothing is perfect, but everything is perfectible". By introducing this quote, we suggest that the WTO has stopped to be an ideal institutional framework for trade a long time ago, despite its positive image had been an important purpose after the end of the Second World War. This is due to the large number of member states (currently 153), whose goals and interests are branched out more than are intertwined, as would be expected. Also, the Qatar Round is not unique in the history of trade negotiations whose results are less successful; we should mention the Geneva Ministerial Conference of 1998, the failure of launching the Millennium Round of the meeting in Seattle, and the post-Doha meetings. Making a parenthesis, referring to real deadlock of the Conference in Seattle, due to the divergence of interests between U.S. and EU, Japan and U.S., and between rich and poor countries, WTO disputes that it could not master them, neither then nor today. In this context, WTO was criticized as "*undemocratic, unfair, opaque and unbalanced organization*" [20, p. 389] since a decade ago. It would, therefore, be wrong to say that because the Doha Round, both the member states (particularly developing ones) and other international organizations have reduced the confidence in the organizational pillars of the institution, in the capabilities of commercial settlement of the occurring problems with the current financial crisis and the overall functioning of the WTO.

Without criticizing the institution previously mentioned, the current crisis of international trade, reflected in the failure of the Doha Round, will not go down very soon, although many consequences of this issue are known and are not encouraging. A prolonged DDA impasse would more shake the WTO system and would provide ample ammunition to members with protectionism ideas [10, p. 590]. Also, in the case of DDA settlement, the biggest losers would be the developing countries, which hope to improve market access for especially but not only agricultural and industrial products, but also the weak states, which may not escape soon from poverty.

On the other side of the barricade, there are several prerequisites for a successful round, which, unfortunately, were not quite taken into account. Thus, to have a finality round of multilateral trade negotiations, the first and most promising option for developing countries is to act collectively to refresh the WTO and the Doha Round negotiations. But for this, they must declare their willingness to open their markets to developed countries in exchange liberalization, by the simple fact that they can become the main beneficiaries of the advantages arising from a successful round. Moreover, many studies such as annual reports of the WTO, the World Bank, EU, UNCTAD statistics indicate that a successful Round would boost the world trade and would increase the global welfare with several billion dollars. This thing would achieve the dreams of many Third World countries, but also those of developing countries which can't boast with a trade surplus. Formulated in another way, we can say that there is no doubt that a successful conclusion of the Doha Round would bring, in addition to the benefits mentioned above, the confidence among investors and it would give a vital boost to the global economy.

6. Conclusions and proposals

Looking at the various options that we discussed, it is clear that the most desirable alternative in terms of developing countries would certainly be the Doha Round to be resumed and completed with a successful conclusion. This would lead international trade crisis melting like an iceberg. But no

progress will happen as long as developing countries don't offer anything in exchange for policy changes that they seek in the developed world. They have to accept that trade liberalization is in their interests, if not for the gains from the trade that economists are speculating, but for the sake of political transformations that are looking outside national borders.

Finally, an optimistic spirit makes its presence: with or without the Doha Round, World Trade Organization along with other international institutions will have to encourage very small countries to open their domestic markets and to determine countries with higher rates to reduce or eliminate their subsidies and other commercial barriers, unilaterally.

As a final conclusion, it can be stated that the promotion of trade liberalization hasn't yet become an easy task. In some measure, this reflects how far the global trading system has moved compared to the new theory of free trade, broached by Bhagwati, Johnson, Keynes and not only.

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Cluster as an Element for Regional Competitiveness Strengthening

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Abstract

The concept of regional competitiveness is associated with certain economic circumstances leading to the development of clusters in a limited number of places. Michael Porter has had an important contribution to the development of the concept of geographical clusters, at both European and overseas level; he combines the basic Marshallian model with elements of company competitive strategy, while also taking into account the factor related to the level of resource endowment. This paper highlights the conceptual elements of the cluster, its essential characteristics as well as its impact on regional competitiveness, owing to the relationships developing within clusters and to the facilities they create.

Key words: clusters, regional competitiveness, development.

J.E.L. classification: R-R1-R10-R11-R12

1. Introduction

The dependence of companies' competitive advantages of their local environment, in the context of global competition, has led to the concept of regional competitiveness and to an increased interest in analyzing this concept.

Increasing the competitiveness of regional economies is an important step in achieving sustainable development, the existing disparities being, in the opinion of the European Union, one of the main reasons for the regional gaps.

At regional level, competitiveness is the ability to cope with market competition, ensure environmental, social and cultural sustainability, based on a two-fold approach of network and inter-territorial relationships.

According to the definition given by I. Lengyel (2002)^[1], competitiveness is "... the capacity of the companies, industries, regions, nations and supra-national regions to generate, while being exposed to international competition, relatively high income and employment levels".

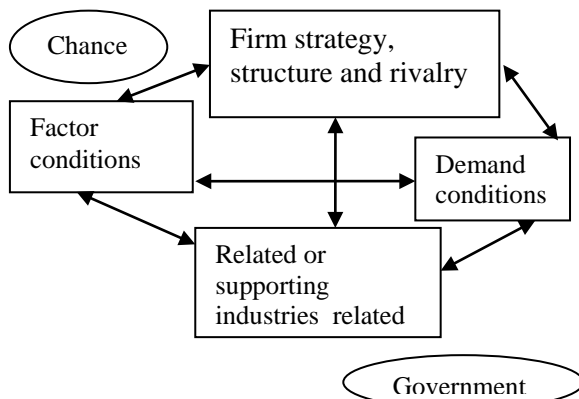
2. Concept, cluster formation methods

The concept of regional competitiveness is often associated with specific circumstances of the economic activities that lead to cluster formation in a limited number of places and within clearly defined borders. Michael Porter has had an important contribution to the development of the concept of geographical clusters, his influence being manifest both at European and overseas levels. The concept combines the basic Marshallian model with elements of company competitive strategy, while also taking into account the resource endowment. Based on empirical evidence from a large number of countries, he argues that the globally competitive industries of a nation invariably tend to manifest themselves in the form of geographical clusters in particular regions. According to the definition given by Michael Porter (1998)^[2], clusters are "geographic concentrations of interconnected companies and institutions in a particular field, of suppliers specialized inputs, [...] and providers of specialised infrastructure, such as universities, standards-setting agencies, [...], trade associations"^[2], which promote both competition and cooperation. The definition highlights a representation of different forms of agglomeration economies: economic activities concentrated spatially, the critical mass of economic actors, specialised economic actors, multiple actors addressing a group of markets, competition and cooperation strategies involving participants, interconnections (formal and

informal) among different actors, achieved through the cluster.

The theory is based also on a particular view on competition, namely the "dynamic strategic positioning of firms." The so-called "Porter's diamond" regarding the competitive advantage of nations offers a model that can help to understand a nation's competitive position in a competitive environment, at global level, a model that can be replicated to large geographic regions, too. Porter introduced the concept of "cluster" or groups of interconnected companies (service providers, suppliers, related industries and institutions), which develop in locations where there are sufficient resources and skills, thereby achieving a key position in an economic branch, with a sustainable competitive advantage, or even with world supremacy in that particular field. Competitive advantage is the result of four interconnected influences in and across companies within a cluster, graphically represented in Porter's model, also known as "Porter's diamond." (Figure 1.)

Figure 1. "Porter's diamond" graphically representation.



Source: „Diamond Model and Clusters (Michael Porter)” www.12manage.com.

► **Factor conditions** have been recognized as an important factor influencing company productivity. The key production factors - skilled labor, capital and infrastructure - are not inherited, but are obtained through sustainable investment, which gives them value, thereby creating a competitive advantage:

→ *quantity and quality of training and university education* help increase the qualifications of the workforce in both

advanced and in developing economies, having a positive impact on prosperity levels;

→ *efficient access to capital* is important for companies making long term investments that increase productivity;

→ *physical infrastructure* - globalization and growth generated by trade flows have increased the demand for transport and communications infrastructure for countries found under different levels of development;

→ *infrastructure in science and technology* is important for boosting productivity: in advanced economies, it becomes a source of new ideas that drive the knowledge frontier outward, while in developing countries it enhances the capacity to absorb the knowledge other countries have already generated, allowing the less developed economies to catch up.

► In terms of **firm strategy, structure and rivalry**, the key factor is opening of the countries to foreign trade and foreign investment, allowing them to exploit their comparative advantages and gain access to advanced ideas and technologies from abroad, exposing local companies to higher levels of competitive pressure.

► **Demand conditions** are a positive influence item to the extent that a higher consumer demand exerts a higher pressure on firms, thereby pushing them to improve their competitiveness through innovation and higher quality products. Environmental and consumer protection regulations, although considered expensive items by the firms, are essential, given the costs and prices of ecological products.

► **Related or supporting industries related**. Spatial proximity of the upstream and downstream industries associated within the clusters facilitates the exchange of information and promotes a continuous flow of ideas and innovations, which would otherwise be difficult to achieve by dispersed companies.

● **Government** serves as a catalyst, encouraging companies to aim high in their competitive performance, to stimulate the demand for advanced products, to concentrate on creating specialized inputs and boosting local competition by limiting direct cooperation and by enforcing anti-trust regulations;

The relative competitiveness of a region depends on the interaction among these four key subsystems. The weakening of any of the components of these subsystems will decrease the competitiveness of the region, and the absence of clusters in a region would be a sign not only of poor development of the subsystems as such, but of a standstill in the interactions among them, which may lead to the weakening of the entire regional productivity.

Valentin Cojanu, Laurian Lungu^[6] show that the size of regional advantage has determined the development of certain clusters patterns in the European countries:

•**Traditional versus science-based clusters**, where competitive success is linked to technologies (Finland, Germany, Spain, UK).

•**Global versus local clusters** - regional clusters developed through cross-border cooperation: Glass-Cluster - Austria, Bavaria, Bohemia; Textiles Cluster - Austria, Bohemia; Technical Cluster - Syria and Slovenia.

By the way it is created and by the relationships it develops across its companies, a cluster shows the following **characteristics**:

a) it represents an intermediate unit of productivity factors between the quality of business environment and the experience at firm level;

b) it is a form of manifestation of the role of specialized knowledge, skills, infrastructure and industries, aimed at enhancing productivity;

c) plays an increasingly important role in the global economy, where most competitive companies can serve larger markets unprotected by national borders. Being exposed to global competition, companies have more freedom in choosing the localization of their activities based on economic efficiency, in addition to access to market, which has increased the role of clusters, their productivity advantages becoming ever more important. National economies tend to specialize in a subset of clusters, where a particularly favorable business environment will emerge, which explains the disproportionate share of the marketed output of a nation. The level of prosperity in a region is interdependent with the degree of regional specialization.

d) the nature and the depth of a cluster vary with the degree of economic development. In developing or emerging economies, clusters are less developed, lacking a wide range of industries and supporting institutions, and firms are engaged in relatively less advanced activities within the cluster. They compete based primarily on their cheap labor or local natural resources and depend to a large extent of imported components, machinery and technologies. Specialized local infrastructure and institutions such as educational programs and industry associations are absent or ineffective. In advanced economies, clusters are enhancing the need to encompass suppliers of specialised inputs, components, machinery, technologies and services. Specialised infrastructure is financed from public and private investments and increases the number of institutions providing specialized training, education, information, research and technical assistance;

e) clusters lead to increased attractiveness of a region. The presence of companies concentrated in clusters in a region is for a long-term, which turns clusters into a magnet for other companies which want to relocate in that area;

f) the abundance of various companies provides flexible responses to changes in the business environment and organizes lobbying groups for different types of skills and funds.

3. Impact of clusters on regional competitiveness

There are three ways in which clusters impact on regional competitiveness:

► **Increasing productivity of companies in a field.** Being part of a cluster allows companies to have a quick access to inputs, information, technology and needed institutions, coordinating relations with related companies and motivating performance, in many different ways:

a) *facilitates the access to employees and suppliers.* Companies in well-developed clusters can have a good access to specialised and experienced employees, even those in other regions, thereby lowering their transaction costs in recruiting and, because of the cluster opportunity, it reduces the risk of relocation for employees. Also, a well-

developed cluster provides for companies, efficient means of obtaining important inputs and eliminate import costs by sourcing locally instead of from distant suppliers.

b) *access to specialized information.* Extensive markets, technical and competitive information which accumulates within a cluster, allow its members, a quick access to these items. Community ties generate trust and facilitate the flow of informations.

c) *complementarities* increase cluster attractiveness to customers and come in many forms:

- products complement one another in meeting customers' needs. For example, in a tourism cluster, for a visitor, is essential not only the attractiveness, but also the quality and efficiency of complementarity activities, such as hotels, restaurants, shopping and transport facilities. Because cluster members are interdependent, a good performance for one can boost the others success;

- there is a coordination of activities across companies to optimize their collective productivity – for example, in wood products, the efficiency of sawmill depends on a reliable supply of raw and on the efficiency to use it, aiming to obtain products of different quality;

- in marketing, a cluster enhances the reputation of a location in a particular field, and cluster members profit from a variety of joint marketing mechanisms, such as company referrals, trade fairs, trade shop etc.

d) *access to public goods.* Investment made by government or other public institutions, such as public spending for specialized infrastructure or educational programs, can enhance a company's productivity, while the ability to recruit employees trained at local programs, lowers the cost of internal training. Other quasi-public goods, such as cluster's information and technology, as well as its reputation, are products of competition. Private companies, too, invest in increasing productivity (in training programs, quality centers, testing laboratories, infrastructure), but they prefer to make such investments collectively, because of the potential collective benefits, which they can obtain as being cluster participants.

e) *better motivation and measurement.* Local rivalry amplifies competitive pressure within a cluster, even among noncompeting

or indirectly competing companies. Clusters often make it easier to compare performances because local rivals share the same circumstances, as for example, labor costs and market access, and they perform similar activities. Companies within clusters have knowledge of their supplier's costs; thus, managers are able to compare their company's performance with other local companies.

► **Drive the direction and pace of innovation.** Clusters' important role in a company's ability to innovate is not only in opportunities of innovation but in his capacity to act rapidly in the following directions:

- a company within a cluster can easily access what it needs to implement innovation;

- local suppliers and partners can also, get involved in the innovation process, thus ensuring a better match with customers' requirements;

- companies within a cluster can experiment at lower cost and can delay large commitments until they are more assured that a given innovation will be implemented.

In contrast, a company relying on distant suppliers faces greater challenges in every activity it coordinates with other organizations (contracting, securing delivery or obtaining associated technical and service support).

Reinforcing the other advantages for innovation, that occurs in a cluster – competitive peer pressure, constant comparison – it may say that clusters can remain centers of innovations for a long period of time.

► **Clusters stimulate new business environment formation.** Clusters offer a number of advantages to companies within: very low barriers to entry and a significant local market, in which the entrepreneur can benefit from already established relationship; easy access to needed assets, skilled staff and inputs which are often available at the cluster location, to be used into a new enterprise. Individuals working within a cluster can more easily perceive gaps in products and services used in their businesses, while local financial institutions and investors, already familiarized with the cluster, may require lower risk premium on capital. All these factors reduce the perceived risks of entry

and of exit, which should generate the enterprise fail.

The formation of new businesses within a cluster is part of a positive recurrent feedback. An expanded cluster amplifies all the benefits described above, increasing the common competitive resources, which benefits the cluster's members. The result is that companies in this cluster advance relative to rivals at other locations.

To **conclude**, we may say that clusters or, as M. Porter calls them, the "critical masses of competitive success in particular business fields" are an important feature of every national, regional, state and even metropolitan economy, especially in more developed nations. They gather together coordination across companies in the areas of research&development, production, inputs, marketing&sales and government relations.

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Through the three actions developed – increasing company's productivity, facilitating access to innovation and formation of new businesses environment - clusters play a substantial role in increasing the competitiveness of a region, by developing new relationships among enterprises, enabling access to human, material and financial resources and to innovation, increasing the competitiveness of the enterprises within them, relative to that of rivals from other locations.

The trend set by the European Union is to link the concept of regional competitiveness to economic activities that lead to development of clusters within well-defined boundaries and in a limited number of places, mainly because clusters are associated with better economic performance.

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Strategic Management of Regional Development in the Context of Contemporary Economy

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Abstract

Globalization includes the entire system of international economic relations and refers to actions with impact on the entire humanity and each human being. These actions resolving means the involvement of some important resources of the majority or even of all countries in the world. Likewise, the global concurrency is seen as international concurrency. From economic and political point of view small states total the common parameters which determine the susceptibility for certain risks. A good part of small states are excessively responsive to external events; they are crossing a transition process to market economy, a process of establishing their economic system or of preserving some situations of economic crisis which exceed the governments capacity to manage them.

Key words: globalization, economic integration, competitive advantage, cluster, regional development.

J.E.L. classification: M29, L89

1. Introduction

The increase of productivity and competitiveness especially in residential areas was possible following the endorsement of some flexible models of entrepreneurial structure (setting up networks, subcontracting, and externalization of production system), introducing innovation in the methods of producing and disseminating knowledge within manufacturing systems. At the same time, the activities of producing systems suffered from drastic changes – from introducing the

unique standardization to establishing the production quota in case of elements and sub-branches necessary to produce the internationalized final good.

Globalization is in fact a challenge for the European entrepreneurial system and the ascension of the concurrency imposes a further reform of the productive processes thus, significantly affecting the activity of firms and the employment rate and so increasing the uncertainty and the threats in case of those firms that did not succeed in adjusting their structure in accordance with the new realities. In this connection, economic development assumes the efficient use of local potential and foreign resources drawing up with the view to increase productivity...The "postulates" of regionalization impose integration of inter-community interests and activities based on local interests' adjustment to regional ones with the view to consolidate the efforts to increase employability and collective resistance in case of increasing concurrency. Although independence and self-management of each economic agent stay undeniable, the increase of enterprise viability, conditioned by region population welfare, needs coordination of social politics with regard to employability, living standards and income per capita increase.

The topicality of the present paper is supported by the evolution of European potential development within international processes which makes the concurrency be the worldwide economic power. The crystallization of the four world powers – USA, European Union, Japan and China – determines the EU countries to draw up interstates strategies to increase the collective competitive potential.

During research it was noticed that because of a lack of economic aggregate evidences at regional level in national statistics, the models of competitive advantage determining at mezzo-economic level are limited to sociological research and surveys with no clear methodology to process the existent statistic data which involves the determining of some contended development solutions and models of the given regions.

The applicative value of the present paper consists in adding a plus to the special knowledge regarding regional development. The investigation looks for seeking solutions to draw up the politics strategies in the given field based on relevant pointing, proposed by authors. The proposed economical - mathematical models can be applied both in systemic analyze of regional potential and in related industrial fields from value chains which are competitively advantageous.

2. General principles of strategic management of regional development

Harmonious development of national economy is in tight correlation with the economic success's ensuring based on creating a stimulating environment for change and innovation. Promoting those premises that stimulate investments of firms in development and knowledge involves the establishing of cooperation and collaboration relations between private traders and public institutions. This desideratum is conditioned by the individual interests' interdependency and the collective ones in the process of competitive capacities development within an economic-geographical area with common characteristics.

1. Common characteristics of manufacturing factors (such as qualified working force or infrastructure) needed to compete in a certain industry/branch of industry.

2. Common nature of internal request (from a given area) with regard to products or services of the respective industry/branch of industry, exigency degree of internal customers.

3. Presence or absence in this area of some related industries able to successfully compete internationally.

4. Common conditions of governing, organizing and management of enterprises, common management practices and common nature of rivalry between the firms on the same area.

Given the fact that contemporary organization is an open system, influenced and oriented in its activity by external environment, it is considered that a firm is in competitive advantage when the environment supports the fastest accumulation of means of production and specialized professional abilities and provides a better information and a higher decisional capacity regarding the necessities connected to manufacturing processes and products.

The particularity of productive forces and human capacities grouping from a certain area is in tight connection with the specific character conception of the trader activity who aims at maximizing his profits on one hand, and the public administration profits on the other hand.

Just like in case of corporations, the character of relations within a region and the particularities of relations with other regions determine three management models: administrative, situational and strategic.

Based on the appreciation of value and contribution of each of the four approaches in the development of strategic management science, we can conclude that:

- planning – establishes the necessity of determining the strategic targets of the firm and the obtained results appreciation;

- emergent approach – imposes the plans to be mobile in order to allow the organization to learn and adjust itself to the external environment changes;

- concurrential positioning – emphasizes the importance and role of external environment and offers the necessary tools to use in analyzing the firm position in the context of the industry/branch of industry;

- competence axis – emphasizes the company role in determining the specific resources meant for a specific firm.

3. Uncertainty and the concept of regional economy under globalization

Controversies with regard to globalization significance, its importance, its dynamism

and impact cause optimistic scenarios in accelerating the human development on one hand, and the pessimism ones in emphasizing the differences between the few rich economies and the poor ones which are dependent on the first category on the other hand thus, highlighting the importance and implications of the given process [2] which can be accepted as an increasing process of economic interdependence that strengthens economic, political and institutional relations between countries and leads to a diverse global system formation [6].

In many cases [8], the global notion is assimilated to that of international. For instance, speaking about global business or global company, the authors speak about that firm that achieve production on global market. Likewise, global concurrency is interpreted as international concurrency. More often these notions are used in reference with Trans-National Corporations (TNC).

From economic point of view, globalization comprises the entire system of international economic relations and, more concrete, it is Mondo-economy. In this context, the term "globalization" is differently interpreted by the specialists. Thus, the researchers in the field of international finances consider that globalized relations are best reflected in the field of finance by the huge reaction of rates, prices and transactions oscillations.

From economic and political point of view the small countries meet the common parameters which determine the susceptibility for certain risks. A great part of small states are extremely sensible to external events, are in transition to market economy, or are in process of setting up an own economic system or a system to preserve some economic crises situations which exceed the governments capacity to manage them. Very many of these countries totally depend on external sources of energy, food, raw materials etc. Also, a phenomena specific to small underdeveloped countries is high level corruption.

The parameters determining increased risks for the economic security of a small country such as Romania are:

- A very small domestic market for most of domestic manufacturers, thus, overproduction situations being very

frequent. The access to European Union is blocked by European protectionist politics and the Eastern markets are extremely unstable and insolvent. Beside the insufficient level of Moldavian products quality, these determine the reduced competitiveness of domestic products.

- The shocks of opening to worldwide economy. Integration into worldwide economy by commerce liberalization, granting increased facilities to foreign investors and introducing a free financial and currency politics involves both considerable benefits and risks that cannot be neglected. Thus, the working force which is cheap enough compared to European market creates the opportunities for large corporation to settle in Romania, these corporations might have a great importance in completing the public budget and unemployment reducing.

- Increased homogeneity of agricultural production and insufficient diversification of exports and industrial production. Because of reduced dimensions and resources, small countries cannot substitute an activity affected by a force-major phenomenon with another one.

- Generalized poverty. Sufficient statistical data can be provided to demonstrate that poverty is much more spread in small countries rather than in the large ones, Romania being an example in this respect. Both the limited economic resources and general poverty (of the state and most part of population) query the state capacity to react promptly to the globalization risks and challenges.

- Limited natural and financial resources. Although the insufficient development of private sector is a phenomena specific to all developing countries, in Romania there is a very striking one. At the same time, the public sector faces difficulties in public services provide and in private sector protection. Being more exposed to the negative effects of globalization, small countries do not possess institutional capacities and resources to reduce the risks; they promote reactive politics compared to the pro-active politics promoted by large countries. The lack of inner resources determines the small countries to access the international financial loans, which increase the small countries dependency on the generating forces of globalization.

The Post-Kensyan paradigm of uncertainty argued by historical dimensioning of economical phenomena and their research in time establishes that:

- economy acts in historical time;
- historical past remains unchanged;
- future is unknown, uncertain.

Thus, "only in a world of rational expectations the future is the statistic image of the past while in a world of uncertainty the current result cannot provide an exact information about future; consequently, the free market is not efficient enough" [1, p.72] due to its variable character, dependent on the momentary circumstances of the socio-economic factors.

Once the uncertainty is recognized as a tangible attribute of real economy, the traditional concept on economic equilibrium is breached [5], and the lasser-faire hypothesis are no longer relevant [3,p.367], which causes the subsequent economic crisis and instability [4, p.129].

In order to reach this desideratum, the simultaneous elaboration of two complementary models – regional and local – is desirable, where [7, p.120-121]:

The regional model's task is to create and consolidate the most competitive economy centers and axis. This model has to be treated as a special policy of concentration, under the coordination of the superior managerial level of economy and local public administration.

The model of regional integration prevails the drawing up and promoting the strategies of endogen supporting and development through territorial grouping. The objective of these strategies aims to emphasize and promote economic growth options in connection with local resources which are to become the main element in the balanced development of the regions.

4. Regional advantages within national competitiveness: identification methodology

The desideratum of a high competitiveness cannot be considered realistic without an adjustment of the political, social and economic balance components.

In order to confirm the logic of the regional competitive advantages' identification based on the national index of the net competitiveness (I_{kn}), it is necessary to

establish the contribution of each region in the respective production.

Because the net competitiveness index expresses the net profit of the international commercial transactions from a certain period, we can define the commercial weight of a region in the branch with $I_{kn} > 0$ by establishing the average weight of the region „r” in the total of production/branch „i” from the national economy, following the indexes dynamics.

$$\alpha_{ir} = \left(\frac{\sum_{t=1}^m q_{ir}}{\sum_{t=1}^m Q_i} \right) : t$$

where α_{ir} - average weight „r” in the total of production/branch „i” from the national economy (commercial ratio);

q_{ir} – volume of branch production „i” from region „r”;

Q_i - global volume of production „i” from national economy;

t_m – reference period (years).

If we assume that there is a perfect balanced market and, respectively, and an equality between requirement and offer at all levels and territorial subdivisions, then, in this situation (impossible in reality) the competitive advantage comes out as an index superior to the average level of the branch weight „i” (α_{ir}) for the administrative-territorial units with activities in the „i” branch.

The given assumption can be checked by the realtion:

$$\bar{\alpha}_{ir} = \frac{\sum \alpha_{ir}}{nr_i}$$

where α_{ir} - n average level of commercial weight

$\sum \alpha_{ir}$ - sum of commercial weights

nr_i – number of administrative-territorial units with activities in branch „i”.

In the context of concurential capacities, based on the competitive advantages, the research conducted allows to find out that in case of industrial activities in the field of agriculture and animals breeding, there are specialized industrial centers while, in case of the national agricultural sector, the

agricultural groups where the respective unit is to be specialized have not been yet defined. Following the logic of Porter value chain forming, it is possible to confirm the approached assumption by establishing the conditions of productive forces concentration through regional/territorial agglomerations.

5. Conclusions

Based on the scientific research conducted with reference to strategic management of regional development, the following conclusions arise:

1. The globalization paradigm promotes the interdependency of commercial and productive system at worldwide level, offering priority to multinational corporations – TNC. The problems of integrated economic processes and conducted by TNC bring into view the aspect of development particularities of small countries considered small economies. The market requirement from a small country is by far much smaller than the productive potential of the respective country.

2. Economic integration and globalization represent a challenge for the entrepreneurial system from Europe and the competition increase imposes a continuous improve of productive processes thus affective at a great extent the activity of firms and employability, and increasing the uncertainty and threats for those firms that have not succeeded in adjusting their structures to the new realities. The contemporary scenario of the potential development of EU approaches the central question with regard to dynamic and structural changes of local and regional economies. So, the economic development assumes the efficient use of local potential and the external resources attracting with the view to increase productivity.

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The Direct Foreign Investments Effects on Workforce

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Abstract

The sustainability and growth of employment provided by foreign affiliates vary considerably among host developing countries, depending upon whether foreign affiliate activities are upgraded as labour market conditions and the structure of domestic and foreign demand change over time. The prospects for such upgrading are high if the domestic educational and skills building systems and TNCs' own contributions to training and human resource development continuously improve the skills and capacities of workers so that they are able to adapt to higher technology intensities and changes in tasks assigned to them in production.

Key words: foreign direct investments, Romanian workforce, correlation.

J.E.L. classification: F 21

1. Introduction

TNC's, like other enterprises, combine labour and other factors of production to generate goods and services. The quantity and quality of employment generated within a firm regardless of whether it is a TNC or not depend mainly upon the industry group to which it belongs, the production activities in which it is engaged, and its size.

The activity in which a firm is engaged, and the technological parameters of that activity determine the capital, labour and knowledge intensities of its production, although there is usually a range of technological options and hence combinations of labour with capital that are available to producers to choose from, depending upon, among others, relative factor costs.

2. The determinants of employment

The size of a firm, on the other hand, determines whether a large or small amount of labour is employed, given the combination of labour, capital and knowledge that are required to produce one unit of output. It also determines the extent to which a firm can invest in training and the building up of skills.

While these determinants of the volume and nature of employment are the same for all firms, there are some factors that suggest that the behaviour, practices and role of TNCs with respect to employment and skills upgrading may differ in some respects from those of other firms. These include the larger size and greater technological sophistication of many TNCs, the competitive pressures under which they operate, and their ability to deliver, by means of FDI, non-tradable goods and (especially) services. Among other things, because of their size, many TNCs are employers of larger total numbers of workers than national firms in the same industries. At the same time, because of their technology-intensity and competitive behaviour, they are likely to generate smaller numbers of jobs than other firms of equal output size.

The principal difference between TNCs and other firms is that TNCs distribute their production activities and, hence, employment, between their internationally dispersed facilities. The distribution of employment by size and quality among different locations depends upon several factors. It depends upon the TNC's motivations for and strategies with respect to international production and on the locational advantages of different countries. It also depends upon labour market conditions in host and home countries, including the availability and cost of labour of various skills and capabilities. While FDI of all types involves employment in host countries, some FDI is motivated specifically by

considerations directly related to the employment of skilled or unskilled labour. Resource-seeking and efficiency-seeking FDI in manufacturing and services is often made with the specific objective of accessing low-cost labour for labour-intensive production or taking advantage of relatively abundant supplies of educated and skilled workers. For market-seeking FDI, on the other hand, the availability and cost of labour or skilled human resources is not the main consideration in the choice of location, although it is likely to be one of several secondary factors that determine the investment location decision.

Given the broad motivations that underly TNCs' decisions regarding FDI, their strategies and the resulting organizational structures of their international production activity affect in a number of ways the intra-firm distribution of employment among home and host countries.

Under a "stand-alone" strategy, in which a TNC replicates in its foreign affiliates much of the value-chain of the parent firm with the exception, typically, of technology development and finance that are retained at headquarter operations, affiliates in host countries perform the tasks necessary for production to service the host-country and/or neighbouring markets. Accordingly, most of the employment of labour necessary for host country production occurs in the foreign affiliates. If foreign affiliate sales replace exports from the home country, that may be accompanied by a reduction of employment in the home country facilities within the TNC systems. Replacement of actual or potential employment in parent firms by that in foreign affiliates does not occur if the foreign investment is motivated by high tariffs or other restrictions on the home country's exports.

Under a "simple integration" strategy, in which a TNC locates one or a few elements of its value chain in its foreign affiliates, the latter undertake typically with technology obtained from the parent firm a limited range of activities to supply their parent firms with specific inputs or products that they are in a more competitive position to produce. Employment quantity and quality in a host country depend upon the nature of the locational advantages that attract FDI. If, as is the case in labour intensive manufacturing

for export, a TNC invests to take advantage of low-cost labour, low-skilled jobs are located in foreign affiliates, and the more skilled and highly paid jobs remain in the parent firm or in affiliates in countries with higher wages.

Under "complex integration" strategies, each TNC affiliate specializes in a product, process or function integrated with those of other units within the TNC's regional or global network of integrated international production. Deeper integration of this kind provides efficiency gains for a TNC and could result in a smaller system-wide workforce for a given output size than the other two strategies mentioned: specialization and consolidation of business functions in various locations have a rationalizing effect on total firm employment when compared, for example, to the replication of value-adding activities in all host locations as in a stand-alone strategy, or limited specialization among locations as under simple integration strategies. With respect to employment quality, deeper integration can imply a convergence in certain elements of the employment package in order to maximize the efficient performance of a firm's overall production system, this may imply higher employment quality and greater skill formation in foreign affiliates.

3. The impact of DFI on the Romanian workforce

The analysis of the impact of direct foreign investments on the local workforce is very important if we have in view the decisive and active role which work has in the economic development. In this way we shall analyze a series of representative indicators, rate of unemployment respectively and the monthly nominal medium net gain per employee. There should be mentioned the fact that in the last 10 years the active population has lowered with about 16 percentage, on the basis of the decrease of the total population in the same time with the significant increase of the number of pensioners

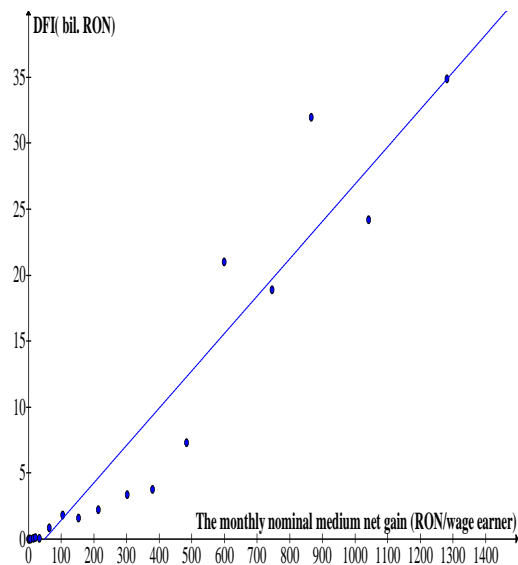
As regards the relationship between the DFI flows (mil. RON) and the rate of unemployment in the period 1990-2009, although did not show strong relations between the two variables, it allows the identification of two periods characterized through divergent evolutions.

Until 1999, the input of foreign capital did not influenced significantly the rate of unemployment, nevertheless in the period of time 1991-1994 the two variables registered in the same time a positive dynamics and in the period 1996-1999 when the rate of unemployment constantly and sensibly increased from 6.6% to 11.8%, although the DFI flows knew an ascending trend, I appreciate that the direct foreign investments, through the participation in the restructuring of private companies, contributed, as a secondary factor, to the rise of unemployment rate in the period 1990-1999.

In the period 2000-2009, we can notice an inverse ratio between the DFI flows, which evolved on a rising trend, and the rate of unemployment which registered a tendency of constant decrease from 10.5% in 2000 reaching a value of 4.4% in 2008, which demonstrates that the direct foreign investments influenced directly and profitably the work market.

First the restructured and modernized companies in the former period developed their activity contributing both directly and indirectly to the appearance of new working places. On the other hand, the input of foreign capital partly channeled to the development of some business on "empty place" positively influenced the work market, by making new working places with direct and profitable impact on the rate of unemployment.

Figure no 1. Correlation wages - DFI in the period 1990-2009



Source: National Statistics Institution, Romanian National Bank

From the qualitative point of view, the correlation analysis between the DFI flows and the monthly nominal medium net gain per employee (RON/ employee) in the period 1990-2009 pointed out the existence of some direct links between the two variables, more intensely beginning with 1997, when the DFI rising rate was 90.8% in comparison with 1996, and for the same period the rising rhythm of wages was 49.1%.

Taking into consideration that some of the foreign investors were motivated by the work force which is cheap and skilled in certain industrial sectors (textile industry, food industry, wood industry, chemical industry, etc.) the profitable impact is largely due to foreign investments achieved in technology in the intensive fields (computing equipment, electronic and communication devices, means of transport etc.) and in those sectors which strongly developed in comparison with the previous periods (financial intermediaries, communication, services to enterprises).

In this field of activity the foreign companies invested important financial resources to prepare the inland staff, thus contributing to the improvement of the quality of human resources, whose experience and skill was later remunerated on a higher level.

However the FDI qualitative impact on the workforce also has some considerations which are hard to quantify such as the real report between the time for work and for rest, the observance of the frequency and time for holidays, etc. The economic cost stands in the decrease of the employees performances and implicitly of productivity at the working place with direct effect on the evolution of business and on a long term on the economy as a whole.

4. Conclusions

The impact of DFI on the inland workforce stands both in positive contributions got from salaries and the improvement of training level of the employees, and also in the unfavorable influences on a long term, due to the dramatic rise of professional illnesses.

The motivations and strategies of individual TNCs each with its firm specific advantages, including, among others, those arising out of its international production networks interact with the locational advantages of particular host countries to determine how much FDI the latter attract, in what industries, and of what kind. Simultaneously, they determine the size and quality of employment and the potential for skills upgrading directly in foreign affiliates. Different organizational forms and structures have different implications and potentials in these respects. In addition to these direct effects, there are indirect effects on employment and related skills building that occur through competition, production linkages and multiplier and accelerator effects of income generated by FDI. TNC strategies and behaviour with respect to investment and, hence, employment, human resource management, and investment in skills formation change in response to changes in global, regional or country-specific conditions affecting their competitive positions and profit opportunities. Globalization and increased global competition are leading TNCs to shift towards more complex corporate strategies and integrated international production structures. These involve a greater geographical dispersion of TNC activities, increasing coordination and specialization of the activities of individual affiliates and greater importance being attached to created assets in making locational decisions.

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The Impact of Direct Foreign Investments on the Balance of Trade and on the Budget Income and Expenditures

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Abstract

Romania's economy was affected by the drastic decrease of production in all sectors, making a dramatic effort to adapt the productive capacity and workforce peculiar to requirements of a market economy. These tendencies are influenced by a multitude of factors, some of them very aggressive: increase of the import penetrating rate on the Romanian market, in an inevitable competence with the inland products; the continuous aggravation of budget deficit; the proliferation of financial lock-up and the decapitalization of economic agents, the low quality of the Romanian products which lost or have lost important export commodity markets. The role of direct foreign investments is to make a sustainable development in the economy of the host country by the contributions brought to the increase of workforce employment, of the living standard and of the GDP.

Key words: foreign direct investments, budget income and expenditures, balance of trade, correlation.

J.E.L. classification: F 21

1. Introduction

The effects of direct foreign investments on balance of trade implies both quantitative aspects as the TNC have greater export capacity than the inland companies due to a higher productivity, lower costs, high quality of goods, a rigorous marketing strategy based on a better knowledge of external markets and on the consumers requirements, the existence of some transport facilities, a more facile access to external markets and qualitative technological aspects, characterized by a higher processing level.

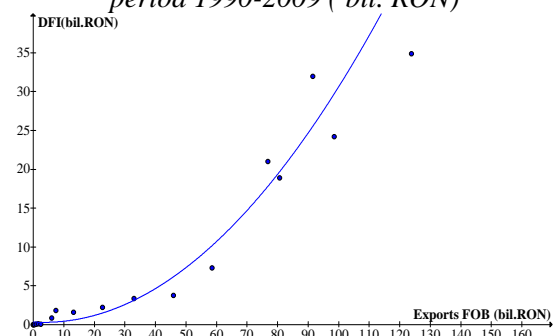
The effects of foreign investments become manifested on the budget having both negative contributions which appear in the investment implementation stage through: restructuring of state firms as a result of privatization, redundancy and also due to fiscal facilities given to foreign investors; and also positive effects which are mainly noticed in the investment maturity stage through the development of new activities and the increase of the number of the working places and implicitly of taxes and fees collected by the state.

2. The impact of DFI on exports

The strong relationship begins with 1997 when both exports and DFI register high rising rates which demonstrates that the foreign investments in Romania were determined by the size of the inland market and also by the efficiency caused by the increase of sales abroad.

Following the rise of goods export competition through cost reduction, transnational companies opened production units in those traditional fields of activity, characterized by large quantities of raw materials and qualified work force at relatively low costs.

Figure No 1. Correlation exports - DFI in the period 1990-2009 (bil. RON)



Source: National Statistics Institution, Romanian National Bank

As regards the level of exports, some of the DFI flows were directed to metallurgical industry (over 8%), food, drink and tobacco industry (over 6%), cement, glass and ceramics industry (about 4%) and textile, ready- made and leather industry (over 3%).

The export structure was characterized by a low processing level such as: metal, crude wood, textile, ready – made (made by lohn system), glass, cement, furniture, etc.

Unlike other Central and East European countries, which registered an improvement of export structures to the benefit of high added-value products, such as Czech Republic, Poland, Hungary, in Romania still continues the products having low added-value because of the lack of capabilities

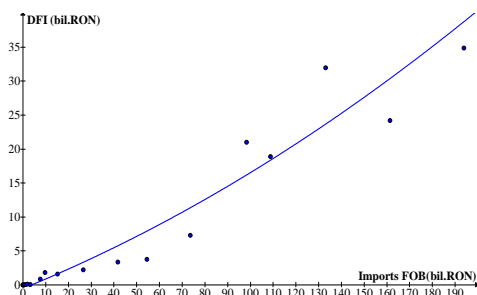
necessary to achieve some intensive goods in technology.

If around these intensive work activities and human resources will developed “economic clusters”, by massive penetration of foreign capital it is expected that in Romania, too similarly to the evolution of other countries in the region, to be registered an increase of export products with high added- value.

3. The impact of DFI on imports

The effects of direct foreign investments on imports are generally significant, as the foreign branches prove an intense tendency to imports, in comparison with local companies, beginning with 1997.

Figure No 2. Correlation imports- DFI in the period of years 1990- 2009 (bil. RON)



Source: National Statistics Institution, Romanian National Bank

After 1996 the foreign investors show a greater interest to the modernization of the acquired units and to the development of some “greenfield” projects, causing the

increase of imports necessary for the investment implementation.

Therefore in the years in which the DFI registered high flows, the rising rate of imports were representative in comparison with the other years of 56.4% in 1997 compared with 1996, 18% in 2006 compared with 2005 and 16.8% in 2008 compared with 2007.

The effects of direct foreign investments are reflected on the structure of Romanian imports, in the way of rising import technology rate necessary for the investment implementation, and also of components and accessories rate for industries having to make goods as the Romanian market is showing a deficit.

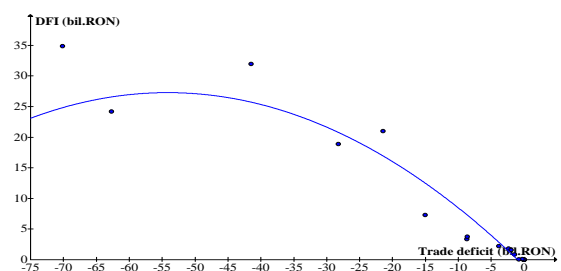
In the structure of DFI drawn in the Romanian economy, trade holds a high rate (13%), which proves the foreign investors interest for the inland market, the second in size of EEC, after Poland. In this context a large number of foreign investors substituted the exports previously made by parent company, having in view the satisfaction of inland requirements, with a negative impact on imports both on a short and on a long term.

4. The impact of DFI on the trade balance

In order to determine the net impact on the trade balance, we shall analyze the correlation between DFI flows and the balance of trade in the period of years 1990-2009.

According to the graphic below, there is a direct relation between the two variables in the period 1997-2007 as both of them registered high growth rate.

Figure No 3. Correlation trade deficit - DFI in the period of years 1990-2009 (bil. RON)



Source: National Statistics Institution, Romanian National Bank

This fact demonstrates that DFI had a net negative impact on the balance of trade, fuelling the trade deficit, which had growth rate of 46.6% in 1997 in comparison with 1996, of 30% in 2004 in comparison with 2003 and of 32% in 2006 in comparison with 2005, years in which the DFI flows had spectacular growth rate.

This evolution is due to the import dynamics of foreign companies in comparison with exports but also to the structure of trade flows engendered by foreign companies, especially to the fact that there are mostly imported equipments, machines, tools, components and accessories for industry, whose value is higher than of export goods, largely represented by products having a low processing level (metal, crude wood, glass, furniture, textile, ready-made etc.)

While ever higher DFI flows will penetrate the economy, their impact on balance of trade will depend both on the direction of foreign investors, to the inner or outer market, but especially on export competition of goods made by foreign branches. A special importance will have the export structure of foreign companies, as the growth rate of high added- value products, which incorporates a high content of local resources (work force, knowledge, technology) will positively reflect on the trade deficit, accelerating in the same time the comparative advantages of the Romanian economy.

The effects of direct foreign investments on the balance of payment are numerous, and sometimes contradictory, being determined by a series of factors, among which the most important are: type of investment, economic efficiency, field of activity, access to resources, host country costs for transactions and interventions.

An aspect of analysis of DFI impact on balance of payment has in view to follow in time the generated effects, so: in the first stage (investment made), the capital input is registered in the financial account, constituting a means of balance of balance payment by financing the current account deficit; in the second stage (investment implementation) due to massive imports made by foreign companies (equipments, tools, raw materials, etc.) is registered a

negative effect on the trade- balance; in the third stage (investment maturity) the effects on the balance of payment, on the balance of trade are diversified.

The favorable effects on the balance of trade are registered when the transnational companies have in view the development of productions achieved on the external market or if the production achieved is substituted to imports. The positive effects on the current account may appear when the profits got are reinvested in the host country, and the capital output in the form of interests, royalty and those generated by the system of administrative transfer prices are not significant.

The analysis of DFI impact on balance of payment must have in view both trade flows- balance of trade, and the possible significant capital output or the embezzlement of some potential flows from other investors. These higher profits got by anti- competition techniques can be changed into capital output, under the form of excessive wages of the expatriates, and of the high royalty taxes, negatively influencing the balance of payment.

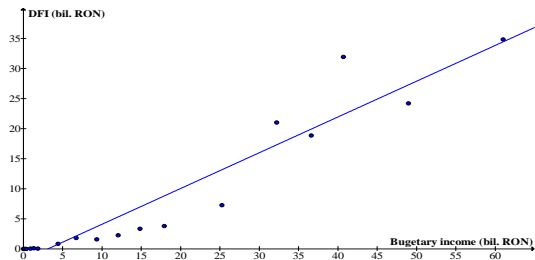
The negative effects on the balance of payment appear in the case of foreign companies which make loans abroad and concentrate on the rapid recovery of investment by using techniques of fiscal eludation – transfer prices or high royalties.

5. The impact of direct foreign investments on the budget income and expenditures

The correlation analysis between the budgetary income and the DFI flows for the period of years 1990- 2009 pointed out a direct relation between the two variables beginning with 1997, when both budgetary income and DFI register increases, the positive impact being more intense beginning with 2003. So, between 1990-2003 the input of foreign capital was relatively low and mainly directed to the privatization process, the positive impact consisting in keeping the tax payer quality of some of the natural persons and legal persons as a result of restructuring of activities of the acquired companies. In this way, during this period, the additional income generated by the

development of certain activities especially in the service sector, and the creation of new working places were largely counter - balanced by the fiscal facilities given to foreign investors, so that the DFI contribution to the increase of budgetary income was relatively low.

Figure No.4 Correlation budgetary income – DFI in the period of years 1990-2009



Source: National Statistics Institution, Romanian National Bank

Beginning with the year 2004 the Romanian economy benefited from high DFI flows with growth rate of 65.25% in 2004 in comparison with 2003, 40.84% in 2006 in comparison with 2005 and of 30.4% in 2008 in comparison with 2007, largely directed to the development of greenfield activities.

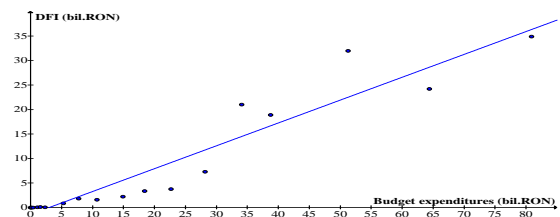
In the same time through training effects, the foreign investments got to maturity, contributed to the development of activities which were either rising or decreasing as to the foreign branches, influencing indirectly, positively and significantly the budgetary income which registered growth rate of 21.6% in 2005 in comparison with 2004 and of 19,7% in 2008 in comparison with 2007.

The more high flows of direct foreign investments penetrated in economy, it was registered a growth of income to the state budget largely due to the taxes and additional duties paid by the new contributors, economic agents and wage earners.

The correlation analysis between the budget expenditures and DFI flows for the period 1990-2008, pointed out the direct relation between the two variables beginning with the year 1996, when the budget expenditure registered ever greater growth rate. Therefore the DFI growth rate was of 65.25% and of budgetary expenditures of 17% in 2004 in comparison with 2003 and in the year 2008 compared with 2007, the FDI rate was of 30.4% and those of expenditures of 30.4%.

Within the privatization process, the foreign capital was especially directed to the acquisition of the state companies, in this way being registered an increase of the budgetary expenditures due to additional expenses of social nature generated by the rise of the unemployed as a result of these enterprises restructuring: unemployment benefits, social assistance, expenses for professional reconvention, etc. If in the Romanian economy had penetrated a greater volume of greenfield DFI, these expenses would have been diminished.

Figure No.5 Correlation budget expenditures - DFI in the period of years 1990- 2009 (bil. RON)



Source: National Statistics Institution, Romanian National Bank

If we consider that some of these enterprises were acquired for the value of the land or of the building or to remove the competition made to some companies which had the same activities practiced in the neighboring countries, and not with the aim of developing some productive activities which implied important investments in modernizing production, the effect being ever stronger.

Beginning with the year 2003, by developing some greenfield activities and due to the maturity stage in case of most investments implemented in the previous period, DFI had a benefic influence on the budget deficit materialized in the growth of income from duties and taxes and in the decrease of expenses of social nature.

6. Conclusions

The lack of capabilities necessary for the substitution of technology imports and of accessories necessary for industry, as well as the foreign investors direction to inland market have negatively influenced the Romanian balance of trade.

A greater contribution to the Romanian economic growth can be attained by drawing a greater amount of DFI to be directed not only to the speculative sectors such as retails or estates but to sectors to produce a sustainable development such as innovation and high technology capable to generate export competitiveness. In the same time, once the direct foreign investments will be accumulated in significant stocks, the business companies which will become the engine of the economy, positively influencing the country gross domestic product and the budget.

Romania needs a significant volume of foreign investments in order to solve the social and economic problems emphasized by the world crisis and to reduce the difference from the other EU member states.

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Trends in Strategic Management of Romanian Banking Institutions

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Abstract

Romania's integration into European Union caused serious implications for national economy and banking system, which came in a position to deal with the pressures of a competitive market and increasing requirements of customers seeking more complex products and banking services. It can be argued that the banking management and strategy involve each other. The action of implementing a strategic program in a bank actually represents the concrete manifestation of banking management since the strategic plan materializes by putting into practice the major decisions concerning the key areas of the banking activity.

Key words: banking strategy, performance, motivation

J.E.L. classification: G21, E43, F33.

The banking sector is involved in a targeted approach to researching customer needs and establishing a portfolio of services that credit institutions intend to offer[1]. This is mainly due to specific features of banking products and services such as:

- banking products and services that are long term investments - these, because of their immaterial state, are not subject to obsolescence or physical wear;
- the demand for banking products and services is heterogeneous, the credit institution must take into account the requirements and needs of each customer segment in order to attract consumers and make them loyal customers;
- conducting banking transactions requires the customers' involvement;

- atomicity, another feature of the demand in banking services, impedes the development of operations with customers, which requires more personalized services;
- banking products and services can only be offered to customers directly, with no possibility of a redistribution or resale. This implies that the existence of dispersed branches in different geographic areas results in the enlargement of the banking process in that area. Branch banks are the places where customers are won or lost.

In contemporary times, the banking strategy included a broad area and recorded an increased complexity, adaptation represents a continuous struggle and involves considering the transformation of the population's attitudes concerning the banking activity in general[2].

The banking strategy consists in ordering some objective values, of some banking policy elements, which require a constant concern for their application in various fields of credit institutions' activity. According to recent developments in the structure of the Romanian banking sector, that form the primary components of the financial institutions of our country, included in 2010 a total of 42 credit institutions, in which 31 were Romanian banks, 10 were branches of foreign banks or authorized networks of credit unions (CREDITCOOP).

Regarding the countries that hold shares in the capital of national banks and foreign branches, top positions were occupied by Greece (22.4%), followed by Austria (18.4%) and Netherlands (9.2%). The most significant gains were reported by Greece who climbed into a position that placed itself near the top in the top five countries (Table 1).

Table 1. Sources of foreign capital in the Romanian banking system

Country	2009		2010	
	mil.lei	%	mil.lei	%
Austria	2419,8	22	2448,3	18,4
Greece	2391,9	21,7	2980	22,4
Netherlands	846,4	7,7	1229	9,2
France	551,9	5	562,1	4,2
Hungary	535,8	4,9	573,8	4,3

Source: NBR - Annual Report 2010

At the end of 2010, the national banking market was dominated by five credit institutions that together accounted for 54% of the total assets and deposits. BCR, retained its leading position, followed by BRD at (15%), Volksbank remained in fourth, Raiffeisen with 6.2% and BT climbed two positions (Table 2).

Table 2. Market quotations of the first 10 credit institutions

2009		2010	
Bank	%	Bank	%
BCR	20,3	BCR	20,4
BRD	15,7	BRD	15,0
Volksbank	6,8	Volksbank	6,7
Raiffeisen	6,0	Raiffeisen	6,1
Total 5	54,3		54
Alpha Bank	5,5	Banca Transilvania	5,8
UniCredit Tiriatic	5,5	UniCredit Tiriatic	5,6
Banca Transilvania	5,4	CEC Bank	5,5
BancPost	4,8	BancPost	4,8
CEC Bank	4,3	Alpha Bank	3,7

ING Bank	3,5	ING Bank	3,5
Total 10	77,8		77,1

Source: Author's calculations after data published by NBR

Even though the degree of localization of the top five credit institutions is declining compared to 2008, it appears to follow the indicated trends of other European countries such as Austria (44%), France (54%), Germany (22%) Italy (26%), Netherlands (85%) and Spain (40%).

Table 3. The degree of concentration of the top five credit institutions

Country	Degree of concentration of the top five credit institutions (%)
Netherlands	85
France	54
Austria	44
Spain	40
Italy	22

Source: www.ghiseulbancar.ro

Reducing the degrees of centralization in the Romanian banking industry indicates an increase in competition[3]. Credit institutions in our country can be grouped into three larger strategic groups. They have criteria for classifying their strategic advantages, competences, and vulnerabilities:

- the group of state-owned banks made up of CEC Bank and Eximbank, which have the following competitive advantages: good knowledge of Romanian economic environment, high capital value, extensive territorial network, and a large number of employees serving customers. All these trumps, if not properly managed, can become negative points in time. In addition, state-owned banks also have vulnerabilities consisting of a reduced degree of flexibility on operating investments and reticence regarding investments largely due to controls made by government bodies. The marketing of banking products and

services is limited by the skill of their managers. This can make it impossible to focus on strategies for attracting specific customers.

- the group of private banks have the following competitive advantages: the highly skilled staff and managers driven by processes of selection and motivation, the high degree of flexibility in the mode of operation, investment policies, a good knowledge of economic and social environment, the importance given to new banking technologies of information. Furthermore, private credit institutions are vulnerable in terms of capital, which is sometimes insufficient to serve the big companies and in terms of reduced number of branches in geographic areas. Commercial banks that are affiliated with this group will seek to expand their strategic domain's area in diversification of prospective customers and also in terms of technology and offered services;
- the groups of foreign branch banks that have the opportunity to benefit from the banking experience the 'parent' banks acquired their experience from the countries where they originate. Experience such as an international banking know-how, a strong reputation among customers, and relationships with large numbers of foreign correspondent banks. Another advantage that they have is the stability of their capital (currency) exchange rates. Fluctuations result from the natural occurrence of inflation.
- These groups do have disadvantages: they have a limited network in the territory, it may be impossible to benefit from significant gains that the parent bank may be experiencing at home, a limited knowledge of the economic environment and how customer segments react.

Competition between the three groups manifested by applying differentiation strategies takes into account issues such as: interest rate, geographic location to the services (territorial network), the fees and

charges levied for such services, and the speed and safety of services.

In regards to the interest rates for deposits and loans received, a competition was conducted between banks that are part of the first two groups (Table 4).

Table 4. Differing elements of banking products and services

Differing elements of banking products and services	The group of state-owned banks	The group of private banks	The group of branches of foreign banks
Interest rates	X	X	-
Geographical proximity to the clients	X	X	-
Fees and charges	X	X	-
The speed and safety of products and services	X	X	X

Source: author's data

Superior management representatives of several credit institutions believe that the future of national banking market can be influenced by the following success factors[4]:

- rapid and effective resolution of customers' needs;
- offer a wide variety of personalized quality banking products and services;
- reduce time to resolve problems reported by customers.

Given recent developments in the banking environment, for any credit institution, factors such as: diversification, innovation and customization of products and banking services should be a priority.

In a consumer society where time has become a "commodity" more and more expensive - time is money, and urban traffic congestion is already a daily reality, the best solution seems to be frequent use of

electronic distribution systems of banking products (cards), the computerized machines (ATMs and terminals for electronic funds transfer at point of sale) and electronic banking system that virtually places customers in the banking institution (services such as Internet banking, mobile banking, home- banking).

According to the international standards in order to be considered truly modern banks, the Romanian banking institutions are required to submit a strategic program, and therefore within the major commercial banks there were set up departments of strategy that deal with the elaboration and implementation of strategic programs.

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Personal Development from the Perspective of the Management of Public Institutions

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Abstract

Despite the complexity, the ambiguities and even the contradictions of the concepts of "personal development" and "types of training for personal development" that are shown in our early researches, we continued to study the relationship between the two concepts and attempt to identify the issues that could form the basis for debates on the legitimacy of "personal development". In other words, we believe that if the terms refer to different concepts and practices, confusing, even contradictory, however they are not meaningless.

Key words: management, public institution, personal development, training, professional development

J.E.L. classification: H10.

1. Introduction

In an organization, the concept of "training for personal development" seems unfair and seems to concern especially leaders and managers. There would be differences between what could legitimately be expected from such actions if we refer to their theoretical references, and what is actually done.

In general, personal development training includes training focused on the individual, that means a type of training focused on a better understanding of self, of the relationship with others, that suggests a better understanding of the interactions between individuals.

2. Fundamental aspects of personal development

2.1. The concept of personal development

For practitioners, and researchers 'personal development', although strongly present in the speeches and writings, seems to "slip through their fingers" as soon as they try to understand it more precisely. It is so difficult to find a clear definition. The trend is rather to take into consideration as many experiences and as many definitions as there were analyzed, in what concerns the experience of "personal development". However we found two definitions for this stage of our research - the subject of our paper itself is to clarify them or make them evolve:

1. "Personal development is based on the development of capacities in the field of self-knowledge, the mastery of relational savoir-faire and in the field of behaviors. The emotional involvement and emotional conduct of this research requires a satisfactory framework: a competent trainer, outside the enterprise, respect for values, for the personality of individuals. In addition, any personal development must be able to be clearly explicit in connection to its theoretical references, its methods and its code of values. It must also respect the person and its physical and mental integrity." [1].

2. "Everyone agrees, to talk about personal development is to speak about individual growth in all its aspects (physiological, intellectual, emotional, relational, spiritual ...). (...) Each person would tend to orient in specific directions that C. Rogers describes as "positive,

constructive ... they tend to go towards self-actualization ... progresses towards maturity and socialization."(...)

We thus note the following three dimensions, all of which incorporate the notion of personal development:

- Development of general intellectual skills (construction of knowledge, logical reasoning, analysis and synthesis capabilities ...)

- Personal development at an interpersonal (ability to express, to communicate, to manage their emotions ...)

- Personal development in terms of evolution of the individual (ability to orient themselves, to manage their career, develop their professional potential, to make choices ...).

Generally, "personal development" could be summarized to a second dimensions: "personal development" at an interpersonal level.

Thus, GARF (groupement des animateurs et responsables de formation en entreprise = the group of trainers responsible with training in organizations) had adopted in 1995, in their statistical tables about business training, two training specificities for "personal development":

- The development of behavioral and relational capacities: emotional control, stress management, developing the ability to speak, to communicate, to assert .

- Development of the individual capacity of organization: personal organization of the working time, organization of effective teamwork.

2.2. Specific types of training objectives inventoried in the domain of "personal development"

- To easily win the trust and to have the capacity to relate

- To exercise your authority using diplomacy

- To build successful scenarios

- To excel in relationships and communication

- To be able to mobilize your own personal resources and those of others

- To know how to act and communicate in different situations

- To strengthen the collaboration

- Fostering relationships of trust

- To overcome rigid behavior

- To create dynamic relationships

- To develop your impact on different actors in the organization.

- To raise the responsibility of staff

- To create a climate of confidence around you

- To promote adhesion on projects

- To be able to adapt to your interlocutors

- To formulate your arguments in order to convince

- To you know your capabilities better

- To obtain operational solutions

- To develop starting with the resources you currently have

- To manage the stress of ambiguity and change

- To balance between the demands of work and personal life

- To be creative in order to make decisions

- To increase your ability to concentrate

- To develop your inner resources in order to use them in difficult times

- To get an idea about yourself on long term

- To optimize the management of stress, health and your relationships

- To better manage your assets

- To approach this new life (retirement) with inner peace and with projects, etc.

3. Characteristics of the management process in public institutions

3.1. The concept of public management

Being under the influence of uncontrollable factors and based on legal procedures relatively differentiated, the public sector, across time, was a main focus of theorists. Thus, Ranson and Stewart [7] state that "the challenge is to discover the new era of moral and political principles which correspond to transformations suffered by the public sector."

This challenge is even more pronounced as the boundary between public and private is neither clear nor permanent [3].

Public management is a complex discipline, which calls for a much broader field than disciplinary businesses. The two areas share the science of management: the organizational management, the complex dynamic systems, technology and innovation management. In addition, public management

goes beyond these disciplines, integrating approaches to understanding the evolution of society [4].

Many variables and relative definitions of the concept of public management resulting primarily from the complexity of the public sphere appeared, these definitions are subject to a double causality: on one hand, the public area is faced with the multiplicity of territories and institutional partners. On the other hand, we witness the increasing need for public services, for beneficiaries with different horizons. Consequently, the multiplication of specific occupations within the public sphere and public transparency of dialogue between the actors can meet these requirements, but subject to a proper legislative context.

The issue of the complexity of the public sphere can not be raised without emphasizing the political influence, namely the vulnerability of national political systems [2].

Another factor lies in the complexity of the public's sector need to act in a strictly financial context.

A study [6] states that public management is an "institutional myth", meaning that it refers to the gap between the rigorous image that the public organizations tend to project on the adoption of structures/systems that are perceived as legitimate, and on the other hand translating these into practice.

The stake in public management is not managing all aspects of the public sphere but to use efficiently and effectively specific management tools and techniques. Trying to control and master everything is not only expensive but also illusory.

If in some areas, more technical, every action leads to an outcome necessarily rational, even mathematical, in the public sphere a lot of energy can be spent without the result becoming visible. In other words the gentle alchemy that has to be put into action in the public sphere, leads to a quasi - uncertain outcome.

This phenomenon is amplified by the poor wording / the insufficiently clear goals of a government program or initiative, but also by the fact that the actors involved have different purposes, different perceptions and strategies.

In our view, public management can be defined by a three-dimensional approach: the first dimension is the efficient and effective use of all categories of resources in implementing the policy, the second dimension of public policies are aimed at increasing performance and suitability for the needs of the beneficiaries, the third dimension is to create a space for reflection and action by public actors, allowing them to engage in building a consensual approach. Public management should be turned into a commitment to change and maintain a balance of change.

3.2. The process of management in public institutions

In an open understanding, management focuses on two broad objectives: piloting the organization in the sense of decreasing environmental turbulence; reduce wastage resulting from internal disturbances.

Management consists in using rigorous approaches at all levels of an organization to avoid entropy. The evolution of management in public institutions is based on four major challenges: the structural challenge, the decisional challenge, the challenge of implementing effective and practical animation of the actors.

The structural challenge consists in the need to meet a double need: the rigidity of traditional systems and procedures and the dilution of the roles of specific organizations, as a result of mismanagement.

It results that management must address the current phenomenon of techno-bureaucracy in public institutions. This objective appears to be necessary even in decentralized structures, which sometimes face rigid new behaviors.

3.3. Quality and performance in public institutions

The importance of quality in any business is based on several findings:

- quality is a relative concept, and even the positioning based on a range of products has a certain quality logic, according to clearly defined criteria;

- non-quality is often much more expensive than the quality itself, since it is based on a set of socio-organizational failures that generate loss of resources;

- quality is a source of credibility for the client, contributing to the competitiveness of organizations.

These findings are also applicable to public sectors, sometimes in a more pronounced way, because the stakes for quality is to increase the level of trust in public authorities, which points to more political constraints.

This quality is one of the possible public-sector responses to environmental changes such as increased demands and users.

However there are fundamental differences in the quality of private and public sectors that results from the particularities of the customer.

There is a major difficulty in the study of the performance of the public sector: on the one hand the weight and complexity of the bureaucratic system that does not allow global changes, on the other hand the action in the midst of a system may cause cascading effects on other dimensions of the public sphere.

Tackling with the issue of the public sector's performance can be subject to a multitude of possible logics. The three main logics could be [5]

- The logic of the engineer who aims for the development of the intrinsic productivity;

- The logic of the economist, which seeks to minimize costs and increase consumer satisfaction

- The logic of the politician, that seeks to observe the impact on the consumer.

If the engineer and the economist's logic can exist in both public and private sectors, their combination confers specificity and complexity of the political concept of performance in public institutions.

4. Personal development from the perspective of the management of public institutions

4.1. Personal or professional development?

Analyzed and often viewed as a whole, particularly in French literature, the professional and personal development must be analyzed separately. Professional development is only one aspect of personal development, which relates exclusively to the development of the occupational role, while individual development includes all aspects of personal development, referring to the uniform and complete development of human personality.

Personal development is a part of the management. In France, as in Anglo-Saxon countries, but with a delay of several years, most enterprises have embraced this new strategic situation.

But for some people, performing or supporting "personal development" in the enterprise to integrate further vocational training, induces an evolution from the "personal development" to the "professional" one.

For some supporters of transactional analysis as well: "the idea of personal development training is difficult to reconcile with the very essence of personal development approach in the sense of self, individually, from a felt need, and then identified. Such an approach allows access to himself, to his design, his wish, regardless of interference with other projects. "

Eventually it would not be so much about "personal development" but about "professional development".

In an organization, this new strategic situation concerns mainly professionals, leaders and managers.

4.2. Personal development as a strategy

Given that the provision of personal development is now a billion pounds industry, is there any reason as for personal development strategy to be adopted as a training and development? One view is that it can not be avoided. In a rapidly changing world, an uncertain world where flexibility, adaptability and learning new skills are the

name of the game, individuals have no choice but to assume greater responsibility for developing and measuring their chances of employment.

In terms of resources, a convincing argument in support of personal development is that it can be related to training for a specific profession (job-related training) - "to work" in the sense of supporting it, making it more complete and more sustainable. The argument is that the training that focuses on skills and behavior is mostly a transplant operation. It may introduce new material, but there is too little time for this material to become rooted in the deeper soil of beliefs and values of the employee or his image of himself or his models about the world.

Organizations that seek to provoke thinking, attitudes and values of their employees must do more than hire people from a professional perspective, they must engage its employees in terms of personnel at all relevant levels. Here, the options are as follows:

1. to ensure that all training events have a dimension of personal development.
2. to give way to personal development before or simultaneously with the formation.
3. A third option is mentoring (tutoring) and/or face to face training (one-to-one coaching) The latter is currently in vogue, especially among managers who have the means to hire external consultants for personal development - budding occupational group currently extremely rich people who have basic training in neuro-linguistic programming and sport psychology/ training development (coaching). Attitudes towards support mentoring as a way for personal development varies from one organization to another. It is embraced, for example, in many companies and most state schools in Britain, in part because it is seen as a means of promoting personal development of both mentors and their public, but other important commercial organizations are avoiding it stating it is an outdated culture (eg Microsoft). The forms of DIY (Do It Yourself - Do it yourself) could represent the future.

5. Tips for personal development

The following points are indicators as being of good practice in providing personal development.

1. Try to obtain congruence. The organizations supporting personal development must ensure that their policy and practice is more consonant with the spirit of personal development.

2. Try to provide professional development opportunities for both individual (personalized) and for broader personal development.

3. Clarify who owns personal development plans and portfolios. Typically, the organization has a more legitimate stake in the plans that focus on professional development needs and intentions than those who are really more of a personal nature.

4. Usually, do not relate opportunities to participate in personal development trainings offered by the enterprise. As an opportunity offered and accepted as a gift ("something for me"), providing personal development is less likely to be rejected and more likely to be received positively.

5. Let anyone that has a function of development or works in human resources management to develop "relevant pro personal competence" - eg the ability to appreciate the personal development needs that support professional practice.

6. Encourage a proactive approach to career and personal development. There is the need to be an ongoing concern rather than a reaction to a "crisis" (restructuring, too many employees, etc.).

7. Encourage employees to see themselves as "self employed" and see the organization as being their best customer.

8. The following points show the quality of personal development programs:

- Tendency to limit the number of participants to facilitate a full interaction with the participant (although the group scale events can yield results, especially at an emotional and motivational level)

- Tendency to have a generous proportion of trainers for participants so that the latter receive a one-on-one guidance (in front) when needed;

- Looking to work on personal development in general, and on explicit course objectives;

- Tendency to include time for personal reflection, and for interaction and exercises.

9. Fill libraries and resource centers for employees with the broadest possible range of books on personal development, tape recordings, CDs and other materials.

6. Conclusions

One of the main reasons that continuous education and professional development is likely to fail, is probably the fact that the institutions lack a pattern of systematic training or personal development. If the main purpose of education is to contribute to the overall objectives of the organization, the main purpose of a model of institutional learning is to develop professional and public officials, to prepare them to become people who learn continuously (lifelong learners).

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Systemic Perspective of Communication - Business Development Premises in the Context of Global Crisis

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Abstract

Systemic approach to communication concerns that it could be captured in its dynamic, under the influence of its determining components, with a complexity greater than its component parts. In this sense, communication is considered an open system, being influenced by the context in which it appears and develops, but also the dynamics of its component parts. The synergy created thereby contributing to the effective operation and business development.

Essential is considering the communication both the trial and phenomenon, but especially, as a link between demonstrating the relationship which ensure high performance at the organizational level and national level.

Key words: system, communication, business, structure, function.

J.E.L. classification: D1, D83, D85, O1, P0

1. Introduction

Cognitive complexity, emotional and behavioral communication can be addressed only scientific and practical effect only in *systemic* perspective. Systemic theories concern Cybernetics (Wiener, Cybernetics or Control and Communication in the Animal and the Machine in 1948), organization (Morin, La methode.1. La nature de la nature, 1977) and constructivism (Foerster) provides points of considering communication as a premise for starting in business development. Obviously, business development, helping to increase the valued of the various components of the

communication process (communication means). Also, the type of interaction between communicators parties increases and / or appear other types of relationships (interactions) with repercussions on business efficiency.

Business - profitable organization - is the major institution of key economic sphere and its role is to produce goods and services necessary to maintain a certain standard in society. Although the business (profitable organization) is a system that does not mean that the organization is the only place or principal place of communication. Arguably, at the organizational level, cultural context influence the process of communication and support external communication, and the one who is articulate and manifest within it (socio-professional communication, group communication, local communication, for companies with branches in many areas, communication or communication department compartment level).

Business Communication is an open system based on the concept of interdependence, subsystem, equitable-purpose, multiple-purpose, structure, processes, and the premises is an informational filter "color" components of the process communication.

2. Systemic communication approach - between reality and objective necessity in the context of economic crisis

Communication system approach not only tries to make sense of action within the organization or provide all important communication to coordinate its components in a precise meaning, but to exploit and

capitalize elements of communication process, uncovering interdependencies and internal connections communication, generating synergies and complex structures needed for business development in the current context. Also, cognitive and practical approach that takes into account the communication as a subsystem of the business (profitable organization) and manage effectively generated on the one hand influences the socio-economic formation that manifested itself, and on the other hand, the existence of national communicators, which determines the content and forms of communication.

The economic crisis is a crisis of communication in business and systemic perspective of communication is essential in overcoming it, especially since there are concerns about crisis communication. But whatever the context, systemic approach to communication is a primary means of business development as contributing to the development of communication personalities (staff and economic entities).

2.1. Communication structure and functionality

Known is that any communication behavior has a great cultural value. From this perspective, communication is a system of meanings and symbols created by human thought, whose diversity results from changes occurred during individual events. There should not be omitted the class character of any system of symbols, the relations between social systems and the forces holding symbols of power, technological nature of the system of symbols, etc. The output from the communication system is the conversion of human behavior. Therefore, one can say that the business organization, communication emerges as a subsystem of the business that is open. In this case, correlating communication subsystem with the other subsystems is very important in order to identify the influences exerted by the on the work of the organization.

Spheres of communication are a matter of morphology or anatomy of communication. Through their intercession may be understood internal processes of diversification of communication as a result

of historical development in time of the organization. Indicating and analyzing every sphere of communication and their relationship to identify and delineate the structure of communication that is relative to the type of organization. Communication systems are of great diversity in time and space relative to the many human groups and ways of combining elements of communication process.

So we can talk about a basic level of business communication, but the level is not homogeneous, it is composed of several distinct units called communicational spheres. As the levels increase to the peak of organization, communication spheres begin to be homogeneous.

Spheres of communication, as an expression of a minimal variety of communication media, are also basic communication functions such as position information, socialization, advocacy culture, integration, motivation, etc. As a characteristic type of business, each sphere is undergoing a process of internal differentiation and specialization. This process can be analyzed by morphology of the spheres. A separation of these spheres of communication is difficult but not impossible, and could speak of the sphere or *members of the sub system-culture of the organization, science sphere, language area or subsystem sphere, or ethical subsystem*[6].

Morphology of communication involves a process of differentiation of types, genera and species of various elements of the communication process. At the organizational level there is a different kind of process, namely the integration of various elements of communication in an organization's communication structure. Typically, this integration is pursued in developing a strong communications within that organization. As a result, areas of organizational communication can be searched in two ways: as research specific areas of human groups, that research integrating social legislation of a sphere of action of the communication structure of an organization.

Culture members of business organizations is translated into manifestations in action, the participation in events, feelings, *the creation as a form of labor in general, affecting the life and work collectively with*

serious consequences and can even transform business. In this regard, creation plays a decisive role, and communication is essential in the act of creation. When researching the creation-action as a form of thinking of how an individual is considering the following issues: social background of the individual, spiritual and material dependence of the ruling class, or one that represents social position, economic situation, prestige, studies, etc..

The analysis of science sphere involves examining organization, planning, management and administration theoretical and practical knowledge, efficient use and personality of those who possess this knowledge, their typology (professional categories structure age, sex structure, occupational mobility, etc.), their overall motivation of applying theoretical knowledge of the working structure of individuals, age in relation to the type of activity, the combination of theoretical knowledge in relation to the activities implemented in practice. It is also necessary to know the degree of cohesion, competition between members of the business, and specialization within its existing relationship between the body of knowledge and results, the social climate of the organization of groups, individuals and corporate social responsibility organization. One should not forget to analysis the social functions of the combination of knowledge, knowledge that all the factors of production, assembly and integration of knowledge production. It should be noted also that the dynamics of various sciences contribute greatly to the increasing complexity of different knowledge in different fields. In such a context, this important sphere of communication, it is a series of functions[3], such as cognitive function, regulatory function, practical function - transforming creative function etc. Under these conditions, it should be mentioned that all members of an organization's knowledge is influenced and determined by: the development of the society in which that organization operates, the degree of specialization of the work of the organization, the degree of development sciences and forms of education in that country in which the organization operates, the social, political, cultural organization, the language used by the organization, existing

training system in the country, family, group of friends of each member of the organization, the degree of interests of members and the organization, social class in which each member of the organization, the degree of membership of each member of the organization, the value system of each member and the organization, religion, etc. organization members.

For its part, science has many influences on: the work of the organization, the language used by an organization; spheres of communication in business environment in which the organization operates, results generally members of labor, religious members; efficiency of the organization, rules, regulations, laws, organization, attitudes and beliefs of its members; values (value system) organization, thinking of organization members, etc..

The set of knowledge held by an organization (by members of an organization) influences and is influenced by the language used by members of the organization[3]. Each domain of knowledge operates with concepts, categories and laws developed inductive or deductive, rational level. Thus, in any organization there are two types of language: scientific and common[2].

Language is an integral part of social activities, he articulating practices, guidelines and human relations in a particular life situation. In business, messages reach individuals situated in a relational context previously determined by the membership and reference groups. The reference group performs a normative and a comparative basis, taking an active role in receiving messages in the selection and understanding the meaning of meanings given to[1]. There is a direct connection between the position of the organizational structure of each member of the organization perceives the message and its image.

In contemporary society, information has become an essential component of the human condition, an important means of knowledge. It is indispensable for the organization and business development, degree of organization depends directly proportional to the amount of information stored in these organizations. **The means of communication are consisting as important resource in development**, information provided by them

being an effective way to reduce uncertainty socio-economic processes.

2.2. The place and importance of communication in all social structures and business processes

Communication is a social phenomenon with a specific character, the reality of the communication process cannot be conceived outside the office. First, because both, the transmitter and receiver are men, bearers of culture. Man is a social product, in essence, being a social being. As such, he creates culture, expressing the ideals; aspirations, confronted by his work with the wishes of other people, and are developed through relationships with other person, that is through communication[5]. Communication is really a social variable. If any communicational reality is also a social reality, it can be said that all social reality is both time and communication phenomenon? Given the complexity and the level at which it was currently exploring the phenomenon of communication, the answer is relatively clear.

It should be noted that any process of communication requires the establishment of premises as two elements: objective reality (inside and outside the organization) and the human subject. Man enters into the objective world in accordance with nature's own, on a spiritual level, but it must transform the environment, not by its mere presence, but through knowledge. On the origin of any act of human communication is dissatisfaction with the situation found by a goal and aspiration towards an ideal toward which the change existent. Certainly, the situation is not only found the objective reality, but is a function of culture, because the existing objective and impersonal viewed from the perspective of human socio-cultural, subjective.

Business organization is a social space, communication is continuous reality creation occurs social reality is a socio-communicational (according to school in Palo Alto). A new paradigm of communication highlights the crucial importance of context in determining the characteristics of the communication process. Along with human nature, *communication is*

the key factor that creates and develops the personality and significance.

In order to define elements that may identify the coordinates communication across organizational structures and social processes, communication could be defined and analyzed through guidelines: structure-functional, actionable (model formulated by Jurgen Habermas - Communication and Action, representing the latest generation of the Frankfurt School), structuralism and phenomenology (model formulated by the Palo Alto school based on the integrated consideration of communication as a social phenomenon).

The social system of the business is a multitude of individual actors (individuals), interacting each other in certain situations. The office is in their view a specific analytical concept which allows knowledge interdependencies, how to integrate the parties, the nature of interdependence, the social regularity, etc. The system components are connected in functional complex, and the type of connection between components is one of functional dependence. In these circumstances, a *certain communication increases the creative forces of the individual Communication is the human capacity in the service of growth, the active creative forces of man, becoming a force*, because it contributes directly to business development, and that *allows individuals to adapt to the social life of the organization by buying and mental characteristics habits.*

Structure-functional as models of objective and holistic analysis of social reality are projections of epistemic relations and social space in which social facts, since they are shaped and motivated axiological are material[6]. Thus, the means of labor within the social organization not covered due to their physical, chemical, technical, etc., because in fact they express work relationships. All these relationships that make up a given social system's own structure, by fleshing out the specific mechanism of its development, are determined and influenced by communication.

Social action cannot be reduced to the analysis of the actor in terms of role and social status, which are given in the system because, in reality, the individual is able to transform the roles and statuses the system

itself, transforming social relations system. Note that an actionable analysis of communication focuses on the *analysis of the action and interaction contexts associated with language and symbolic exchanges*. Interaction between the individual, organization and culture leads to the formation of behavior patterns that provide the organization: structure, organization and cohesion.

Social relations have a characteristic that is they are average. This feature means that the interpersonal relationships involved in the diversity of traits consistent and repeatable ways of social relations. As average, social relationship is a normative relationship, it involves a pattern which standardize behavioral reactions of some individuals being in social relations.

Communication is a complex phenomenon, dependent on the society in which business occurs. Moreover, communication is a tool works, through an exchange of information. Addressing the communication as a term that expresses man's relationship with the world, says the idea that the phenomenon, instrument, understanding provide rules for everything in the world, as science, ethics, art, practices are only subsystems of the communication system.

In this context, as a system with a given social structure, organization structure affects communication, that it takes a configuration dependent group structure, community, working, etc. operated.

3. Implications of the systemic communication perspective over the business growth

Regardless of how privileged manifestation of the interaction between the firm and the environment, provides communication support scientific, theoretical and practical to provide a high efficiency by undertaking activities, by generating a communications culture in which all organizational members have market awareness, product and the company.

The dynamic environment in which firms operate they hardly find proper ways of action that a proactive role to assume. In this respect, it is clear that companies have three options with regard to attempts to generate

changes in the desired environment for them, namely: adaptation to the requirements of the environmental features of the company, trying to influence business-friendly elements of the environment, diversification horizontal activity and / or vertical based on the existence of clusters, networks of companies or partnerships.

All these options can be undertaken successfully if the firms take into account *community and communication skills*[5]. At the same time, successful completion of products / services and business process is a direct result of people involved: employees, suppliers, customers, funders, intermediaries, counselors, etc., *culture and information carrier*, and *various communication capabilities*. The companies that help in identifying and generating change by giving them the necessary support and understanding of organizational development is communication.

Is a reality that communication is seen as the most important form of human interaction. But if it starts from the notion that the company is the people who compose it, we can say that one of the most important manifestations of the interactions between the firm and its environment action is communication. Thus, inside the company is developing a specific subsystem, the communicational one, which manifests itself as a self-system.

Known is that the competitive firm has a synergy of its components necessary to achieve performance in a highly competitive context. Communication is one that ensures that invisible thread that unites people and which determines its synergistic explosion. But it is vital that communication within the company to be effective.

Each firm is characterized by a different communication behavior since the communication entity bears the influence of personality is firm. Thus, as an individual communicates with his entire life experience, by virtue of his personality, interact with the environment in which the company operates under the imprint of its cultural uniqueness. Peculiarities of communicative behavior may occur are the result of the influence of internal and external business factors that are nothing more than factors of influence organizational culture.

Based on the logic of a systemic process and very complex phenomenon, it becomes an important element of communication, supporting its effects. In systemic approach communication directs developmental models of the principal element of the communication process: the entity (individual, business).

4. Conclusion

Regardless of the models used in communication or communication approach as a process phenomenon is significant social relationship established between communication partners. Developed by the semiotics school, structural models of communication bring to the fore the systemic perspective of communication as a requirement for the development entities. The communication is developing not only individual persons but also economic and social entities, regardless of the context in which it occurs, although the influence of that context supports. In other words, the crisis, taking into account the spheres of communication and synergy elements of communication process generates an effective tool for business development.

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Considerations on the Rationale and Approach of Decision Science

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Abstract

The approach to decision theory has varied from one scholar and school of thought to the other from the development of mathematically complex systems, models and equations to the disregard of this particular academic endeavor altogether due to randomness and overwhelming subjectivity and complexity.

This paper shall briefly cite the main opposing perspectives on the general decision-making model, and in so doing argue whether the study of decisions makes academic sense at all. Concluding as to not only the pertinence, but the necessity of decision science, we do however admit the need for a more comprehensive and integrated approach.

We then attempt to draw the guidelines of a general decision model, and later list some of the factors that such a model should integrate in order to constitute a realistic point of reference.

Key words: decision theory, decisions, game theory, economic modelling

J.E.L. classification: C18, C51, C70, D70, D80, D90

1. Introduction

If our proudly-affirmed factor differentiating and ultimately defining the human species is the development of conscience, then the most powerful manifestations of the said conscience is decision-making. Existentialism – determinism debate apart, people's actions are driven by deliberate choice in a manner that shapes the future state of themselves, those around them and the environment. It is therefore not only highly interesting, but also prudent and responsible to research the way in which people fundament and pursue their

decisions. People in the marketing industry have understood and implemented this quite well. Psychoanalysis apart as well, the better we understand what drives us and our cognitive functions to function the way we do, the more control we will have over ourselves and the effect we have on our environment (by environment here we mean not only natural habitat, but social, organizational, etc.). In the words of two of the most prominent figures in decision research, "in making decisions, you may be at the mercy of your mind's strange workings". Since von Neumann and Morgenstern's (1947) and Savage's (1954) first attempts to formulate a set of axioms that frame the decision-making process, decision and game theory have well-established themselves as self-standing fields of study with a significant degree of applicability, relevance and impact. The better-known and somewhat more popular discipline of management science, organically linked to decision and game theory, brings a vast literature and a great number of case studies and real-life examples to the cause. Beyond what Raiffa envisioned as "decision science", virtually every field of research concerned in the least with human thought or action has an input to bring to the interpreting and understanding of decision-making: from statistics to ethics and psychology to history and biology, and the list could continue. What now constitutes a great effort is to accommodate the different views, perspectives and angles on the different constituent details of decision-making into a great comprehensive and integrated theory.

Looking into the vast literature on the way people do and should make decisions and all the factors that interfere with this process, at least three broad basic questions stand out: Is it relevant to pursue the study of decision-making at all? What is the general framework for the decision-making process? and Which

disruptive factors interfere with this process?

2. On the relevance of pursuing the study of decision-making at all

This debate is one of coherent versus chaotic approaches to decision-making.

One extreme, disjoint incrementalism [1] proposes three guidelines:

- In taking a decision one should only consider those policies which present marginal differences one from another.
- The known or expected consequences of these policies should present only marginal differences from the status quo.
- Policy comparison should be led by comparing only those marginal differences among policies, and not by comparing entire „social states”.

The implications of this approach involve the review the classical framework for social welfare: the reference is no longer the general optimum, but rather the status quo. Marginal differences are the only ones pursued not because of their ability to lead to the optimum, but because a deeper investigation would be impossible or otherwise unwise. However, disjoint incrementalism shouldn't be considered a form of conservatism; even though a „revolutionary” change is excluded because of too far-reaching and unpredictable consequences, a succession of marginal changes still preserve the whole capacity of adding up to a major change. On the other hand, practice provides numerous cases in which alternatives differ among themselves by numerous aspects; sometimes an alternative favored by one criterion is regarded far less favorably by another. This observation contradicts the theory of marginal variations of alternatives. Secondly, certain decisions, such as strategic decisions inside companies, may suppose fundamental changes, with vast repercussions, thus also contradicting the marginal variation from the status quo. Finally, comparing alternatives at a detail or criterion level presents the disadvantage of capturing only in part the relative importance of criteria, while in the same time inhibiting decision-makers from forming and assuming an overview understanding, involving both advantages and disadvantages. Disjoint incrementalism

is well suited in return to be applied to the successive detailed steps needed in implementing a large-scale policy. In this case, following marginal differences presents the advantage of ensuring the coherence of actions as they unfold and the approach of each element „in due time” and with full attention. Disjoint incrementalism would therefore form a useful tool in implementing large-scale decisions rather than a conditioning of decision in general.

At the other extreme, inside “garbage cans” solutions are generated prior to problems and are attached to problems in a seemingly random manner [2]. This chaotic paradigm would be especially characteristic to large and bureaucratic organizations as a result of over-procedurisation. If this were so, then such organizations would be not only inefficient, but their very survival on the competitive market would similarly be a matter of hazard. Otherwise stated, if no decision is fundamented and no decision is duly carried out then the organization can only progress towards chaos and nonsense until the point where it is no longer adapted to cope with its market environment and acts like the organizational equivalent of a “mad man”. Therefore, although it is obviously the case that in some organizations bureaucracy and imposed procedures hinder some lean decision-making processes, decision-making, though admittedly delayed and with numerous approvals, does occur and is indeed enforced. What's more, such procedures and bureaucracy were originally adopted as a system for risk prevention and should be considered as an integrated part of decision-making in this particular environment. The whole discussion is however framed by the distinction between individual or personal decision-making and organizational or group decision-making. The first process stops once the decision-maker has reached a choice of action. The second process, on the contrary, is barely triggered by the individual preferences, stakes involved and relationships or degrees of authority of all stakeholders involved; what follows is negotiation and/or consecutive approval in a recursive process in which one person may review his/ her original stance several times in relation to the stance of other stakeholders or to some system of authority. Individual/ personal

decision-making processes may be more coherent, while organizational/ group decision-making processes may be more difficult to generalize along a formal methodology and rather specific to each decision situation. The latter case may indeed hinder the decision makers' motivation and involvement with the decision-making process and ultimately its outcome, if we are to admit that „In order for decisions to actually prompt actions, they must incorporate cognitive, motivational and involvement aspects” [3]. All things considered, the actual decision-process is adapted to the decision situation, including organization regulations and dynamic factors; in all cases one can trace a logic of the decision process and possibly its failures. Therefore, such a process is actually thought of and pursued, and hence worth studying.

Intermediary variations include discontinuous processes and recycling [4], in which decision processes are neither sequential nor chaotic but rather an iterative sequence in which decision-makers react to each “dynamic factor” as it emerges.

If the chaotic paradigm may have overrated the vastness and insufficient regulation of the decision context, disjoint incrementalism risks, on the contrary, to overrate the framing, restrictions and regulations of the decision context. As expected, the stance most often adopted by specialists lays between the two extremes – namely a decision-making model that would capture a wide range of aspects of various natures, and, according to Mintzberg's proposition, to allow for possible shifts in context. Such an approach would combine the control capacity suggested by rationality and sequentialism with the versatility imperative in the face of complex factors such as suggested by the “garbage cans”, and would therefore constitute a sophisticated tool in the decision-making process.

To conclude on the above, just because some decision processes are complex, may not follow the same clear pattern and may ultimately be overturned altogether does not mean that people resign themselves to be placed at hazard's whim and renounce any tentative to influence their state and their environment through self-aware decisions. It is therefore meaningful and useful to study the different ways people come to their

decisions in order not necessarily to establish a best practice, but to gain insight as to what the predominant driving factors are, the point and extent of their influence and the recommendations that could improve people's control over the decision-making process.

3. On the general framework for the decision-making process

This issue addresses a mapping of the process people generally pursue in making decisions. We will only address here individual/ personal decision-making processes, without involving such aspects as organizational regulations, approval systems, negotiations, etc. These form several fields of study altogether, and while such aspects should eventually be integrated in a complex decision framework, we consider this to be a later step in the integration effort. In answering this question we will mention a number of models formulated by different authors in order to finally draw our own conclusions.

In order of complexity, one four-step approach may include: searching for alternatives, estimating consequences, assessing the alternatives and finally making the choice [3]. The same number of four steps can be described in more detail as follows: structuring the decision process, assessing the possible implications of each alternative, determine decision makers' preferences and values, and finally analyzing and comparing alternatives [5]. Another version of decision-making would be segmented into: exploring possibilities, including familiarizing oneself with the decision problem, assessing options and testing premises, and finally learning from the experience [6]. While summarizing in part the analysis in itself, this model also introduced an additional element, namely the dynamic and evolutive nature of the decision-making process. In other words, the decision maker learns from his/ her own mistakes and successes and adapts the process accordingly. Perhaps one of the most detailed general model is described as being composed of: defining objectives, assessing each objective's importance, ordering options, assessing each option's chances of reaching

the objectives, choosing one option to follow through and finally changing the objectives according to the decision outcome [7].

Based on the above we will suggest a description of the decision-making process that combines the details observed separately by the different researchers and thus satisfies their different perspectives (we mention that steps 5 and 6 are carried out after the decision has been implemented and after it has manifested its consequences):

1. Defining the problem, which in its turn consists of:
 - a. Setting objectives
 - b. Establishing criteria for achieving the objectives and the relative importance of each criterion
 - c. Identifying initial position in the achievement of the objectives
2. Establishing possible alternatives/ options
3. Establishing the consequences of each option by means of each established criterion
4. Comparatively assessing alternatives and choosing one
5. Re-assessing objectives set initially and the respective importance of each
6. Analyzing the decision in hindsight and drawing conclusions for similar future situations

These steps seem detailed enough to rigorously describe a process of fundamenting decisions and in the same time generic enough to maintain a character of general applicability. However, a certain number of psychological hypotheses must be met in order to allow for certain decision models, among which those noted above but also expected value theory and expected utility theory [8]. These hypotheses are: independent assessment of alternatives, exhaustive search for information, trade-offs between the characteristics of the same alternative, objective probabilities and objective values. To each of these there is of course an anti-thesis: for instance the one stating that "no theory based on separate assessments of games could possibly work" [9]. Moreover, an extensive search for information could indeed prove unpractical when the information in question is extensive [8]. Across time, numerous researches have been rather inclined to view actual information-seeking as limited [10] [11] [12] [13], yet intended as representative and

meaningful. As information-seeking is an investment in time and intellectual effort, and possible money, this investment may also be sized according to the decision problem structure [14] [15], and most likely the stakes the decision-maker perceives as being involved. The third hypothesis also has its contesters, with non-compensatory heuristics stating that individuals do not in fact make trade-offs between, for instance, the value of an outcome and its probability [8], with empirical studies to support this [16] [17].

Admitting however inherent limitations and imperfections to the structuring of the thought process, establishing a structure is however necessary in ensuring as much as possible a coherent and thorough analysis of the decision issue and therefore maximizing the chances of obtaining desirable results.

4. On the disruptive factors that interfere with the decision-making process

This list would be virtually never-ending, with each field of study involved in the least with human behavior providing constantly new controversies on the subject. I will cite only a few much-debated factors in order to frame the discussion. Factors disruptive to a decision-making process may be structured into factors pertaining to the decision environment, on one side, and factors pertaining to the decision-maker's own person, on the other. The first category involves difficulties that even a perfectly rational decision-maker would encounter in structuring an all-inclusive decision-making model. The second category involves factors of subjectivity and personal characteristics that determine distinct decision-makers to potentially arrive at distinct decisions given the same decision context. There is one particular element in decision-maker that stands at the border of the two categories: the setting of objectives.

Debates regarding the setting of objectives are usually centered around trade-offs between short-term and long-term interests, conflicting interests of various stakeholders, moral concerns, etc. Though general conclusions may be formulated (such as long-term interests ought to be preferred to short-term ones), the issue is too case-

specific to generalize [18].

"Environmental" factors of decision complexity include large time spans, a large number of impacted groups, the interdisciplinary nature of the issue, a multiple number of decision-makers, uncertainty and risk, sequential decisions [5], but also the constant evolution of the decision environment affecting all the previously-stated factors.

Person-specific factors of decision complexity involve the decision maker's past experience, his/ her cognitive style, cognitive biases, motivation, emotional involvement, mood and attitude towards risk. Each of these individual factors has been duly researched. A significant niche for further research rests however with the study of the correlations and interactions between all these factors, and the piece they each play in the intricate puzzle of decision-making. While scholars have already taken steps in this direction (for instance, Nutt took into discussion decision styles, steps in decision-making, and factors that inhibit and mislead decision makers [6]), discussion and integration should be an ongoing academic activity.

In an actual situation of complex decision, any combination of the factors above may come into play: a manager having an innovative problem-solving style [19], with a feeling decision-making type [6], a life experience that would form an entire case study for psychoanalysis, a rather virtues approach to ethics [20], manifesting average risk adversity and being in a relaxed mood [21] may be asked to make a given complex decision in a certain regulatory framework and requiring the approval of two other individuals with a number of different interests and among which certain relations have already been formed.

4. Conclusions

The study of complex decisions is perhaps more complex than its name announces. If thoroughly pursued, however, its results may change the way we perceive our own thoughts, drives and actions. In the vast scientific literature addressing, specifically or in context, a variety of perspectives and details, real-life decision-makers usually faced with great time limitations may not find their way to that one study that could

guide them through the dilemmas they face. It would be therefore useful to put all these perspectives and insights in relation to one another and develop a more comprehensive, more integrated, better structured and more easily-accessible guide through decision-making.

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Human Resources Management Using Diversity Managing Tools

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Abstract

This paper intends to investigate the causal relationships existing between managing diversity and company performance, by analyzing individual diversity at the workplace. Case study was used to indicate possible ways forward in the field of personnel management, and advancement of conceptual thinking in this area. At the individual level questionnaires would be a useful measure, and changes could be visualized by repeated questioning. It tries to demonstrate that a good management of diversity issues in an institution shall exempt the tensions that can arise between different people. The paper explains that a good management of diversity can exempt the tensions that can arise between different people. Productivity will continue to grow due to lack of conflict and motivating employees.

Key words: managing diversity, human resources management, the firm performance
J.E.L. classification: M12.

1. Introduction

The paper addresses not only managers and staff, but all those who experience problems related to (the investigated topic). The nature of the subject is the diversity of staff in an institution and problems that may occur in these conditions. The diversity management literature falls generally into three categories: first are a large number of books, articles, which are focused on both understanding and practice in organizations; second are a number of empirical studies which take a variety of approaches to delineating the effects (ultimately on productivity) of some of the variables related to diversity in the workforce, and; third, is a

much smaller body composed of critical approaches. The main concept used is defined by [3]: "By managing diversity I mean planning and implementing organizational systems and practices to manage people so that the potential advantages of diversity are maximized while the potential disadvantages are minimized". Thus, by eliminating racial prejudice, cultural or institutional, the employer should make efforts to sustain the recruitment of minorities, women, people of color, persons with disabilities and other disadvantaged groups. So we suggest "treat others as they want to be treated", by creating flexible work commitments, accommodation and special training programs. It is proved that such efforts go to a top employer reputation, to flexibility and adaptability for satisfy customer needs and to maximum profit.

2. What is diversity?

Managing diversity is defined as "planning and implementing organizational systems and practices to manage people so that the potential advantages of diversity are maximized while its potential disadvantages are minimized," according to Taylor Cox in "Cultural Diversity in Organizations." Managing diversity well provides a distinct advantage in an era when flexibility and creativity are keys to competitiveness. An organization needs to be flexible and adaptable to meet new customer needs. A simple dictionary definition of diversity is "to make different, to give variety". Applied to organizational life, there are at least three categories of diversity related to performance and strategy. These are structural or functional diversity (differences based on organizational functions and tasks such as administrative vs. operational), business diversity (differences in markets, products and services), and workforce diversity

(different types of employees) .There is not one common usage of the concept of diversity in the organizational literature [19] and [15]. Nevertheless, in the context of employment issues, it is typically discussed in reference to the benefits of variety in work force attributes [8] ; Workforce attributes range from those that are directly related to work or tasks such as differences in skills, to those that are social in nature and –in theory – only indirectly related to work, such as gender. A critical question from a managerial perspective is which attributes become the markers of the dynamics of workplace diversity. Another issue refers to how these attributes affect the experience and opportunities of employees who have them. Professional diversity addresses training and credential requirements to ensure effective performance of diverse tasks. And social diversity refers to variations in the characteristics that identify a person with a social category. Furthermore, there are interdependencies among types of workforce. Any systematic effort to manage diversity in civil service systems must address these differences and the consequences of their interdependencies. The specific configuration of diversity categories to be addressed in an agency, however, is workplace specific. Research suggests that what makes certain attributes salient is constructed in particular social and historical contexts [14] ; [19]. The mix of salient attributes may vary from organization to organization and from society to society. But social categories appear to greatly influence employment contexts in most societies. Social markers include gender, race, ethnicity, religion, sexual orientation, physical ability, age, and family, economic, educational and geographic backgrounds and status. Some scholars distinguish visible from invisible social dimensions and highlight implications for managing diversity [13] . Others also include behavioral attributes such as differences in learning, communication and work styles [12] Primary and secondary social attributes combined produce the “social types” that make up an organization’s workforce[14] , and determine its particular diversity challenges. But the reality of social diversity is even more complicated. Each employee in an organization fits into several potential social categories and, furthermore, many

identities occur simultaneously. In addition, social diversity involves both self-definition and attributes perceived by others; [3] Diversity is generally defined as acknowledging, understanding, accepting, valuing, and celebrating differences among people with respect to age, class, ethnicity, gender, physical and mental ability, race, sexual orientation, spiritual practice, and public assistance status [6] .Managing and valuing diversity is a key component of effective people management, which can improve workplace productivity [1] Dimensions of diversity include, but are not limited to: age, ethnicity, ancestry, gender, physical abilities/qualities, race, sexual orientation, educational background, geographic location, income, marital status, military experience, religious beliefs, parental status, and work experience. It's important to understand how these dimensions affect performance, motivation, success, and interactions with others. Institutional structures and practices that have presented barriers to some dimensions of diversity should be examined, challenged, and removed.

3. What is managing diversity

To address diversity issues, consider these questions: what policies, practices, and ways of thinking and within our organizational culture have differential impact on different groups? What organizational changes should be made to meet the needs of a diverse workforce as well as to maximize the potential of all workers? Most people believe in the golden rule: treat others as you want to be treated. The implicit assumption is that how you want to be treated is how others want to be treated. But when you look at this proverb through a diversity perspective, you begin to ask the question: what does respect look like; does it look the same for everyone? It depends on the individual. We may share similar values, such as respect or need for recognition, but how we show those values through behavior may be different for different cultures. How do we know what different cultures need? Perhaps instead of using the golden rule, we could use the platinum rule which states: "treat others as *they* want to be treated." Moving our frame

of reference from an ethnocentric view ("our way is the best way") to a culturally relative perspective ("let's take the best of a variety of ways") will help us to manage more effectively in a diverse work environment. There are two distinct but connected channels in diversity management, which will lead to superior company performance. The first channel focuses on how to tap into the benefits that flow from effectively managing diversity. The second channel focuses on corrective strategies to address ineffective diversity management, which imposes costs.

4. Benefits of Diversity in the Workplace

Diversity is beneficial to both associates and employers. Although associates are interdependent in the workplace, respecting individual differences can increase productivity. Diversity in the workplace can reduce lawsuits and increase marketing opportunities, recruitment, creativity, and business image [6]. In an era when flexibility and creativity are keys to competitiveness, diversity is critical for an organization's success. Also, the consequences (loss of time and money) should not be overlooked.

There are challenges to managing a diverse work population. Managing diversity is more than simply acknowledging differences in people. It involves recognizing the value of differences, combating discrimination, and promoting inclusiveness. Managers may also be challenged with losses in personnel and work productivity due to prejudice and discrimination and complaints and legal actions against the organization [5]. Negative attitudes and behaviors can be barriers to organizational diversity because they can harm working relationships and damage morale and work productivity [6]. Negative attitudes and behaviors in the workplace include prejudice, stereotyping, and discrimination, which should never be used by management for hiring, retention, and termination practices (could lead to costly litigation)

5. Implications for managing diversity

Increased diversity in the workplace generates interpersonal and organizational challenges that require direct managerial attention. Some employees must learn to interact with members of new groups and managers may have to mediate conflicts. Managers must monitor the extent to which organizational and managerial practices are adapted to address the demographic changes. For example, incorporating more women in the workforce requires wider consideration of family friendly policies and flexible schedules. Having more individuals from a particular ethnic group may require adjusting the dress code and language policies to ensure respect for the life style demands of their religious background or their language traditions. Managing interpersonal dynamics and new policies and practices introduced to adjust the workplace will guarantee that the organization's primary resource – its people – feel welcome as individuals and as organizational citizens.

The interpersonal challenges of diversity

Williams and O'Reilly's review (1998) of research on the effect of diversity on group performance provides compelling arguments for a need to consciously manage the interpersonal dimensions of diversity. Based on empirical evidence from studies in the past 40 years, these authors conclude that variations on group composition can have important effects on group functioning. Williams and O'Reilly argue that "diversity appears to be a double-edge sword" (p. 79). On the one hand, it increases the opportunity for creativity and the quality of the product of group work. On the other hand, it also increases the likelihood of group conflict, member dissatisfaction, turnover and failure in the implementation of ideas. They conclude that "diversity is a mixed blessing and requires careful and sustained attention to be a positive force in enhancing performance" (p. 120). The challenges of managing functional diversity are complicated by the fact that social identities play a critical role in human interaction. Identity theory suggests that managers and their employees tend to experience organizational life and its working dilemmas along identity lines. For example, empirical

studies suggest that employees tend to use both demographic characteristics (such as gender or ethnicity), and functional attributes (such as occupation or organizational position), as salient instruments to categorize themselves and others. Furthermore, employees often use membership in social groups as a proxy of effectiveness in functional performance (e.g. the false claim that women are more effective nurses compared to men). Employees outside a social group also tend to attribute similar values and interests to those inside the group, while they tend to assume easier communication, more trust and higher reciprocity with members of their same identity group. As a result of these and other dynamics, sharing a social identity may highlight perceived differences between social groups. This may lead employees and managers to assume that there are irreconcilable conflict of interests, values and preferences between individuals with different social identities, when in fact this may not be the case [15]. These authors conclude that diversity initiatives in organizations often fail because they do not challenge the generalized assumption that "the needs, desires, values and perspectives of members of different social groups are mutually exclusive". Managers must find ways to show that these can be "congruent or complementary" (p. 1449). They must help diverse individuals find common ground, and this can happen around the goal of organizational effectiveness.

The organizational challenges of diversity

Theories of organizational stratification further shed light on the social psychology dynamics that need to be managed at work. Documentation of patterns of exclusion from society's resources along social identity lines is too large to cite here. Many organizational studies report findings about these patterns for women and minorities in the work place. Examples include the existence in organizations of clusters of jobs occupied by individuals with similar social traits often unrelated to the job, what experts call job segregation, or clusters of persons in occupations and professions who belong to the same identity group, what experts call occupational segregation [18]. These realities produce differential opportunity in processes and outcomes for members of different

identity groups and thus reproduce inequality. For example jobs with large proportions of men tend to have better salaries compared to those with large proportions of women, and so on. Furthermore, studies show that work place inequality has a direct impact on the way employees perceive themselves and others, how they assess the employment relationship and react to their jobs [14]. Hence, attributes associated with social identities cannot be entirely separated from attributes associated with functional requirements for effective performance. The former directly and indirectly affect perceptions and realities about merit and performance in the work place. The challenge of managing diversity in organizations includes the important exercise of addressing issues of social inclusion and exclusion as they affect the experience of work. Organizational and HR mechanisms must be put in place to redress exclusionary practices that may affect the opportunities of diverse individuals. All aspects of the employment relationship, from recruitment and selection to promotion and compensation must be scrutinized carefully [13]; [14]. This must be accompanied by a strong culture that embraces functional and social diversity as organizational values. After all, research shows that if persons believe that their values and norms are not supported and appreciated, their sense of well being, job satisfaction, organizational commitment and task effectiveness will decrease. Indeed, effective management of diversity calls for some degree of reciprocity between organizational and individual cultural systems [13]. Addressing these organizational and interpersonal dilemmas requires managerial will and appropriate organizational mechanisms to translate it into action. The following questions may help managers generate ideas about how to do this systematically:

□ How to minimize the negative effects of diversity on the ability of groups to meet member needs and to function effectively?

□ How to, at the same time, maximize the positive effects of diversity on creativity, organizational justice, better decision-making and increased participation in organizational governance?

□ How to downplay differences across social identity groups interacting in the

workplace and highlight common interests, while valuing and appreciating the contributions that stem from social diversity? and

□ How to ensure sufficient and prompt organizational adaptation of policies and practices, so that the work place becomes a welcoming place to employees who may have been excluded in the past? Answering these questions can help managers develop a diversity management agenda for their organization.

6. Required Tools for Managing Diversity

Effective managers are aware that certain skills are necessary for creating a successful, diverse workforce. First, managers must understand discrimination and its consequences. Second, managers must recognize their own cultural biases and prejudices [11]. Diversity is not about differences among groups, but rather about differences among individuals. Each individual is unique and does not represent or speak for a particular group. Finally, managers must be willing to change the organization if necessary [11]. Organizations need to learn how to manage diversity in the workplace to be successful in the future [7] . Unfortunately, there is no single recipe for success. It mainly depends on the manager's ability to understand what is best for the organization based on teamwork and the dynamics of the workplace. According to [16], managing diversity is a comprehensive process for creating a work environment that includes everyone. When creating a successful diverse workforce, an effective manager should focus on personal awareness. Both managers and associates need to be aware of their personal biases. Therefore, organizations need to develop, implement, and maintain ongoing training because a one-day session of training will not change people's behaviors [11] .Managers must also understand that fairness is not necessarily equality. There are always exceptions to the rule. Managing diversity is about more than equal employment opportunity and affirmative action. Managers should expect change to be slow, while at the same time encouraging change [11].Another vital

requirement when dealing with diversity is promoting a "safe" place for associates to communicate [11] . Social gatherings and business meetings, where every member must listen and have the chance to speak, are good ways to create dialogues. Managers should implement policies such as mentoring programs to provide associates access to information and opportunities. Also, associates should never be denied necessary, constructive, critical feedback for learning about mistakes and successes [7] .A diverse workforce is a reflection of a changing world and marketplace. Diverse work teams bring high value to organizations. Respecting individual differences will benefit the workplace by creating a competitive edge and increasing work productivity. Diversity management benefits associates by creating a fair and safe environment where everyone has access to opportunities and challenges. Management tools in a diverse workforce should be used to educate everyone about diversity and its issues, including laws and regulations. Most workplaces are made up of diverse cultures, so organizations need to learn how to adapt to be successful.

7. Conclusions

Considering, pursuing, managing and maximizing workforce diversity are tasks that will help realize the benefits of this required condition for organizational effectiveness. Yet this cannot happen without organizational leadership, vision and commitment. All members of the organization must choose to meet the challenges and all the managers – senior, departmental, and HR –must assume the responsibility to achieve diversity success by embracing diversity management as the preferred organizational paradigm. A number of organizations across sectors have begun efforts toward managing workforce diversity. In Romania, almost 30 percent of agencies report that they are actively managing diversity. However, very little empirical research has tied diversity management to work group performance or other work-related outcomes. This paper uses a survey of Romania employees to test the relationships between diversity management, job satisfaction, and work group performance.

The overall aims are to help practitioners understand diversity and interaction in organizational change, to encourage the creative use of mixed methods and assist with the application of the approach within a critical framework. Productivity will continue to grow due to lack of conflict and motivating employees. The company will be able to attract and retain talented people, thus saving time, money and efficiency. This paper is another step in social development for the 21st century; she plans on changing mentalities regarding disadvantaged people. I don't think that the efforts discussed here will be needed over several decades. It's just a matter of time until the acceptance and understanding of diversity issues. These results provide a complement to other studies on diversity. Conventional change approaches are seen to be methodologically inadequate to address the diversity and interaction of different types of organizational change faced by today's complex organizations. Critical systems perspectives, while seen to be useful to help address key change issues, are not sufficient alone. By combining critical systems thinking and change management, a systemic framework is seen to be the improved way forward, which emphasizes managing organizational change as a whole, and promoting the use of different change approaches together within a given organizational context. The paper has positive implications for the groups but the statistics still do not look too encouraging. For example, in education the diversity should be supported more intensively. The fact that some people with certain problems may have more developed skills than others should be implemented since early. But many times due to lack of knowledge prevents the deployment. This paper may shed light in supporting various categories of people, for practical and moral reasons. Theoretical implications: As the discussion about diversity management is rather a theoretical and this research stream seems to be underdeveloped with regard to its theoretical foundation, this article represents a first step in strengthening the theoretical foundation. Empirical implications: Data for all three variables (diversity management measures, intercultural competence, and performance dimensions) would be needed for an in depth

examination of the above-mentioned black box. The practical implications: Diversity management matters. At the organizational level, it means that resources should be devoted to diversity management programs and training opportunities. Diversity should be viewed as a core competency for all employees, particularly managers. However, these measures usually focus on relatively small groups inside a company such as executives or young potentials, while diversity management should address all levels of the institute. The literature on diversity management is replete with theoretical assumptions about its relationship with performance. In the sections that follow, I will test some of these assumptions empirically in an attempt to understand whether the data support hypothesized links. I will focus on two of many potentially useful work outcomes: work group performance and job satisfaction. The paper refers to institutional structures and organizations which need creative, flexible and adaptable people to function more effectively and maximize profits. The uniqueness of this paper is precisely this argumentation of the greater efficiency brought by diversity in an institution. In a world where diversity is poorly integrated, where even the polls are reserved, this paper brings the undeniable evidence of the effectiveness of diversity.

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Abstract

Human resource management represents all activities of operational and energy order allowing the organization to ensure the necessary human resources and their efficient use. Currently, human problems occupy leading positions in business analysis, although the personnel function has long been almost absent from the economic literature. Quality labor is essential to the success of any organization, in peak areas but also in areas less technologized.

Key words: human resources, management, qualification

J.E.L. classification: J28, M51, M54

1. Introduction

Humans are considered one of the key resources necessary to achieve organizational goals. They are, however, a very special kind of resource. Not only working for the organization - they are the organization. In fact no organization can exist without a human resources component[1].

Good progress of the work of an organization, be it economic or otherwise, is about finding and hiring people to meet job requirements, transposing the the organization's objectives and functions derived therefrom. Managers create a plan to attract and retain people with the skills needed by the organization. Implementing the plan involves the recruitment, selection, integration, training, rewarding, choosing the

most appropriate benefits and continuous assessment of performance to assess whether organizational objectives are achieved. These activities represents components of human resource management[2].

2. A general presentation of "Doina" Hotel

This paper presents the development of human resources within the Hotel "Doina" from Mamaia resort.

"Doina" Hotel is the second in a series of four 10-story hotel. It is directly accessible by car from the main road that runs through the resort of Mamaia.

The resort "Doina" is structured as a limited company and its principal business is in tourism services (accommodation and food) and sale of goods through its own unit. The entire activity is coordinated by the hotel manager, who is also a shareholder and an administrator.

The hotel consists of two buildings: building A - represented by the main building fully dedicated for renting rooms, including the ground floor and building B represented by building where the restaurant works and functions (terrace restaurant and the bar).

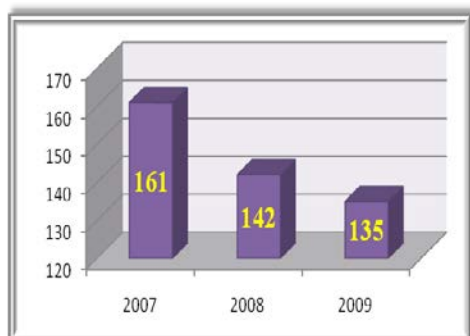
3. Analysis of human resources within "Doina" Resort

Resources integrated into the company's activity is presented in a heterogeneous structure, with components having different skills, different hierarchical positions, with different personality features.

Total number of employees of the company is 135, plus two contract employees with temporary benefit: a lawyer and a programmer analyst.

"Doina" resort situated in Mamaia, registered in the period 2007 - 2009, an oscillating trend in the number of employees. Their progress is shown in the chart below.

Graph 1 – The evolution of the employees number



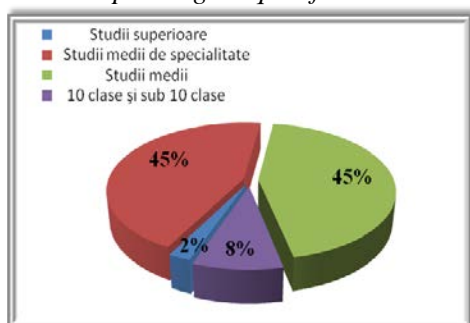
Source: own processing

From the chart shown above, it can be seen that in the period under review, namely the year 2007 - 2009, the total number of employees has decreased, given that 2008 was marked by economic crisis. During this period, hotel management decided to lay off a total of 26 people.

Analyzing staff depending on qualifications, underlines the fact that most employees have secondary education. It appears that the share of employees with higher education is very low (2,22%), while the number of employees with secondary education (10 grades and under 10 grades) is 72%, which practically represents more than half of the total staff.

The chart below is shown the distribution of employees depending on qualifications:

Graph 2 – Distribution of employees depending on qualifications



Source: own processing

Quality of service provided by employees of "Doina" resort depends largely on vocational courses which they have followed. In this case, it can be said that 45% of staff has been improved.

4. Developing human resources plan

"Doina" resort is using a number of **recruitment** methods considered efficiently for this activity. *Internal recruitment method* is used, but a lower percentage. If there is a job release at a higher level, in the hotel, promotion is achieved primarily in the organization, subsequently making calls to external sources. The main recruitment methods used are *external recruitment* methods because of the seasonal pattern activity of hotel. The most common methods are: recruitment through advertisements in the press (the company aims the announcement include the following major parts: conditions of study, training, criminal records, medical records, provided minimum promotion), recruitment based on references from the same branch managers, recruitment in the form of school references (hotel intends to recruit on long and medium term, and has as a target recruiting young and qualified staff and therefore collaborates with colleges such as the Economic High School, School Food Group, Pontica Technical College, School Group Ioan N. Roman).

Selection is the next stage and the first step is the interview. Potential employees are asked questions about enterprise, why are they running for the post, then are presented their responsibilities and duties, working condition (salary, bonuses, travel expenses)[3]. "Doina" Resort is based on two policies that govern the selection of potential employees: policy based on equality (the share of working women is approaching that of men, their responsibilities are distributed depending on the job description) and a policy-oriented young people (young are those who can bring a new spirit in working).

At "Doina" Resort, **professional incorporating** is based on familiarizing the new employee with the new job, the candidate must receive all the information needed, facilitate the accommodation of the working group and, thirdly, there must be a secure atmosphere, confidential. Human

Resources Department has assigned as tasks towards the new employee: explaining the structure of the organization, employee payroll entry, integration planning, assessment of integration activity.

Evaluation processes are closely connected with the promotion of personnel within an organization[4]. General assessment methods apply to any employee of the company, such as major ways: notation, global assessment, functional assessment. Specific evaluation methods are: case, self-tests, self-centers, grading, patterns of comparative personality tests.

Promotion of personnel is a set of processes to assign staff in managerial positions within the company and graduations or larger classes in the same post[5]. Since Doina Resort is a traditional hotel, which operates at a high quality standard, due to employees who successfully complete their tasks, the hotel management was concerned with identifying roots in key elements that motivate them. For this, all 135 employees were interviewed by the board in relation to factors that determine their motivation to work ever more and ever better. In the interview, the board staff presented a number of factors such as salary, working conditions, job content, the team they are part of, opportunities for promotion, financial and economic facilities and organizational culture, and each employee had to elect and justify the factor that motivates them most in their work.

Table 1 – The main motivation factors

Motivation Factors	No. of persons	%
Salary	39	28,88
Workplace safety	28	20,74
Working conditions	19	14,07
Post content	5	3,70
Team they are part of	9	6,66
Opportunities for promotion	24	17,77
Facilities	8	5,92
Organizational culture	3	2,22
TOTAL	135	100

Source: own processing

It can be easily seen , that for most employees **salary** represents the main motivating factor. The importance of salary as a motivational factor emerges from the fact that some people judge their success or failure depending on the money with which they are rewarded for their work. Of those employed, 29 responded that this criterion has the most important part in motivation, its share being 29%.

The economic recession has changed the priorities of employees. If a few years ago economic-financial benefits were most important to employees, now they say that **job security** is essential, therefore it ranks on 2. A percentage of 21% and 28 people, believes that keeping a job is the problem faced by most employees and is also an important motivating factor.

Of the eight motivating factors presented, organizational culture has the least interest to employees, although in the sphere of culture tare are symbols, norms, laws, values, rituals, all forming a style that defines in a special manner every organization. For this criterion have chosen only three of the 135 people employed in "Doina" Resort, weight of this factor being the lowest, respectively 2,22%.

4. Conclusions

Coordinating "Doina" Hotel requires training to achieve good management staff, given the large number of employees exceeding in the peak season also 130 people.

The main problem is lack of trained labor. "Doina" Hotel is also facing this problem. Despite increased efforts by management to keep employees and to create a strong organizational culture reflected on the quality and efficient results, seasonality is a negative factor which is difficult to master. Although, the hotel has built a strong team of 30 permanent employees during several years, that determines the return of tourists every year, is hard, problems arise in recruitment of seasonal staff.

Regarding selection the classical steps taken into account are interviews and various tests, the essential is to compliance with policies governing the selection of prospective employees: policy based on equality and youth orientation.

Another direction set by the hotel unit in 2011 is to implement quality system for objective evaluation of employees regarding pay-performance ratio.

After analysis motivational factors it was found that the main criteria that determine hotel employees are: salary, working conditions and job security. In this context it is quite challenging for the hotel to create a culture where employees put quality consumer services on the first place.

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The Economy Cycles Related to Business Strategy

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Abstract

What this paper suggests is taking a quick look on the everyday managerial reality through a rather original lens. This way, the economic ciclicity begins to be comprehended for what it really is: a key ingredient in any business activity; but, and unfortunately so, an often times ignored one, especially when it comes to making important strategic decisions. For the most part, counter-intuitive measures applied with a perfect sense of timing in the uncertain global business world seem to add up to that sixth sense only a few lucky players appear to be equipped with. But of course, it all goes beyond that, pointing towards an intimate understanding of the economy cycles and the signs/tools helping to predict their unfolding. Hence, intrigued by this realization, our aim would be to emphasize the importance of mastering the different stages of the business cycle, as well as the set of skills and information much needed in order to successfully navigate through this ceaseless economic roller-coaster.

Key words: economy cycles, management strategies and tactics, competitive advantage

J.E.L. classification: D20, L20

1. Introduction

We live in a complex world, acutely defined by uncertainty more often than we think about it and certainly more dramatically than we would like to feel on our own skin. What everyone calls the “financial crisis” started in 2008 - the economic disaster we are so much struggling to leave behind us – stands as the most vivid proof of this fact. If we look back only along the past century so do, among others, the great depression burst

in 1929 (a recurrent point of comparison for what we experienced lately), the oil crisis of 1973 and even the burst of the dot-com bubble in 2001.

These troubling phenomena are nevertheless effortlessly explained by what illustrious minds introduced in the economic theory as economy cycles. According to their legacy, such difficult periods are nothing more than natural contractions of the business cycle called recessions and implicitly following every blossoming stage from an economic point of view. In other words, if we may put it very bluntly, mankind seems to be doomed to ever-riding an authentic economic roller-coaster, with nothing but mere fatality to offer us some peace of mind. The cycle always dictates its well pre-known history: when economy is good - companies thrive, when it goes down the descending slope again – things can go from bad to very bad to bankruptcy. Moreover, everybody wins and loses according to this scenario. Jobs are created in flourishing times only to be lost again when crisis strikes, affecting the livelihood of the individuals depending on those incomes. Also, investors of all kinds play the same risky game, only hoping to be smarter this time around.

But then again, if it’s all so natural and especially if we should have already gotten used to this reality, why do we keep falling in the same trap? More precisely – why haven’t we adapted? Why haven’t we already learned to manage the business cycle, to prevent what can be prevented and essentially prepare for the bad days while still enjoying the good ones, as trivial as this may sound?

Well, maybe it’s not that simple. As we commenced, it is indeed a complex world we live in and things are not always what they seem to be at a first glance. Nevertheless,

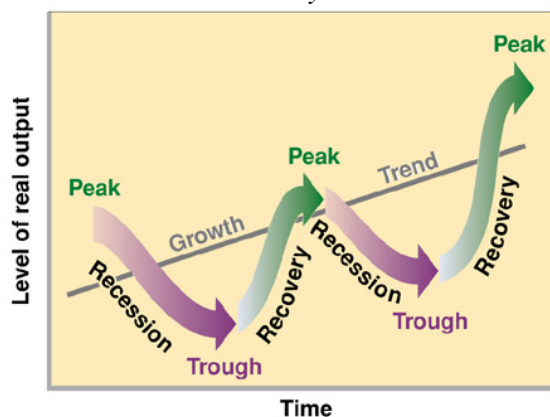
there are cases in which a broader perspective and a deeper insight have brought amazing results. There are cases in which bright managers have not only learned to strategically face up to the inherent challenge of economy cycles, but they have also learned to exploit the opportunities presented in their expansionary and recessionary points. How is this possible? This is the question!

Our journey departs from this ambitious prospect of regaining faith into the very nature of economic reality and grasping the enormous potential that lays within. This being said, we believe that the secret in doing that resides in the complete understanding of this particular economic process and of the exact ways in which strategic thinking plays a role within it. After thoroughly completing these two lags, we shall expose our conclusions and recommendations for future research deduced from them.

2. Economic cyclicality: an overview

The term economic cycle (or business cycle) refers to economy-wide fluctuations over several months or years, usually measured through the growth rate of real GDP. As it can be observed in the graphical representation below, these fluctuations occur according to a long-term growth trend involving recurrent shifts in time between periods of relatively rapid economic growth - expansion or boom periods - and periods of relative stagnation and decline - contraction or recession (O'Sullivan & Sheffrin, 2003).

Figure 1: Graphical representation of economic cycles



Source: <http://www.wikinvest.com>

It was the French economist Clement Juglar who, in 1860, identified economic cycles of 8 to 11 years, being cautious enough not to claim any rigid regularity in their occurrence.

Later on, Schumpeter argued that a Jugular cycle has 4 stages:

- Expansion (increase in production and prices, low interest rate)
- Crisis (stock exchange crash and multiple bankruptcies)
- Recession (prices and output drop, high interest rate)
- Recovery (stocks recover because of the fall in prices and incomes)

Following these reflections, he proposed in the *History of Economic Analysis (1954)* a typology of business cycles according to their periodicity and named after their discoverers / proposers:

Table 1: Business Cycles classification

Cycle / Wave Name	Years
Kitchin inventory	3-5
Juglar fixed investment	7-11
Kuznets infrastructural investment	15-25
Kondratiev wave	45-60

It is fair to say that the development of modern macroeconomics has left these typologies of cycles in a shadow. There is little support for the idea of regular, periodic cycles, especially due to the multitude and complexity of endogenous and exogenous factors that could be charged with their occurrence. Despite the remarkable efforts of great economic thinkers such as Schumpeter and others following in his steps, one cannot convincingly argue nowadays that economic cycles, even named as such, do follow a predictable periodic pattern.

And still, they do occur. History offers a myriad of evidence for frequent crisis in Europe and America ever since the beginning of the 19th century. Other similar events are recognizable before this period as well, going back in time up to debasements of currency and sovereign defaults, which were forms of crisis prior to the 18th century (Reinhart & Rogoff, 2009).

Under the irrefutable proof of centuries and centuries shaped by economic ups and downs of all sorts of causes and influences, we find ourselves even as we speak traversing one more of these phases. The

crisis effects are visible in every aspect of human life. But, as it attacks the deep levels of our economic fabric, this is the where we track it and try to nail it down. Usually recognizing the danger too late, ill-equipped decision makers do their best in sailing big or small company-ships in the descending waters of the business cycle. Escaping or not the cruel bottom of the ocean, their sometimes remarkable efforts can not compensate for haemorrhaging cash and people during recession.

Consequently, it seems as if a central puzzle piece is missing from this rather sombre landscape, one that might just turn it into a hopeful scenario. One that can pinpoint exactly how there is no danger in economic cycles, but rather different opportunities in its expansionary and recessionary points and always the possibility to hedge business cycle risk. As startling as it might sound, the missing element we are talking about is nothing more than pure strategic thinking, with all its intriguing facets.

3. A strategic approach to economic cyclicality

Despite the great and intricate impact of economic cyclicality upon our fates, up to a few years ago there was a monumental gap in the management literature, where in fact should have stand a comprehensive explanation about how to strategically and tactically manage the business cycle. Peter Navarro, the one who first saw the need for a connection between economy cycles and business strategy, even dares to call it the "black hole" of corporate strategy, since business cycles represent one of the most important determinants of corporate profitability and stock price performance.

Through the Master Cyclist Project, an extensive research conducted over 5 years at the Paul Merge School of Business at the University of California-Irvine, Navarro and his colleagues tried to answer the following question:

"How can the modern executive team strategically and tactically manage through the various recessionary and expansionary phases of the business cycle to gain competitive advantage over rivals?"

Drawing on hundreds of examples from around the world, from the economy giants to the very small companies, the results of this study (Navarro, 2006) bring to life simple principles for managing economic upswings and downswings, that make appeal to strong analytical thinking as a basis for a sharp sense of timing and anticipation. Consequently, these principles defining every "Master Cyclist Manager" target every compartment of business life, from the generic units such as Production and Inventory Control, Marketing and Pricing and Human Resource Management up to Risk Management, Capital Expenditures, Acquisitions and Divestitures.

Building upon Navarro's fascinating findings, we would like to further on underline concrete measures that can be implemented at different business levels in order to smoothly navigate through the economic cycle. Some of them might seem bluntly counter-intuitive, which is exactly why most managers do not apply them and instead end up being "fooled" by the natural unfolding of the business cycle, luring them into ill-timed and ill-considered reactions to the external conditions.

Adopting the already famous common belief that the people are a company's principal and most valuable resource, we would add that this fact becomes even more so applicable during a recession. Why? Because, as odd as it might sound, this is the best time to hire more people. During the recession, the labour pool is at its deepest and highest quality. Add this to the fact that labour contracts are much easier to negotiate in a bad economy and you come up with the best time to "cherry-pick" talents, who will most probably further on help you overcome the challenging financial situation.

In a similar manner, marketing and brand management experts should build the brand and market share through countercyclical advertising. Given the fact that during a crisis period consumers respond better to advertising messages relying the value of the product and not its style, the product mix and advertising message should be alternated in order to fit the stage of the business cycle. Such measures, coupled with adapted price tactics and targeting techniques can really make a big difference.

Another very important aspect is represented by the capital expenditure segment. A good manager senses when the level of capital expenditure reaches a certain peak and will choose to counter-cyclically cut its volume in anticipation of recession. This simple tactic has the power to save many companies from bankruptcies by assuring a comfortably large cash reserve for darker days. Just as unexpectedly, capital expenditure is encouraged during recession (with the condition to have endured enough funds beforehand) in order to develop innovative products and new capacities in time for recovery.

But, just as Navarro puts it, when you can't beat the business cycle what else is left to do than to hedge its risks? Managing business cycle risk can be done through a series of well-timed strategies and tactics, out of which the most played with are hedging instruments such as options, futures and swaps. Other risk management tools would be business unit diversification and geographical diversification. While these can be employed also in order to achieve economies of scale and scope, fine-tuning them with business cycle can bring enormous advantages. Since business cycles and political conditions of various countries are not perfectly correlated, it's not hard to learn in which directions to take the winning moves, especially in our increasingly global economy. Last but not least, true riders of the business cycle learn how to speculate the underlying conditions of a crisis and adapt by developing new products and markets in response to macroeconomic shocks that might have marked the beginning of a recession period (war, terrorism etc.)

Understanding the fine logic behind these custom strategies makes the difference between success and failure more and more often nowadays, thus the line is drawn between business cycle-savvy managers and those who either don't see the big picture or don't have the courage to act upon such counter-intuitive measures.

4. Concluding remarks and suggestion for future research

Arnoldo Hax, professor at the Sloan School of Management, thinks that "the essence of strategy is to achieve a long-term advance over the firm's competitors". If we take into consideration that external business factors for competing companies in any given field are more or less the same, then their success depends largely upon their internal strengths and the capacities to deploy these strengths when and where they are needed. Among these, a well thought-through and carefully implemented strategic plan is maybe the most important one of all, as being granted to practically sustain a leader's vision and make the company stand out from the crowd in every way.

With economic cyclicality interfering into the regular business development path, such ambitions become much more than just salutary – they become the only sure and sought-through way to success. As random macroeconomic shocks provoked by either mankind or mother nature madness throw companies into the tumult of recession, economics has gained a bad reputation as the "dismal science". In fact, we believe this is only pessimistic in-take on such events. Chaos in general presents both danger and opportunities and so do economically chaotic time frames. The only difference lays as usually in our attitudes – this is why this articles purpose was first and foremost that of a paradigm shift towards a positive and opportunistic attitude. And if some of the proposed strategies and tactics may seem somewhat Machiavellian or resting too much on a fine sense of timing with the different stages of the business cycle, then so be it. If it won't be the manager of one company thinking or reading about them, there will most probably be the manager of a competitor who will.

Concluding, since we find ourselves exactly in the VUCA¹ world, maybe we should try to deepen the principles of this acronym and, why not, even see how they fit with the strategic approach for economy cycles. Volatility, uncertainty, complexity

¹http://en.wikipedia.org/wiki/Volatility,_uncertainty,_complexity_and_ambiguity

and ambiguity - all these elements present the context in which organisations view their current and future state. Maybe a similar framework should be built for the case we tried to make with the present paper, in which similar premises as those of VUCA will enhance an organization's capacity to:

- Anticipate possible issues related to business cycles
- Fully understand the consequences of their actions under changed business cycle conditions
- Appreciate the interdependence of variable within the business cycle stage context
- Prepare for alternative realities and challenges brought by shifts in the business cycle
- Interpret and address relevant opportunities brought by the business cycle stage

We believe the importance of such a conceptualization is crucial, especially in our complex socio-economic and political world arena. But maybe once again Peter Navarro puts it best:

"In an increasingly global and fiercely competitive economy, the line between corporate success and failure is now being drawn by the ability – or lack thereof – of the modern executive team to first understand the business cycle in all of its strategic and tactical richness and then proactively manage that cycle for competitive advantage."

Last but not least, let's not forget that all of this is in the end for a higher purpose, for building a better world for our children to grow up in, full of love, opportunities and abundance. Isn't this what it's ultimately worth fighting for? We strongly believe in a positive answer.

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Estimating the Size of Underground Economy

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Abstract

This paper aims at defining, measuring and determining the effects of the underground economy. Consequently, it focuses on the specific aspects of every type of assessment method used in the specialty literature of this phenomenon and the possibility to apply them to the realities of the Romanian economy. Underground economy is a fact of life in the entire world, with clear signals of becoming more and more extensive, reaching remarkable dimensions and offering serious grounds for concern over the past few decades.

Key words: underground economy, assessment methods, DYMIMIC method

J.E.L. classification: E26

1. Introduction

The economic realities of the past few decades, with a globally extensive underground economy, more or less present in every country of the world, have shown that the efficient strategies against this phenomenon are not those targeting to eradicate it, but those who control it. Under these circumstances, the globally wide-spread activities of the underground economy have become an even more recurrent preoccupation, both at the international organizations level, as well as the country level and that of leading political groups active in every state. As a consequence of this situation, more and more economists have tried to define, measure and determine the effects of the underground economy.

The dimension of the underground economy in Romania is a very important indicator, just as in all the ex-communist

European countries. Being easily observable even in the statist period, this phenomenon continues (and with too much success even!) its perennial existence even in the new market economy. Tax evasion, which can not be tied only to the democratic period of the '90s, is being observed and discussed ever since the beginning of the 20th century.

The underground economy is defined as the sum of organized economy activities which break the social and economic legislation norms, with the purpose of gaining revenues that can not be controlled by the state.

Globalization and regionalization also facilitate the worldwide underground economy. New communication systems and advanced technology have shortened the distance between states, have opened the borders and created unimaginable opportunities for political or social interactions, but also extension. Assessing the underground economy is an important stage, essential for knowing the status-quo and the long-term consequences of economic and - most importantly - fiscal policy decisions, both the direct but especially the indirect ones.

2. Conceptual delimitations and assessment methods

The underground economy has entered the specialists' spot-light ever since the '60s, when the phenomenon has taken a great extent. The first academic paper in which the problem of underground economy is noticed and made public belongs to the American P. Gutmann, who, in 1977, estimated that the statistically unregistered economic activity can no longer be considered a negligible entity. Regarding its motivation, V. Tanzi sees the development of underground

economy as a product of two large categories of factors: those tied to the desire of escaping taxes and those tied to the desire of avoiding governmental rules and restrictions.

The object of our paper appears in the academic literature under various names (more than 20): „occult economy”, „hidden”, „dissimulated”, „parallel”, „annex”, „dangerous”, „ghost”, „invisible”, „unofficial”, „dual”, „cash”, „informal”, „secondary”, „illegal”, „grey”, „shadow”, „unmeasured”, „counter-economy”, etc.

The difficulty in defining the underground economy, generated by the diverse activities it reunites and by the fact that these activities vary according to space and time particularities specific to this type of economy, determined the birth of a multitude of longer or more restrained definitions in the academic literature. These numerous definitions mainly express the opposition of underground economy in relation to the official economy, the legislation and respect for ongoing rules. This way, the concept of underground economy largely reunites those activities whose existence is not officially known (accounted for) and whose associated incomes do not make the object of fiscal declarations.

If on a national basis one can find a variety of definitions for the underground economy, at an international scale a universally accepted definition is still looked after. Therefore, it has been convened that the underground economy definition should include two aspects:

✓ The underground economy is the one “escaping” statistical records and precise quantification;

✓ Activities of the underground economy must be expressed in G.D.P. terms, so that a comparison between the size of the underground economy and the officially measured G.D.P. is possible.

Generally, it is thought that, in economically developed countries, legal undeclared activities with the purpose of evading the payment of fiscal obligations account for the most important part of underground economy, while in developing countries, because of a very strong auto-consumption and the limited possibilities for statistical recording, the conventionally unaccounted for production is very high, surpassing often the official economy.

Fraudulent tax evasion represents an important part of the Romanian tax evasion. In comparison to other countries, where the percentage of underground economy components is about 50%, in our country it is very likely that this percentage is higher because of at least two reasons: crime, prostitution, drugs, money laundering are still at unreasonably high levels, while there exist extremely favourable conditions to fraud the fiscal system so that this phenomenon becomes even larger and eventually surpasses the growth rhythm of the official economy.

Analysing the studies and references of underground economy leads us to the conclusion that three main approaches can be identified in order to determine its size:

➤ Launching some speculative numbers, according to certain situational interests. The role of such “estimations” is that of convincing the public and the media that the entitled entities will adopt the right measures when noticing the dimensions of activities escaping legal

➤ Releasing some numbers according to a purely logical reasoning and a good knowledge of economic activity (both formal and informal), this type on analysis offering many times some pertinent figures, at least when the author is a very well assessor of the reality in its own country, has the specialty training and the intuition for such an attempt. An important role when taking this approach is played also by performing international comparisons with countries having a similar economic structure and educational and behavioural characteristics of the population.

➤ Estimations based on well-defined assessment methods, for which certain calculus methodologies are elaborated and built upon the idea that underground economy leaves certain marks easily traceable on the labour market, in monetary aggregates or under the form of incongruence incomes and expenditures.

According to this last path for determining the size of underground economy, the following general approaches are known, each of them offering the possibility of different practical assessment methods:

- Methods based on data from the national account system;
- Assessment based on data obtained from fiscal verification and control methods;

- The method of labour market parameters;
- Monetary methods;
- Methods based on the electricity consumption;

A few other methods have been perfected at an international level, having to mention though that their results are rarely concordant when applied to the same country and time frame.

- The most obvious one is *the direct surveillance through data offered by companies whose activity is performed fully or partly within the frameworks of underground economy*. This method offers an insight of the underground economy structure, but is based on the accuracy of the data, which is usually untrustworthy, especially since some of the activities are illegal and those companies are not ready to admit their implication, even under the protection of anonymity.

- A similar method is based on *the detailed analysis of a sample of tax payers under the threat of being sanctioned, should they refuse to collaborate*. Without covering an important part of the underground economy, this method achieves obtaining data about the tax evasions of little dimensions, performed by those who work independently and usually avoid paying the taxes owed to the state.

Despite the advantage of detailed information, because of the evident disadvantages (data subjectivity and the impossibility to perform evolutionary projections of the underground economy) these methods are not very used in practice.

More objective and precise are the indirect assessment methods of the underground economy, based on discrepancies in the evolution of different markets.

- *The method of expenditures discrepancies* – people who work in the underground sector spend more than their declared income. This discrepancy, reflecting the quantum of the underground economy, can be emphasize both at the individual level as well as the national financial system level.

A way of measuring the underground economy pertaining to this method is by comparing the results registered in the national account system, during the process of determining the G.D.P. through the

incomes method and through the expenditures method. Usually, the first method offers lower numbers than the second one. The “unexplained residue” from this difference can serve as a basis for estimating the size of the parallel economy.

This method has the advantage of a simple and easily applicable calculus and the possibility to explain the general evolution of the occult economy by following the relative measure of these differences each year.

At the same time, there seem to be a series of disadvantages as well, among which :

- ✓ Errors in estimating both aggregates;
- ✓ Errors caused by differences in statistical coverage;
- ✓ G.D.P. estimations are not always independent of estimating the income on the basis of fiscal data (un noticed income by the fiscal authorities can be absent in the national accounts as well).

Financial audit programs are especially used for estimations. The problem with this method resides in the embedded errors, both measurement and substance errors - for example, by not taking into consideration the possibility of higher expenditures through contracting a bank credit. Moreover, samples used for financial audit programs are not representative for the entire population of a country.

- *The method of discrepancies on the labour market* – an unjustified decrease in the labour offer can be simultaneously considered an increase in underground economy, while also this estimation is affected by interpretable elements. In most of the cases, people work both in the underground economy, as well as in the official one, therefore this estimation method is less used. Nevertheless, its main advantage is that it permits taking into consideration not only those activities paid for in cash, but also those paid for in nature, this modality of payment being far from negligible.

- *The method of transactions discrepancies* – an estimation method perfected by Edgar Feige and departing from the premise of a constant relation in time between the volume of transactions in a given country and the official G.D.P. In order to estimate the level of underground economy, Feige started from a basis year when there was no underground economy and further on took into consideration a “normal” volume of

transactions that would remain the same over the period of several years. Naturally, all these assumptions make the accuracy of the obtained data highly questionable. Moreover, it is difficult to estimate the volume of transactions, especially those undergone in cash.

- *The method of discrepancies on the monetary market* – the discrepancy visible on the monetary market lays at the base the most used assessment method of the underground economy. This one starts from the premise that unofficial transactions are accomplished in cash in order to make their discovery by the authorities more difficult. The level of underground economy is thus brought forward by the extra cash quantity used at the national level in comparison to cash quantity associated with official transactions. This method is considered to be more exact, as the structure and quantity of the money supply are generally known in detail. Nevertheless, it should be pointed out that even unofficial payments are sometimes performed via bank or electronic means.

Three methods implying the monetary approach of the underground economy are practically known:

- Considering the fact that releasing a growing quantity of high value denomination in order to facilitate payments would prove the existence of underground activities, some try to validate the idea that the size of informal activities could be determined this way. By simplifying a very complex reality, this method rather gives clues of the trends manifested in this field, than a fairly pertinent idea of its size.

- The transactions method starts from the hypothesis that there is a constant relation in time between the cash transactions volume and total G.D.P., official and clandestine. This method is based on Fisher's well-known quantitative relation: $M * V = p * T$, where:

M- money supply

V- velocity of money

p - price level

T- volume of transactions

By observing the total money supply M, which contains both the actual quantity of money and the demand deposits, the size of total G.D.P. can be deduced. From this value, the official G.D.P. is further on deduced in order to obtain the clandestine G.D.P. as a residue in G.D.P. terms. The underlying

supposition is that the velocity of money is equal in the two sectors (legal and illegal).

- The most frequently used method from this category is the one founded on the ratio between the circulated money and the demand deposits, owned by the banks. It states that clandestine economy transactions are reflected in the modifications of this ratio. This way, supposing the velocity of money is the same in the occult economy and in the official economy, any significant increase in liquidity demand in comparison to the demand deposits can indicate an expansion of unofficial activities.

The criticism brought to these monetary methods refer to their underlying hypothesis:

- implying the choice of a base year with a supposed level of clandestine economy, usually considered zero;

- cash transactions, even in this sector, are more and more frequently performed by checks and other modern payment methods;

- the velocity of money considered equal in the two sectors is very hard to determine even for the official economy, let alone for the informal one.

- Modelling the underground economy and defining it as a system is a practice employed by modern assessment method of the underground economy – the method of electricity consumption – introduced by Maria Lacko proposing the determination of the underground economy level in several European countries with the help of one model. The premise for this model is that a part of family consumption of electricity in every country is used in the underground economy. Thus, households' consumption of electricity in a given country is not determined only by evident factors such as population size, standard of living, geographical position (for climate implications), the relative price of electricity or the access to alternative sources of energy. On the other hand, a significant percentage of the unregistered companies perform their activities within individual households, obtaining income.

- Assessment based on data obtained as a result of fiscal verifications and other control methods. Starting from the data obtained by fiscal authorities during control operations, this method ignores voluntary questionnaire-based responses. It permits a thorough understanding of the situation,

underlining those profession declaring lower incomes than the real ones or not declaring any income at all.

One of the problems with this method, suggesting that the obtained results are much more diminished than the real ones, is the high number of people who don't fill out any fiscal declaration and are only discovered by total accident from time to time.

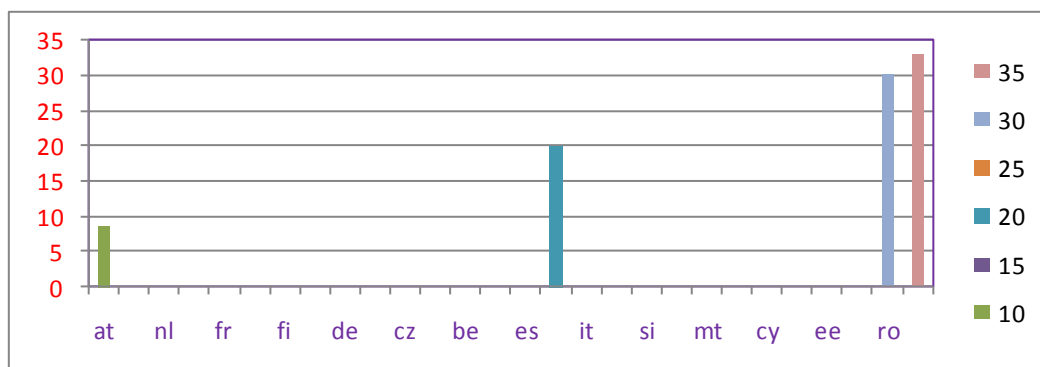
- A distinct method from those exposed above is the DYMIMIC method (dynamic multiple-indicators multiple-causes). It takes into consideration multiple causes that determine the appearance and extension of underground economy, as well as its multiple effects in time. Based on the statistic theory of unobservable variables, the method consists in two parts which tie the unobserved variables to the observed indicators. In this case there is only one unobserved variable – the size of underground economy. The hypothesis bring a set of causes and a set of indicators influenced by the size of underground economy, this way the structural dependence of underground economy from these variables is emphasized, the dependence being used for foreseeing the future modifications in size of the underground economy.

3. The dimensions, causes and consequences of the underground economy

A high underground economy has as main negative effects a lowering growth ratio of the official economy. In Romania, statistical data regarding this phenomenon are concerning, as the negative effects of the high underground economy are strongly felt both in terms of G.D.P., as well as of tax receipts. In 2010, our country had an underground economy of 30.2 % of G.D.P din, being surpassed only by Bulgaria from this point of view. The average for the UE-27 countries is of 20% of G.D.P., which gives our country 10 percentage points above this average, an interval with potentially considerable amounts for the public national budget, if fiscal discipline would accentuate.

Figure 1 shows us a percentage of underground economy of 15% in the Nordic countries, Austria, Germany, France, Ireland, the UK, Luxembourg and Holland. Even for these states with lower values, the percentage of underground economy must be controlled, since even the lowest value is still considerable - 8,67% in Austria.

Figure 1. Underground economy in UE countries in 2010



Source: Prof. Friedrich Schneider's estimations

Analyzing the evolution of underground economy between 2003 and 2010 and comparing Romania with the average of UE-27, a slight decrease in the size of this phenomenon is notices, with around 2 percentage points, both for our country and for the UE-27 average. The difference between Romania and UE-27 is relatively

constant though, of about 10 percentage points, which evidently reflects a systemic problem of our economy. In 2009 Romania was the second last EU country in terms of G.D.P. per capita, with 45% of the UE average, followed only by Bulgaria.

In May 2010, underground economy was estimated at 35%-40% of G.D.P. Tax evasion

in the food industry reaches 7-8 billion euro annually, while other 2 billion euro are lost

through tax evasion with tobacco, alcohol and petroleum products.

3.1. Identified tax evasion

a. identified tax evasion in Romania - % of G.D.P.

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of identified tax evasion in G.D.P.	1,80	1,71	1,76	1,77	2,80	2,75	2,87	2,34

b. identified tax evasion in Romania - % in fiscal revenues of consolidated national budget (C.D.P.)

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of identified tax evasion in fiscal revenues of C.D.P.	6,51	6,26	6,33	6,19	9,66	9,82	10,07	8,36

3.2. The evolution of underground economy in Romania

a. NIS methodology

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of underground economy in the official G.D.P.	14,3	14,5	16,6	19,2	20,0	19,6	21,3	23,5

b. DYMIMIC methodology (professor Friedrich Schneider)

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of underground economy in the official G.D.P.	33,6	32,5	32,2	31,4	30,2	29,4	29,4	30,2

This is how the percentage of underground economy in the G.D.P. is expressed for the UE-27 countries and for

other 4 European states, according to the DYMIMIC methodology:

Year	2003	2004	2005	2006	2007	2008	2009	2010
Romania	33,6	32,5	32,2	31,4	30,2	29,4	29,4	30,2
Austria	10,8	11	10,3	9,7	9,4	8,1	8,47	8,67
Belgium	21,4	20,7	20,1	19,2	18,3	17,5	17,8	17,9
Bulgaria	35,9	35,3	34,4	34	32,7	32,1	32,5	32,9
Cyprus	28,7	28,3	28,1	27,9	26,5	26	26,5	26,8
Czech Republic	19,5	19,1	18,5	18,1	17	16,6	16,9	17,2
Denmark	17,4	17,1	16,5	15,4	14,8	13,9	14,3	14,4
Estonia	30,7	30,8	30,2	29,6	29,5	29	29,6	29,9
Finland	17,6	17,2	16,6	15,3	14,5	13,8	14,2	14,3
France	14,7	14,3	13,8	12,4	11,8	11,1	11,6	11,7
Germany	17,1	16,1	15,4	15	14,7	14,2	14,6	14,7
Greece	28,2	28,1	27,6	26,2	25,1	24,3	25	25,2
Ireland	15,4	15,2	14,8	13,4	12,7	12,2	13,1	13,2
Italy	26,1	25,2	24,4	23,2	22,3	21,4	22	22,2
Latvia	30,4	30	29,5	29	27,5	26,5	27,1	27,3
Lithuania	32	31,7	31,1	30,6	29,7	29,1	29,6	30
Luxemburg	9,8	9,8	9,9	10	9,4	8,5	8,8	8,8
Malta	26,7	26,7	26,9	27,2	26,4	25,8	25,9	26
Holland	12,7	12,5	10	10,9	10,1	9,6	10,2	10,3
Poland	27,7	27,4	27,1	26,8	26	25,3	25,9	26,1
Portugal	22,2	21,7	21,2	20,1	19,2	18,7	19,5	19,7
UK	12,2	12,3	12	11,1	10,6	10,1	10,9	11,1
Slovenia	26,7	26,5	26	25,8	24,7	24	24,6	25
Spain	22,2	21,9	21,3	20,2	19,3	18,7	19,5	19,8

Slovakia	18,4	18,2	17,6	17,3	16,8	16	16,8	17,3
Sweden	18,6	18,1	17,5	16,2	15,6	14,9	15,4	15,6
Hungary	25	24,7	24,5	24,4	23,7	23	23,5	23,8
Average EU – 27	22,3	21,9	21,5	20,8	19,9	19,3	19,8	20,0
Croatia	32,3	32,3	31,5	31,2	30,4	29,6	30,1	30,3
Switzerland	9,5	9,4	9	8,5	8,2	7,9	8,3	8,34
Norway	18,6	18,2	17,6	16,1	15,4	14,7	15,3	15,4
Turkey	32,2	31,5	30,7	30,4	29,1	28,4	28,9	29,2
Average Europe – 31	22,4	22,1	21,6	20,9	20,1	19,4	19,9	20,1

3.3. Assessing unidentified tax evasion based on underground economy

a. NIS methodology (according to NIS estimation, unidentified tax evasion is on average 2/3 of the entire underground economy)

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of unidentified tax evasion in official G.D.P.	9,53	9,67	11,07	12,80	13,33	13,07	14,20	15,67

b. DYMIMIC methodology

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of unidentified tax evasion in official G.D.P.	16,8	16,25	16,1	15,7	15,1	14,7	14,7	15,1

3.4. Total tax evasion

Total tax evasion = identified tax evasion + unidentified tax evasion

a. NIS methodology

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of TOTAL tax evasion in official G.D.P.	11,33	11,38	12,83	14,57	16,13	15,82	17,07	18,01

b. DYMIMIC methodology

Year	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of TOTAL tax evasion in official G.D.P.	18,60	17,96	17,86	17,47	17,90	17,45	17,57	17,44

These values determined through the DYMIMIC methodology are much more credible (both as values per-se, as well in

terms of the trend they show) than those determined through the simplifies methodology of the NIS.

3.5. The perception index of tax evasion in Romania according to WORLD COMPETITIVENESS

Year	2003	2004	2005	2006	2007	2008	2009	2010
Perception Index of tax evasion	3,85	1,36	2,27	2,04	3,13	3,21	1,68	2,09

Specification: this index is established on a scale from 0 to 10, where 10 is the country with a practically inexistent perceived tax

evasion and 0 defines the perception of a state with the highest tax evasion.

4. Conclusions

The underground economy has become an omnipresent phenomenon of the social and economic sphere. Its amplitude is concerning because, with lacking control methods, it can violate the future stability of the national economy.

From an economic point of view, a balanced situation of the state budget would lead to a macroeconomic equilibration and the assurance of conditions for economic development.

In order to fight tax evasion it is not necessary to impose drastic sanctions – an efficient fiscal control should be achieved, a viable legislative system and, maybe first and foremost, a fiscal education of the citizens.

Fiscal laws must be simple, clear, precise and relatively stable, in order to facilitate the distinction between cases when laws are broken with a fraudulent intention and those when they are violated by negligence or for reasons independent of the taxpayer's will.

Our country had one of the best fiscal procedure codes, which was unfortunately abrogated by the dictatorial regime installed after the 2nd World War. Therefore, it is necessary to reorganize the fiscal control and verifications and for the Romanian National Bank to establish clear norms regarding the conditions to be fulfilled and the documents to be presented by physical persons.

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Using Ontologies in the Design of Forest Accounting Information Systems. Literature Review.

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Abstract

In our paper, we conducted a literature review, in the field of accounting information systems ontologies. Our results are useful to researchers and developers of decision support intelligent solutions, to forestry accounting researchers and forestry managers, to be aware of new discoveries in the field, to managerial accounting researchers interested in using economic models for decision support tools development.

According to various studies, the use of ontologies in business information systems design can bring solutions to optimize the integration, the implementation of extensible interfaces, the availability of a common vocabulary, objectively specifying of information, to facilitate the sharing and reuse of information. For forestry information systems, using ontologies has proven to be beneficial in solving a thorny problem: the incompatibility of data. The requirements for ontologies in this area are: robustness, flexibility in communication and interconnection, extensibility.

The conclusion drawn from the study is that the use of ontologies is needed in designing accounting information systems.

Key words: ontology, accounting information systems, forestry decision support systems.

J.E.L. classification: D83, M15, Q55, Q56

1. Introduction

Development, diversification and widespread use of modern information technologies and systems, demanded new approach in terms of reports, records and accounting analysis. This development is the engine of the changes produced in the

achievement, presentation and use of accounting information and accounting knowledge.

This is the explanation for the increase in the intensity of the organization's concerns to design, develop and implement information systems that take advantage of modern technologies and support the decision-making process according to the current requests of the business environment.

Although the forestry area has a particular note, being an area governed by special laws, enjoying a diverse and complex range of activities, the forest management is also aligned to the new trends in the sphere of economic decision assisted by accounting knowledge.

Some of the latest developments and researches on information systems of organizations are using, as their center, the knowledge bases to assist the decision. Often, in the process of designing knowledge based systems, the modeling act plays an important role.

A real support for integration and representation of models in information systems engineering process, can be offered by ontology construction.

In this paper we intend, after reviewing the literature in this area, to form an opinion regarding the necessity and importance of using ontologies in forestry accounting information systems design.

2. Foray into the concept of ontology of information systems for business

In our approach we started considering the exciting game of words, according to whom, the ontology identifies what needs to be shaped by information systems and, at the same time, the ontology can provide a basis for modeling the information system itself. [28]

Over time, many researchers have had the concern to establish a meaningful definition of "ontology".

J. Hendler [13] defines ontology as a set of terms of knowledge through which the author recalls: the vocabulary, the semantic interconnections and some simple rules of inference and logic for specific topics. Other approaches to the ontology concept refers to the ability they have to accomplish specifications of communication between multiple agents in the form of a shared vocabulary, [20] and to be used in modeling. [14]

Regarding the use of ontologies in knowledge management, Jurisica, I., Mylopoulo, J., and Yu E. [15] note that there are the following four categories:

- static ontology;
- dynamic ontology;
- intentional ontology;
- social ontology.

In their survey, the three mentioned authors underline that the identification of concepts that are able to accomplish the computer modeling process (operating in knowledge management), is the subject of ontology, viewed from the perspective of information systems engineering.[15]

Using ontology can improve, as Gălătescu and Greceanu said, the team effort to achieve business increase, because:

- It provides a common vocabulary to the team members;
- It makes automated comparisons;
- It integrates verbal diagrams and structures with ideas;
- It provides to the user an extensible interface [11].

According to several researchers [2], [10], [21], [29] the objective specification, which ennobles the information using ontology, represents ground zero in constructing a business semantic model to be used in designing the appropriate information system.

Noy and Klein [18] reviewed the similarities and differences that exist between database schemes and ontologies. Among the differences observed, there were listed:

- different ways to use the paradigms;
- explicit semantics;
- modeling knowledge differently.

Differences were observed between ontologies and conceptual schemes by Fonseca and Martin [8] as follows:

- they belong to different epistemic levels;
- they have different objects, but different objectives, too.
- ontologies explain and integrate the information, while conceptual schemes, link together general ontological categories to specific observations.

De Cesare and Lycett [7] even propose a modeling language, Unified Modeling Language (UML), to achieve business profile ontology definition.

In a study on dynamic modeling of the enterprise, for organizing the planning and control, [6], Church and Smith give reasons to support the hypothesis that a dynamic model based on ontology allows managers an optimal estimate of the consequences of resources allocation decisions, but also the determination of the appropriate performance indicators.

Another approach, on rules based analysis needed in the economy, which aim to share the information system domain in subdomains stakeholders oriented, was led by Bogdan and Păduraru [5].

In terms of marketing activities involving the exploration of large databases (DBM), too, the definition and use of ontologies have advantages [23]:

- provide a set of options for defining activity of DBM;
- suggest best approaches in terms of DBM objectives;
- guide the selection of relevant data;
- achieve specification of constraints for the selection of data mining algorithms.

Relevant classes of users of ontologies, for financial control in the accounting profession, as they were listed by Tiron-Tudor et al. [26], are:

- financial professionals;
- police and other statutory supervisory agencies;
- control and economic supervisory bodies;
- multinational companies and groups of companies;
- independent experts and professional bodies.

In their paper [1], Andersson et al. have presented a reference ontology for business modeling that is based on three ontologies of the business:

- *Resource-Event-Actor (REA)*, which originates in enterprise accounting;
- *e³ value* which identifies the changes that the objects' values have among the actors involved in the business;
- *Business Model Ontology (BMO)*, which performs in-depth description of the company's business model.

The goal of this reference ontology construction was to increase the understanding of the three ontologies, but also to develop a tool which can forward models from one formal system to another.

Geerts's studies [12] underline the conclusion that operational enterprise ontologies give a shareable and reusable support to the business specific applications, to maintain flexibility. XML (eXtensible Markup Language) technology is proposed to achieve ontology.

The proposal made by Funk et al. [9], in order to achieve the best possible resultant integration of separate information extraction tools and to improve accuracy of this process is an information mining system for business intelligence, using a *de facto* "standard" web ontology: *Proton*.

The study conducted in 2010 by Mangiuc [16], shows how the use of UML can improve the definition, description and representation of *Semantic Web* type enterprise ontology.

3. The ontology of forestry systems

During the World Forestry Congress in 2009, Petrokofsky and Mills [22] have emphasized that experts in computer and library should have the duty to ensure the forestry researchers, practitioners and policy makers, that they make decisions based on the best-organized existing records, systematically collected through basic research. A proposal was launched to create a pilot forum for discussion on this subject, in the *International Union of Forest Research Organizations 6.03 unit, Information Services and Knowledge Organization*. This emphasizes the increased role of information specialists.

Tochtermann and Maurer [27] have conducted a literature review in which they concluded that the application of ontologies in environmental informatics calls for ontologies adjustment to different

characteristics of specific data (ex.: temporal, geographical, thematic or organizational relations).

Since forestry, par excellence, is dedicated to sustainable projects, it has come to our attention the work done by Bodea et al. [4], which presents an ontological model of commercial projects for sustainable development. Ontological approach (with the support of ontology called *PMCatalog*) is related to a skills model in management projects.

In forestry, a major concern is the forest management plans and forest inventory accuracy. To ensure these requirements, was developed *FIM* (Forest Inventory and Mensuration) ontology, a possible web-service for *FMA* (Forest Model Archive) [25]. This was the solution to the "Achilles' heel" in terms of forest inventories centralization systems: incompatible data.

Forest Information Service (*FIS*) has become a focal point for many organizations such as the European Commission and IUFRO [24]. *FIS* nomenclature, it says in the cited paper, must be consistent and shared. This goal can be achieved by developing a European decision support system centered on the *FIS*. For this purpose, it is proposed the use of ontology languages such as: *DAML*, *OIL* or *OWL*.

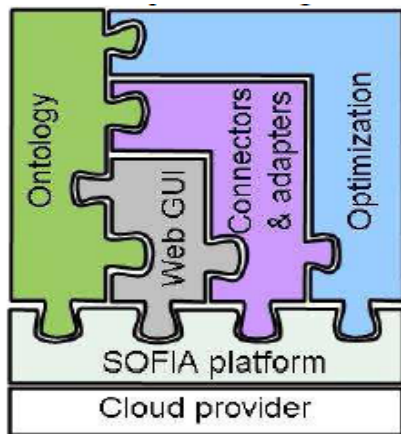
NED2 system is a goal-oriented intelligent system for forestry decision making, integrating databases, growth and yield models, wildlife models, silvicultural expert systems and geographical information systems, developed by a group of American scientists [19]. They considered a prerequisite, for the establishment and development of the system architecture, the use of a robust ontology, which supports communications between *NED2* and a variety of forest management decision assisting tools.

Information communication technologies within the organization or between organizations in the Australian timber and logging industry are analyzed by Blake [3]. The cited dissertation work shows us new ways of building the ontology of the domain first stage. Among the variables used for the exemplification, *Price* and *Discounts* are included.

Nikitin, Terziyan and Lappalainen [17] believe that the platform SOFIA (Seamless Operation of Forest Industry Applications) is suited for worldwide forestry market. SOFIA is a software platform for logistics integration optimizing, characterized by flexibility and extensibility. It can provide, according to the authors, a sustainable infrastructure as information and communication technology, for small and medium logging and transport firms.

Developing a SOFIA platform, ontology is considered the "backbone", a rich configuration file that describes the structure of software components set in motion in the same way as data, as shown in Figure 1.

Figure 1. SOFIA component view



Source: [17] Nikitin, Terziyan and Lappalainen, 2010, p.21

4. Conclusions

A large number of researchers have been interested in the study of ontologies for a wide range of areas.

According to the business information systems researchers, the benefits that the use of ontologies makes in the design of these systems are:

- optimization of integration;
- extensible interface;
- common vocabulary provided;
- objective specification of information;
- facilitating the sharing and reuse of information.

For forestry information systems, the use of ontologies has proven to be beneficial in solving a thorny problem: incompatible data. The requirements for the ontologies in this

area are: robustness, flexibility in communication and interconnection, extensibility.

There are already a large number of languages for the computer assisted design of ontologies: XML, UML, DAML, OIL or OWL.

Conducted studies strictly in forest accounting information systems ontologies could not be identified. Current trend is to integrate these solutions within complex and unitary systems that can bring together all the information and knowledge necessary for such organizations.

We conclude that, due to the many benefits of their use in designing accounting information systems, ontologies are very necessary in this process.

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The CR-Marketing Strategy

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Abstract

The Customer Relationship- Marketing supposes the adaptation of the marketing mix from the customers' and the market's perspective. Thus, the 4 P (product, price, place, promotion) must become 4 D (desired by consumers, distinctive from the competition, deliverable by the company, durable over time) respectively 4C (the buyer with his requirements and desires, the cost paid by the buyer, the convenience of the acquisition, the communication with the customers. The CR-Marketing strategy comprises the customer acquisition strategy, the customer engagement strategy, the customer recovery strategy, the competitive advantage strategies.

Key words: customer relations marketing, customer perspective, customer acquisition, customer engagement, customer recovery.

J.E.L. classification: M 31

1. Introduction

CR-Marketing (Customer Relationship-Marketing) is not a new concept from the point of view of its content, but what it lacks is its integration into a strategic marketing vision which confers it applicability principles and specific objectives. The customer relationship has become the central preoccupation of the marketing activity ever since the moment of the marketing optics development. Few organizations understand however this relationship in an integrated approach, the majority being limited to the sale process, to the service and follow-up customer monitoring and to the public relations activity. What this concept is attempting is to particularize the Customer Value Management in the marketing sphere [1] and to integrate marketing more

distinctively in the Corporate Social Responsibility .

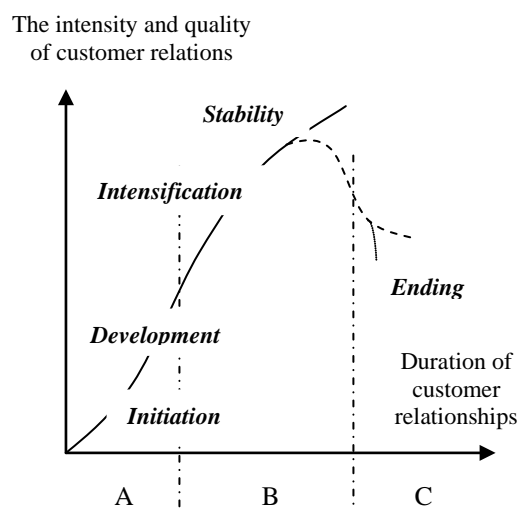
2. The CR-Marketing Strategy

CR-Marketing "thematizes the entire life cycle of the customer relationships in a company, placing to the fore the mutual benefit for the partners from the relation"[2]. The characteristics of this concept are [3]:

- the durability in time of the customer relations;
- achieving a continuous process for building the relationship with the customers materialized in acquiring customers, their engagement and recovery;
- customer dialogue;
- customer value.

The first two characteristics are strongly connected and can be analyzed through the life cycle of the relationship with the customer which is presented in the following manner:

Figure 1. The life cycle of the customer relationship



Source: Bruhn, M., *Relationship Marketing. Das Management von Kundenbeziehungen*, München, 2001, p.48.

A - Customer acquisition:

- initiation phase
- socializing phase

B - Customer recovery:

- danger phase
- dissolution phase
- abstinence phase

C - Customer recovery:

- danger phase
- dissolution phase
- abstinence phase

In order to implement the CR-Marketing vision, the marketing philosophy centered on the 4 components of the marketing mix must be adapted from the perspective of the customers and the market.

Thus, the 4 P (product, price, place, promotion) must become 4 D [4] (desirable by customers, , distinctive from the competition, deliverable by the company and durable over time) respectively 4 C [5] (the buyer with his requirements and desires, the cost paid by the buyer, the convenience of acquisition, the communication with the customers.

The correspondence relation between the 4 P and the 4 C, respectively the 4 D can be achieved in the following manner:

Table 1 . The correspondence between the 4P and the 4 C, respectively the 4 D

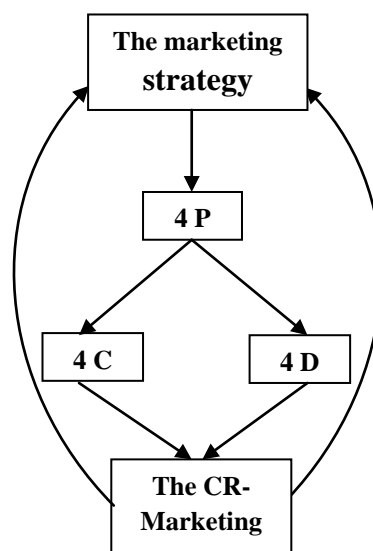
Product (1P)	The buyer's requirements and desires (1C)
	Desired by consumers (1D)
Price (2P)	Cost paid by the buyer (2C)
	Distinctive from the competition (2D)
Place (3P)	Convenience of acquisition (3C)
	Deliverable by the company (3D)
Promotion (4)	Communication with customers (4C)
	Durable over time

The product politics must be achieved from the customers' perspective, taking into account what they want and their requirements. The price politics must be configured so that the cost can be paid by the consumer and at the same time lead to a clear difference compared to competition. In the placement politics, the companies must prove

that they know the markets and must prove realism towards the efficiency of their own capacities or attracted by distribution. At the same time, it must offer consumers accessible and effortless solutions for acquisition. The promotion politics must be centered on the strong communication with the customers and on the transformation of this product in a long-term partnership relationship.

As we can see in the figure below, the marketing strategy is composed of the 4 P which must in their turn be reconfigured in the 4 C, respectively 4 D with whose help the CR-Marketing is formulated, which lays at the basis of the marketing strategy. This cyclic product manages to adjust the marketing strategy from the customers' perspective.

Figure 2. The CR-Marketing integration into the marketing strategy



The CR-Marketing strategy comprises the following sub-strategies [6]:

- the customer acquisition strategy supposes the identification and attraction of customers towards the company's offer
- the customer engagement strategy involves the customers in the process of offer design and achievement so that the loyalty towards the company's offer and its vision of making business be at its utmost. This strategy has a dynamics divided in three directions : satisfying the customers' expectations, building the customers' loyalty and involving them in the process of value creation.

- *the customer recovery strategy* is used either for reactivating the latent customers or for recovering the customers lost in favor of the competition. Most of the times the strategy supposes rebranding or repositioning actions.

- *the competitive advantage strategies* aims at identifying the elements of competitive differentiation from the consumer's perspective within the marketing mix. A model of adapting the differentiation competencies from the consumer's perspective in relation with the bidder's perspective may be achieved as below:

Table 2. The competences associated to the differentiation mix

Potential competitive advantages from the company's perspective	Competitive advantages in relation with the consumers' perception
Product: - the diversity of the product range - the performances of the product characteristics - the value of the product package - the trademark uniqueness - state of the art service operations	Product: - opportunities of satisfying different needs - reliability and utility of the product - quality of protection, facility of identification, manipulation, uniqueness of design etc. - easy information, social and psychological benefits - service availability, rapidity and quality
Price: - competitive offer price - significant discounts and advantages - convenient payment conditions	Price: - price variants – purchase power – quality Available to all the categories of consumers
Distribution: - high degree of logistic equipments - advantageous localization of deposits	- possibility of having a supplementary income or of paying less - favorable payment conditions for any category of consumers

- reduced distribution costs Personnel: - highly qualified personnel - available and nice sales personnel - consultancy services Promotion - responsible communication - company's reputation - quality public relations - use of the most efficient means of communication	Distribution - high quality of deliveries, safety of merchandise - rapidity at delivery, optimal market coverage - synergic commercial efficiency of the distribution network Personnel - high quality of products and services - promptness and consistency in serving, connected information, acquisition without stress or difficulties - quick information of consumers and quality solving of their potential problems Promotion: - real and opportune information - trust in the company's products/services value Relaxed atmosphere, availability of information Use of the communicational mix capable to inform efficiently all the segments of consumers
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Source: Pricop, O.C., *Marketingul valorii concurențiale, prin preț și prin diferențierea produselor*, Junimea Publishing, Iași, 2006)

- *the strategies of customer focusing* which are of two types: the strategies of market processing and the strategies of relation processing. The strategy of market processing supposes the adaptation of the sales and distribution processes to the customers' needs. Moreover, the price level is particularized on categories of clients. The strategy of relation processing supposing adjusting the customer relationships in favor of satisfying their needs. The consumer is advised and asked about the level of the consumer satisfaction in all its three moments: pre-purchasing, purchasing and

post-purchasing. It is important to determine in this sense the degree of customer satisfaction during the purchasing process.

The consumers' degree of satisfaction (Gsat) can be divided in the following sub-indicators [7]:

- the degree of satisfaction before the purchase which estimates the consumer's expectancy level (lack of patience) to acquire the product (Gsa);

- the degree of satisfaction since the purchase moment, which measures the level of satisfaction in the moment of the contact with the product (Gsc);

- the degree of satisfaction in the consume/use moment (Gsu);

- the degree of post-use/consume satisfaction which helps assessing the extent to which the product consume/use increased the individual's standard of living/satisfaction. (Gspu).

Each sub-indicator is assessed with the help of a scale with three stages, each stage having a score comprised between +/-1:

- for Gsa: interested (+1), indifferent (0), not interested (-1);

- for Gsc: satisfied (+1), indifferent (0), unsatisfied (-1);

- for Gsu: satisfied (+1), indifferent (0), disappointed (-1);

- for Gspu: satisfied (+1), indifferent (0), unsatisfied (-1).

Since from person to person these moments from the acquisition process have a different importance in estimating the degree of satisfaction, the above-mentioned sub-indicators must be balanced with the help of certain importance coefficients with values comprised between 1 (minimum values) and 4 (maximum value) and which we will note with letters from "a" to "d".

The degree of satisfaction will be calculated with the formula:

$$Gsat = a \cdot Gsa + b \cdot Gsc + c \cdot Gsu + d \cdot Gspu$$

The individuals questioned will indicate a certain level for each sub-indicator, with the possibility of resulting negative, null or positive Gsat values.

- if $G_s < 0$ the good purchased produced lack of satisfaction, being very little probable that the consumer will repeat the acquisition, in the near future.

- if $G_s = 0$ the good did not produce satisfaction, the probability of repeating the acquisition being accidental.

- if $G_s > 0$ the good produced satisfaction, having great chances of being purchased in the future.

With the help of this indicator, by analyzing the conception or marketing deficiencies of goods/services and sale activities, the company can better protect its competition advantages and can discover easier the opportunities of penetrating the markets held by competitors.

3. Conclusions

Therefore, the Customer Relations marketing represents, together with creative marketing, the most recent tendency in the modern marketing. What this tendency is lacking is the operational content integrated at the level of all the behaviors and structures of the organization. The adjustment of the politics composing the marketing mix based on the model presented can be a solution in this regard. This demarche will lead to the real consumers' approach towards the organization and to the creation of a partnership relationship, partnership achieved by creating certain consultancy structures of the customers affiliated to the organizations. Thus, we will be able to speak in the future about CP-Marketing (Customer Partnership Marketing).

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Comparative Analysis between the Economies of the Euro Area and the USA

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Abstract

Differences in economic performance between the USA and the euro area have been the subject of much debate. Even though these large economies might be considered similar, there can be identified some differences. This paper aims to realize a parallel between two of the largest monetary unions in the world. To compare the economies of the currency unions in Europe and United States of America I have chosen a set of indicators regarding monetary policy, growth and financial markets. The answer provided by the analysis is that the Euro Area has made an impressive progress since its initiation, but this has to be continued in order to achieve the performances in the USA.

Key words: euro, currency unions, USA, monetary policy

J.E.L. classification: E42, E52, F15, F33

1. Introduction

The euro area and the United States of America are two of the greatest economies in the world, with over 600 millions habitants and responsible for approximately 40% of the world output. The preponderance of these two regions and their similar dimensions determined the interest for comparative analysis.

The United States of America represents a monetary union approximately similar with the Economic and Monetary Union in Europe in terms of dimension. In 2010, the population of the USA was around 310 million persons and the GDP was more than 14 trillion dollars, comparing with the population of 330 million and the GDP of more than 12 trillion dollars persons in the

euro area.

The origins and the development of a monetary union in the United States are very different from the conditions of introducing a single currency in Europe. While the institutions of the Economic and Monetary Union developed in a short period of time, those in United States have evolved in stages from the introduction of the dollar in 1792. The monetary union was created formally in United States at the same time with Constitution's ratification in 1788. However, USA has accomplished the characteristics of a complete monetary union, a central bank and a single currency, in the next 150 years. The institutions of a monetary union in the USA have evolved as an answer to certain needs or difficulties and not according to a preordained framework.

2. Main economic indicators

The position of the euro area as the second monetary area in the world taking in consideration its dimension, after the United States of America, has triggered many comparison analysis regarding the economic performances of those two.

Monetary policy

The monetary policy conducted by these two unions is differentiating by three aspects: the inertia of the monetary policy, monetary policy objectives and monetary policy strategy. [6]

Regarding monetary policy inertia, it has been considered that it is higher in United States. This fact can be observed by comparing the evolutions of monetary policy interest rates (figure 1). However, the apparent difference between the inertia of the monetary policies conducted by these two areas represents the consequence of different macroeconomic shocks, especially due the fact that the USA has been confronted with higher demand shocks than those in euro

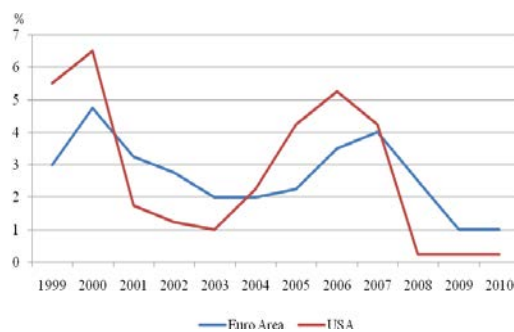
area.

It is considered that the transmission mechanisms are different in these two monetary areas, being less powerful in Euro Area than in the USA. As a result, it can be thought that ECB should act more decisively and faster than the FED.

The comparison of changes in the two central banks' interest rates reveals greater inertia in the eurozone. The fed funds target has been lifted higher and cut lower since 1999 than the ECB's refinancing rate, varying from 1% to 6.50% since 1999 compared with a range of 2% to 4.75% for the ECB.

This could appear like a less active policy in the eurozone, but it has not prevented growth and inflation varying by less than in America. Therefore, what looks like inertia partly reflects differences in economic structures and macroeconomic shocks, with greater reactivity in the USA. It might not be entirely attributable to fundamental differences in the nature of the two central banks. [3]

Figure 1. Central banks' interest rates in the USA and the Euro Area



Source: [4]

Regarding monetary policy objective, the FED seeks to “promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates”. From this statements results that FED has to pursue the objectives of growth and price stability, while the ECB gives priority to price stability. Thus, the FED is given greater flexibility but it must get its priorities right when interests clash between growth and price stability.

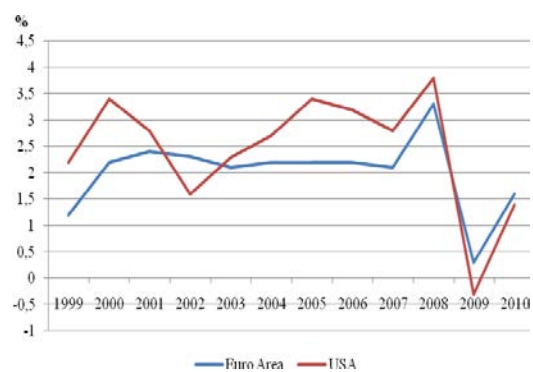
Some economists consider that the difference between the unique objective of the ECB of maintaining price stability and

the dual objective of the FED regarding price stability and full employment should not be over evaluated. Indeed, even Alan Greenspan and Ben Bernanke have admitted publicly several times the fact that maintaining price stability is the best contribution that monetary policy can bring to promote the objective of a sustainable economic growth.

Regarding monetary policy strategy, there can be identified many differences, among which two are more important. First refers to the fact that, unlike the FED, the ECB took the commitment to monitor and, if is necessary, to react at monetary supply and credit evolutions, taking into account the strong association between this and the inflation level. The role of money is much more prominent at the ECB than at the FED. The second difference is that the ECB accentuates the stabilization of inflationary expectations.

Inflation rate in the United States of America was in almost every observed year higher than the inflation in euro area. In 2009, the inflation went to negative values, being lower than the one registered in the euro area.

Figure 2. Inflation rate



Source: [4]

Inflation differentials between countries in the euro area have diminished and presently they are similar to those registered in the USA. In the United States – an old monetary union – starting with 2004 inflation rate dispersion between the 14 metropolitan statistical areas has fluctuated close to the levels for the euro area.

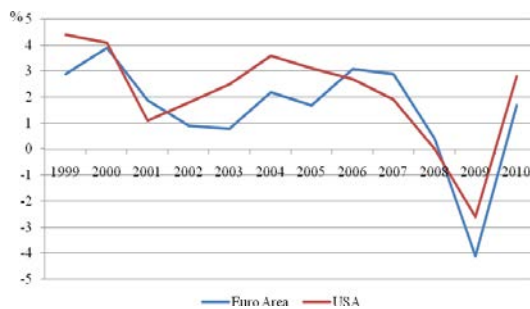
Growth

The economy of United States maintains its supremacy regarding the production dimension. Euro area comprises seventeen

states of which cumulate economic importance does not surpasses the one of United States, remaining on a second place.

Recent evolutions show that euro area tries to gain ground. Starting with 2006 and until 2008, gross domestic product growth surpassed the one of America. One possible scenario for equalizing the United States is that Great Britain, Denmark and Sweden adopt the single currency.

Figure 3. Real GDP growth rate

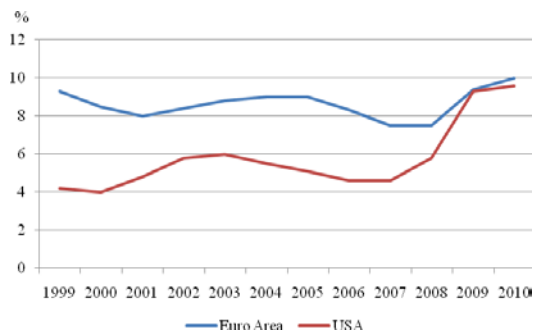


Source: [4]

For a long period of time, low unemployment rates made the United States of America a model for the rest of the economies in the world. Organization for Cooperation and Economic, International Monetary Fund and other international organizations commended the performance in terms of employment of the USA.

Current economic crises affected the workforce situation in the USA. According to most recent standardized data at international level, the USA is on the fourth place among big countries of OECD, considering unemployment rate level.

Figure 4. Unemployment rate



Source: [4]

As it can be observed from the previous figure, in 2009, for the first time since the beginning of publishing data by Eurostat, unemployment rate in USA was almost the same as the one in the euro area countries.

In March 2009, unemployment rate in USA has been 8.5%, lower only than Spain, Ireland and France and at the same level with Portugal. [8]

Another specific feature regarding unemployment rates in these currency unions is that unemployment rises first in the USA then in the EMU. US unemployment began to rise in the spring of 2000; the euro area followed a year later. The 2003-2004 peaks were even more than a year apart. More recently, US unemployment stopped falling in late 2006, while euro area unemployment continued its unexpectedly rapid decline until late 2007. Even the increase in unemployment in 2008 started first in the USA and then in EMU.

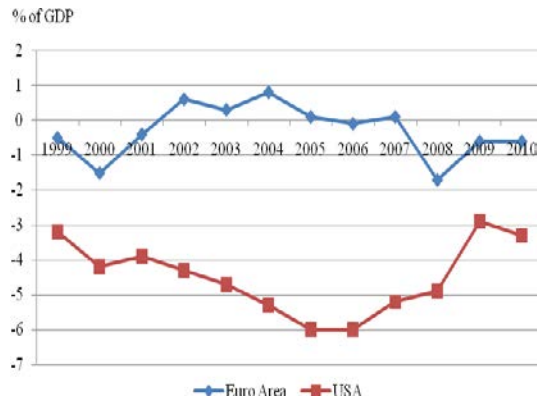
Current account

Regarding current balance, it can be observed in the figure 5 that United States deficit is very high, especially compared with euro area. This feature depends on the policy of the underlying asset issuer, precisely of the USA policy since the main reserve asset is the American dollar. In 1960, Triffin underlined the fact that the existence of low deficits of the USA can create liquidity problems and recession and that high deficit can alter American dollar stability. Currently, the volume and the volatility of capital flows create a potential tension between the willing of countries to accumulate reserves to protect against capital flows overflow and worries regarding the fact that reserve active supply depends solely to one country.

Monetary policy relaxation in the USA and credit deduction in price have taken to the growth of public money used for current account operations, especially imports, determining the maintaining of high current account deficits in USA. Simultaneously, current account deficits have made possible for the USA to supply dollar denominated assets that the rest of the world needed in order to protect against high and volatile global capital flows. Particularly, countries that have been confronted with capital inflow have wanted to accumulate dollar reserves to protect of possible sudden flood of these inflows. Thus, the pressure that the USA

functions with large current account deficit was relatively high. [2]

Figure 5. Current account balance



Source: [4]

The current account deficit of the USA has diminished from 4.9% in 2008 to 2.9% of GDP in 2009, respectively half of the level registered in 2006 (when have been registered most accentuated unbalances in absolute terms). Overall, current account deficit has been strongly reduced from 4.9% of GDP in 2008 to 2.9% in first three quarters of 2009, especially due intern demand reduction and lowering petroleum prices.

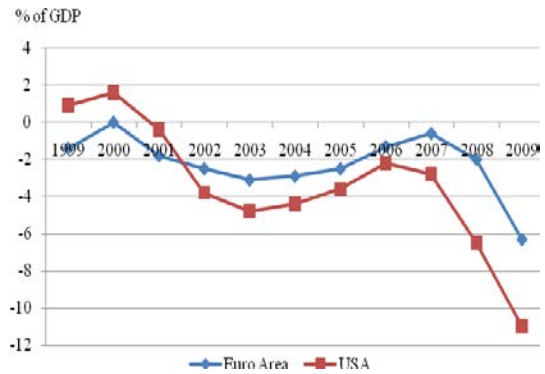
Public finance situation

It is well known that one important criteria of the euro area stability is the soundness of the public finances. The Eurozone comprises a single currency in combination with fiscal policies conducted at national level – albeit within a common framework – by its participating Member States. This is unlike federal monetary unions, like the United States, where a federal government is endowed with sovereignty to tax and to provide common public goods. The US federal budget acts as a powerful stabilizer, enabling fiscal transfers to automatically flow from booming to slumping states, whereas the euro area has no such transfer mechanism.[11]

Regarding fiscal policies, it can be observed from the next figure that public budget situation was better in USA in 1999-2001, after which followed a deepening of budgetary deficit higher than the one registered in the euro area. Recently, the gap between those two deficits became higher. In SUA, the strong deficit reflects the strong

diminishing of incomes, caused by reduction of taxes receipt and substantial expansion of public expenses, following fiscal measures meant to support the financial system and the economy.

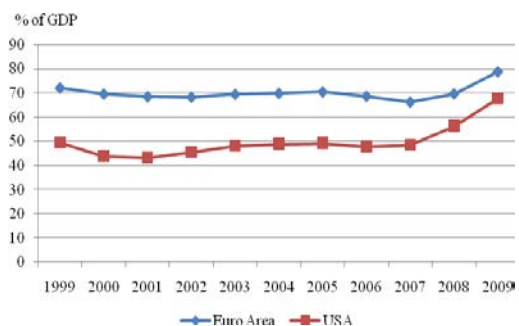
Figure 6. General government deficit/ surplus



Source: [4]

The share of public debt in GDP was higher in the euro area comparing with the United States of America in 1999-2009 periods. Economists consider that bringing public debt share at lower levels it will be difficult for the United States. Taking into consideration the high public deficit and the high and growing levels of debt, there are necessary strong efforts for consolidation in order to change the growing trend of these weights. [5]

Figure 7. General government debt



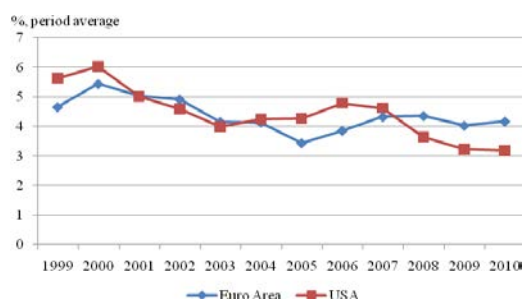
Source: [4]

The yield of governmental bonds had in 1999-2010 range similar values.

In 2008, there have been registered higher values for the governmental bonds yields, situation unrecorded since 2003. At the end

of 2008, the yields of long term governmental bonds in the euro area and the United States have been approximately 3.6% and 2.2%, being lower than the levels from the previous year with 75 base points and, respectively, 184 base points.

Figure 8. Government bond yields, 10 years' maturity - Annual data



Source: [4]

The yields of the long term governmental bonds in the USA have marked a powerful decline at the end of 2008, thus at the beginning of 2009 these have been situated at the lowest levels in the last forty years.

The fact that bonds yields have been situated at the lowest levels compared with historical averages has been determined by the ample cuts of the monetary policy interest rates, adjustments in a descending way of market participant regarding inflationary risks and of the massive reorientation of investors to the public bonds, in the detriment of risk assets.

Pronounced increase of the yields of the titles in the United States conducted to the switch of yields of governmental bonds in the euro area and the United States registered at the end of 2008, thus, the yields corresponding to ten years governmental bonds in United States have positioned at higher levels than those in euro area in the last part of 2009.

During 2010, long term government bond yields decreased in both areas, remaining lower in the USA than the euro area.

The analysis of the economic situation in the euro area, comparing with the United States is important even from the perspective of the fact that this represents one of the features considered in establishing the role of the euro as an international currency against the American dollar.

3. Conclusions

The dimension of the monetary union in the Europe attracts numerous comparisons with the monetary union in the United States of America. The performances of those two monetary unions somehow resemble. From the introduction of the single currency, the euro area registered better evolutions comparative to the USA only regarding inflation level, current account balance and budgetary deficit, having to recover at the level of unemployment rate, productivity and public debt situation.

4. Acknowledgement

This work was supported by the the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/CPP 107/DMI 1.5/S/78342]".

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Rose Effect: How Far Can it be Argued that the Euro Increased Trade?

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Abstract

Current imbalances in the euro area made it necessary to identify the benefits of a single currency in order to sustain the viability of it. This paper aims to review existing literature on the endogenous effects of monetary integration: whether sharing a single currency may bring countries closer together through an increase in trade. The first part is a review of significant paper in the vast literature on the endogeneity of optimum currency area theory that focuses on the main criterion that is subject of this hypothesis. The second part considers empirical literature on the effects of monetary integration on trade based on evidences provided by the euro area experience.

The main conclusion is that the hypothesis attracted a large number of studies and, although they provide heterogeneous results caused by using different methodologies, they all indicate a positive effect.

Key words: optimum currency areas, endogeneity, euro, Rose Effect

J.E.L. classification: E42, F15, F3

1. Introduction

The theoretical framework for analyzing monetary unions is provided by the Optimum Currency Area Theory. This was first introduced by Mundell (1961) and became known especially thanks to the cost-benefit analysis of monetary integration. Thus, the theory sustains that the advantages of joining a currency area depend on the capacity of the member countries to form an optimum currency area.

The creation of the European Monetary Union stimulated the interest in theoretical and empirical research on optimum currency areas and it is considered that the latter

contributed to the foundation of the single European currency.

Professor Ronald Mckinnon proposed one of the economic criteria, the degree of economic openness. According to this, countries which are more opened to each other could form a monetary union since renouncing at the exchange rate as an adjusting instrument for asymmetric shocks would not be costly.

One of the most important recent developments in the literature regarding optimum currency areas is represented by the analysis of how the creation of a currency union can affect the factors that influence the well functioning of it. The endogeneity problem of monetary integration can be explained by observing the fact that sharing a common currency by many countries can bring them closer together. These considerations have been captured in the endogeneity hypothesis of optimum currency area criteria.

The theory of optimum currency area endogeneity was first introduced by Frankel and Rose, who sustained the idea that countries joining a monetary union can satisfy the criteria ex - post, even though they are not fulfilled ex - ante [11]. Thus, according to Warin, Wunnava and Janicki ([21]), examining historical data gives a wrong image about the right moment to join a currency union since the criteria are endogenous. The argument brought by those two authors is based on the experience of the first wave of participants to the euro area which showed that some criteria for a successful monetary area, like trade openness and business cycle convergence, are endogenous.

This analysis should be regarded carefully because the degree of endogeneity can be exaggerated, some taking it too far by suggesting that almost any currency union can become optimal [22].

2. Criteria of the endogeneity hypothesis

The rich literature on the endogeneity of optimum currency area started with the article of Rose and Frankel (1997). Concentrating their analysis on trade integration they have showed that it increases significantly once a currency union is created.

With this paper, the authors have opened a series of debates on optimum currency areas, showing that the introduction of the single currency in an area can help to fulfill criteria ex-post even though they were not fulfilled ex-ante. Frankel and Rose analyzed business cycles and the trade intensity of twenty industrialized countries between 1959 and 1993 and found a positive relation between these two criteria. However, their analysis is based on non-euro data.

At the end of the paper, the authors sustain that this represents only the application of "Lucas's critique" to the optimum currency areas analysis, arguing that trade flows between states influences the business cycle synchronization since both criteria are affected by policies. According to the analysis of Silvestre and Mendonca ([20]), this shows that business cycles of the countries belonging to an optimum currency area are affected after integration by a centralized monetary policy and by an increase in trade flows.

Recent studies show that, before formulating the hypothesis of endogeneity by Frankel and Rose, this was intuited by the founder of the optimum currency area theory, Robert Mundell. The work of Warin, Wunnava and Janicki ([21]) brings to attention a less known article of Mundell that sustains the fact that risk division is optimal when countries fulfill a great degree of heterogeneity. This article represents an improvement, if not a correction of the optimum currency area theory, initiated by Mundell in 1961. Until this paper, Mundell argued that an economic area must be optimal before sharing a single currency or a fixed exchange rate mechanism. The causality has been reversed in 1973 since the sharing of a single currency or the participation on a fixed exchange rate mechanism can help an economic area become optimal. Thus, there is a precedent

for the endogeneity of optimum currency area theory (formulated by Frankel and Rose in 1997) represented by Mundell's intuition from 1973.

The endogeneity hypothesis of optimum currency areas is the opposite of the specialization hypothesis formulated by Krugman [15]. The latter appears illustrated in the work "Lessons of Massachusetts for EMU" where they use the example of the economic evolutions in USA from the last century. Based on this, the author considers that it will be specialization in the euro area countries and, thus, they will be more vulnerable to specific shocks.

Akiba and Iida [1] have sensitized the results of Krugman's work and showed that, as countries become more integrated, their reciprocal volume of trade increases (a macro-economic sufficient condition for the OCA), implying an increase in the degree of fulfilling the criteria. The increase of openness encourages specialization of production in commodities, for which the exporting countries have a competitive advantage and this determinates the undermining of the necessary condition for an optimum monetary area. Countries in a monetary union are vulnerable to asymmetric shocks because the correlation coefficient of the outputs tends to fall.

Frankel combated the anti-synchronization hypothesis of Krugman by emphasizing the fact that a great share of the current trade is in inputs and intermediate goods, therefore it leads to a positive cyclical correlation [12].

Later on, there have been discovered other sources for the optimum currency area theory. Many authors brought concept similar to the ones already mentioned, but in other fields than trade. Mongelli (2008) examined three additional sources of endogeneity, as:

- the endogeneity of financial integration or the equivalent of insurance schemes;
- the endogeneity of symmetry of shocks and synchronisation of outputs;
- the endogeneity of product and labour market flexibility [17].

3. Empirical results regarding trade effect

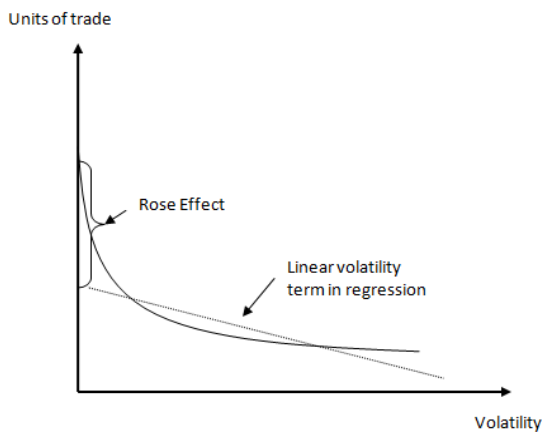
Endogeneity hypothesis launched by Frankel and Rose has been followed by a series of empirical studies considering the

impact of joining a monetary union on trade and business cycle synchronization.

Professor Andrew Rose from California-Berkley University opened a new chapter in the international economy research with an article published in 2000. He addressed a simple question and got a simple answer: What effects has a single currency on international trade? The answer: big. The model used represented a naive version of the standard gravity model and found that trade approximately triples among countries that share a common currency, after controlling for exchange rate volatility. The idea of Andrew Rose that monetary union can contribute to trade expansion within euro area lead to the formulation of "Rose effect" concept.

The results of Rose study showed that the effect of a monetary union might be different from the effect of reducing volatility. Taking into consideration that a common currency is a much more robust commitment than a promise to reduce exchange rate volatility or even a currency board arrangement, it might be expected to have non-linear effects. This can be illustrated in the figure 1 below.

Figure 1. Exchange rate volatility and trade



Source: [17]

From the previous graphic it can be observed that the non-linear relationship is illustrated by the solid line, while the linear exchange rate volatility term in a regression captures the relationship given by the dashed line. Thus, the addition of a common currency dummy to the linear volatility term might be showing up as the "Rose Effect".

The effect on trade of the single currency estimated by Rose was too high to convince many economists, fact that brought him many critiques. Such large estimates generated significant interest and researchers began the "Shrink the Rose Effect" effort [8]. Some of the critiques were grouped by Baldwin into three categories:

- omitted variables (omitting variables that are pro-trade and correlated with the CU dummy biases the estimate upwards);
- reverse causality (big bilateral trade flows cause a common currency rather than vice versa); and
- model misspecification [4].

A recent analysis conducted by Frankel ([13]) identifies five sources for the skepticism regarding Rose (2000) results. Two of them can be found in those formulated by Baldwin: omitting some factors and the endogeneity of choosing the currency [2].

A new critique is related to the fact that the evidences obtained at section level do not necessarily lead to the real time affect obtained by the countries who adopt a single currency. Also, Frankel sustains the fact that the estimated effect on trade is too high to be credible. The arguments brought by other authors, related to choosing the parameters and to the fact that the real effects are more reduced, seem to sustain this critique.

Finally, the last critique refers to the fact that Rose evidences are obtained after analyzing countries that were small or very small. Thus, it was not so clear that the estimations could have been extended to bigger countries. The economies in euro area tend to be large, very large, while the countries outside the area tend to be small, some of them even very small.

Rose (2000) paper regarding the impact that unions have on trade has been followed by many studies.

Micco, Stein and Ordoñez ([16]) have realized the first published study that applies Rose techniques to euro area. The authors used the gravitational model of bilateral trade, taking into consideration the fixed effects of countries pairs and using annual data for 1992-2002 periods. Based on different regressions, the authors have estimated that the single currency effects on trade inside euro area ranged between 4 and 16%.

Flam and Nordstrom ([9]) have introduced a number of innovations that corrected some standard econometrical mistakes in the literature. Their main results on aggregate data are similar to those of Micco, Stein and Ordoñez (2003), in matters of size and synchronization. They have used countries outside euro area and eight other additional countries with high income as a control group and obtained as a result the fact that Rose effect implies approximately a 15 percent higher trade; the volume of trade between euro area countries and other countries is raised with half of the previous mentioned value. Using the clearest definition of the control group, the Rose effect is only 9 percent. Findings on sectoral data show that Rose effect is found only in the sectors with differentiate products.

The work of Flam and Nordstrom ([10]) revised the 2003 study by using more recent data. Moreover, they have offered estimations of Rose effect on components trade in opposition to the final goods trade, for studying the possibility already indicated in 2003 that euro currency encourages production fragmentation. This study shows that the "Euro Effect" is increasing over time. While for their 1989-2002 dataset is 15%, for 1995-2005 data is about 26%.

Bun and Klaasen ([6]) represents an actualization of the paper wrote in 2002. Unfortunately, the results are destroyed by the „silver medal" mistake. This is kind of surprising because the previous paper, Bun and Klaasen (2002), is one of the few studies that have avoided this mistake. At the beginning of the paper they have reproduced the results from previous literature by estimating the euro's effect on trade between 51% and 18% for data sets from 1997-2002, 1992-2002 respectively. After including the trends, their estimations dropped to 3 percent and 2 percent respectively.

De Nardis, De Santis and Vicarelli ([7]) also improved their previous paper from 2003, the central point of the new one being represented by the application of the dynamic study in estimating euro's effects. Unfortunately, their results are difficult to interpret since their work is marked by the Anderson-van-Wincoop wrong interpretation, which is very common in the literature. This paper shows a euro effect about 4-5%.

A less known paper is the one of Gil-Pareja, Llorca-Vivero and Marinez-Serrano ([14]), which uses the gravitational model based on data referring to 25 OECD countries in 1950-2004 periods for estimating euro's effect on trade. The problems found in used methodologies are high lined by the obtained results. The main estimations show a euro effect between 38% and 71%.

As Baldwin mentioned about the literature before the introduction of euro, such high estimations lack of credibility [2]. If the trade between the countries who used euro would have increased in 1999 with 60-70% over the one of the other EU countries who had not adopted euro, there would not have been needed special econometrical studies to detect this growth. The effect would have been obvious since the rest of the factors which determined the trade was not different in euro area compared to the rest of the countries from EU5 group.

Baldwin identified the main critiques as the gold, silver and bronze medal for gravity equation mistakes. The gold medal is for omitted variable bias; the silver is for using the average of exports and imports and the bronze medal is for deflating nominal trade variables by US CPI inflation [2].

Baldwin and Taglioni examined the dimension and the sign of the errors caused by the mistakes in the econometric studies previously presented [3]. The paper also analysis a number of problems related to data manipulation. To offer a reference point, the authors took as example the paper of Micco, Stein and Ordoñez, using a data set as close as possible to those regarding the analyzed years and countries.

The most recent paper of Jeffrey Frankel (2008) studies the causes of the discrepancies between estimations referring to euro's trade effects between member countries – approximately 15% result of own research and of other previous studies – and the estimates of the effects on other currency unions – up to 200% [13]. The author shows that the difference between estimations is not caused by one of the invoked reasons. Mainly, the difference is not caused by lags (or by the vision that it takes time for the monetary unions to have an effect on trade), by omitted variables, by reverse causality (trade can help the creation of a monetary union) or by the threshold effect (or the

vision that monetary unions can determine important increases of trade in countries with a certain dimension or with a certain income. In exchange, the paper shows that the difference between estimations can be determined by the sample size.

Rose (2008) considers the analysis of 26 studies regarding euro currency effect on trade [19]. The author observes that individual analysis of each study shows the fact that there is no consensus on the effects of EMU; a conservative estimation shows an increase with 8 percent, but there is also plausible a 23 effect. The hypothesis of no effect can easily be rejected.

In the same paper of Andrew Rose are synthesized the studies regarding the effects of trade on business cycle synchronization. There are analyzed 20 studies realized from 1998 to 2007. And in this case the results are heterogeneous; the idea that a change in trade volume has no impact on business cycle synchronization is incompatible with the results found. A more conservative estimation shows that every increase of 1% in the trade between two countries seems to lead to an increase of the correlation coefficient about 2 percent.

Berger and Nitsch (2008) formulated some critiques to Micco, Stein and Ordoñez (2003) study. Most important ones referred to: the euro effect is too large relative to EU membership effect, it appeared in 1998, a year before the launch of the single currency and the effect is heterogeneous among countries.

Baranga (2009) argues that trade gravity equations will always suffer from omitted variable bias and that including fix effects can never completely control for endogeneity problems, as at least one free dimension of error variation has to be left uncontrolled for in order to estimate the coefficients.

Despite these critiques, the prior empirical evidence finds that the euro trade effect exists, but is much smaller than previously thought and smaller than results obtained with non-euro data.

4. Conclusions

The endogeneity problem is relatively new and it makes necessary many empirical studies to prove its functionality. It remains an open question if the countries form a

monetary union because they have a high trade level or trade increase is due the fact they form a monetary union. At the same time, we can ask if countries can form monetary unions and wait to automatically appear the benefits of a greater integration.

The validity of Frankel and Rose arguments is controversial as a result of the fact that recent empirical studies confront with difficulties caused by the short period of time since the euro introduction and the differences in the methodologies used. Even though the triple effects of trade volume described by Rose have been rejected by many economists, monetary union positively influences trade openness of the countries that choose the participation to a monetary area.

Thus, after the analysis of many empirical studies regarding euro area, I can say that monetary integration in euro area had a direct consequence on trade growth. Even though there are no similar experiences and the time since euro introduction is relatively short for estimating the effects on trade, European monetary union is about to become an optimum monetary area.

5. Acknowledgement

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The Persuasive Communication in Marketing Strategies

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Abstract

Connected to an environment characterized by dynamism, the organization faces both opportunities and difficulties. It must possess a high capacity to adapt to changes and quickly respond to the environmental signals.

The market or environmental instability may undermine the organizational behaviour and its objectives only if they have not existed or have been wrongly taken into account. One can appreciate that a clear horizon attaches importance and necessity to the incorporation of the company shares in a future vision, in an unitary and coherent policy-the marketing policy.

Key words: advertising, persuasion, communication, marketing strategies.

J.E.L. classification: M30, M31, M37

1. The Marketing Approach of the Advertising Representation

Viewed over time, the organization's marketing policy is characterized by a relative stability, a continuity of its defining features. The relatively sustainable marketing policy is mainly explained by the determining role of its strategic components, which relate to a specific time horizon. [3]

The particular features of the company's marketing policy and its promoting performances specifically reflect the ways the four elements of the marketing mix - product, price, distribution and promotion - are used in an appropriate combination. Their combination must ensure the adaptation of the company's opportunities to the external environmental conditions.

The future orientation of the company is increasingly required by the new conditions in which they operate, that is to say, by both the company's internal conditions (technical, organizational and others) and the conditions characterizing its external environment.

The future orientation does not imply only the increasing role of the foresights in making decisions; it is a global attitude, a behaviour that gives meaning to all business activities. This is the politics of the global marketing consisting of a mix of strategies and tactics.

The strategic orientation of economic activity is a feature of the marketing policy of the modern enterprise. The policy incorporates a set of marketing strategies that are appropriate to the conditions in which the organization operates. Being closely connected, the marketing strategy and policy are different concepts. They are in a whole-party relationship.

We live in an environment dense with influence attempts. A large number of the population makes a living simply by getting others to comply with their requests. Conservative estimates suggest that a person will receive up to 400 persuasive appeals *from marketers alone* in the course of a single day. In the situations in which a manager encourages productivity, a salesperson closes a sale, or a president tells us we need to spend more money on social programs, each of us is subjected to an uncountable number of influence attempts each day.

Bringing together the strategies and the related tactics, the marketing policy designates a company's particular "mode" of address and solving problems. The physiognomy of the marketing policy reflects not only the specific objectives of the

company but also the options regarding the ways to achieve its objectives.

In advertising, communicating a message is what the organisation wants people to know. People ask for information about its existence, offer or about the ways they can solve their problem. They are establishing a communication channel that is persuading people to listen.

In the composition of each of the four components of the mix there is a wide range of tactical elements; they represent the materialization of particular strategic guidelines established for each component. [6]

The marketing-mix designates the totality of all the variables that a company may use to influence the target market, namely how available resources are trained to get the desired effects. [3]

Each of the four basic components of the mix contains a considerable number of characteristic elements, called components of marketing (product, price, distribution, promotion) that can be combined in different ways.

Sometimes overlooked, often overloaded, it occupies an important place in promoting the theory and practice of the marketing. [1]

Promotional activity involves a complex communication with the market informing potential consumers about specific actions. Any business that produces or sells a product or service must communicate with the customers by sending them messages through various marketing communication techniques to create a favourable image of the company and its products.

2. Persuasion and Advertising

From our perspective, society is a massive group of people influencing, persuading, requesting, demanding, and otherwise manipulating each other to achieve their goals. We call it society because we persuade instead of physically coerce. Persuasion makes society work smoothly, while physical coercion grinds it to a halt. Successful persuasion makes physical coercion unnecessary, interpersonally and internationally. Thus, society benefits from persuasion. The individuals who know how to persuade benefit the most from society.

Persuasion is a communicative function that can be pursued in many different settings, ranging from face-to-face interaction to mass communication. Mass media persuasion takes three primary overt forms: commercial advertising (of consumer products and services), pro-social advertising, and political advertising. On each of these subjects, there is extensive empirical research and theorizing.

Studies of consumer advertising have examined such questions as the effectiveness of different advertising strategies, the role of endorsements in consumer advertising, effects of varying the frequency and timing of advertisements, the role of visual elements, and so on. Advertising is commonly one part of a larger marketing effort, involving decisions about pricing, product distribution, market segmentation, sales force management etc.

Pro-social communication campaigns (sometimes termed "social marketing" because such campaigns apply familiar marketing tools to pro-social ends) aim to forward environmental or charitable causes or to advance health-related ends such as encouraging people to exercise, quit smoking etc.

Research on health promotion communication has been informed by such theoretical approaches as the health belief model, the stages of change model of health behavior change, and the extended parallel process model.

Studies on political persuasion (especially, but not exclusively, in the context of election campaign advertising) have examined issues such as the effects of negative advertising and the role of televised political debates in elections.

The cognitive process of persuasion through communication is not new; we have leaned to associate cognitive thoughts and perceptions to a certain sets of emotions. The emotions arise as a result of our perception in marketing through the message and also through their level of awareness, acceptance and buyer stage.

If we change the perception, what will happen? Will that have an effect upon the persuasion? We deem that it will. The retailers created a change of perception with the sales. The retailers persuaded people to want to have. Surveys have shown that

people said that while they bought for others, their reason for going was, for them, too good to pass up. The retailers know this and create a message to them. Did they talk to the children's parents to get that doll or loopy loop Hot Wheels? It was certainly advertised in their sales circular and on the children shows but not so much on network TV. They changed the perception that we can buy for us. When we communicate do we persuade?

3. The Contribution of Advertising to the Overall Economic Welfare

The productivity of the economy should be seen both from the perspective of firms, and in terms of global economy. Obviously, companies need to advertise to prevent erosion of market share mark, even in the absence of total sales growth in a particular branch. However, many economists are interested in advertising from a macroeconomic perspective. That is, it can be said that advertising contributes to the overall success of the economic system, or only to the success of a particular company? Does advertising introduce effectively new products? Does it contribute to economic growth and creates new jobs?

Economists see advertising contribution to the economy divided into four categories. [7]

- Counterproductive. Advertising is counterproductive when prices increase or, in one way or another, creates dissatisfaction with products that are still useful.
- Unproductive. Unproductive advertising does not increase overall demand but do not bring any harm. Advertising aims to determine the brand change from existing customers included in this category.
- Less productive. Advertisements in this category result in an increase in overall demand but at a lower level than other techniques or an unreasonably high cost.
- Very productive. The most productive advertising produces the lowest welfare cost. The implication of this category is that both buyers and sellers have equal advantages.

It is difficult to use generalities when we consider the economic value of publicity. Advertisers' contribution to sales of products depends on a lot of circumstances unique to

each product. Utility market productivity of relatively new products such as personal computers, is much different from beer and tobacco industry market, which are characterized by uniform sales and brand changes between existing users. However, it is obvious that advertising brings a real contribution to profitability; otherwise companies would not use it.

4. The Social Role of Advertising

While the economic contribution of advertising is the major preoccupation of both companies and consumers in recent years, its social implications are increasingly considered. Almost everyone agrees, even the most fiercely critics, that advertising plays an important role in informing consumers about products, locations, prices and markets. These are the economic functions of the institution of advertising. On the other hand, social and cultural role of advertising is much less clear and is increasingly becoming a topic of discussion in some circles.

Many observers points out that advertising is both a mirror and a shaper of public opinion, social mores and standards. They maintain that the absolute value of exposure, advertising establishes a social agenda on what is expected, what is fashionable and what is good taste for a considerable number of people. This is manifested especially on young people, poorly educated and impressed. Many people deem that the way advertising embraces different segments of society - for example, the elderly, minorities, or young people – determines, to a certain extent, the way these people will be treated by others.

It is used in an active social role when advertising sustains the fight against the abuses to which children are subjected. [7]

5. The Excessive Visibility of Advertising

Advertising has been criticized. It is too much that becomes annoying. Most critics of this category are directed against television because print ads are easily ignored by turning the page. It is an established fact that both advertising by mail and telephone sales struggle against those who wish to apply

legal restrictions against the use of these promotional techniques.

With the rapid introduction of the new communication technologies, the fragmentation and the interactive nature of the future advertising vehicles will undoubtedly reduce much of this criticism. It is obvious that in the situations when interactive communication means will allow consumers to select programs, advertising and desired advertising info, advertising is unlikely to be considered troublesome.

6. The Undesirable Social Effects of Advertising

The accusations that advertising determines people to buy things they do not want or need degrade the moral principles and, in general, exploit the most impressionable segments of society. Most studies have shown that mass ads, especially insistent open communication, such as advertising, have difficulties in determining small changes in behavioural attitudes or intentions.

The idea that we see an ad and forced, against our will, to buy a product, seems to be absurd. Like any other mass communication, there are situations in which some readers or listeners behave in a manner that is totally contrary to the intention of the person that sent the message.

It is an interesting fact that the overwhelming majority of critics in this category is meant to protect other people, not the critics themselves. This means that most critics consider that, although a particular advertising item will not deceive them, they are obliged to help those less intelligent that can be deluded by an advertising artifice.

Criticizing advertising is not a new phenomenon. A brief review of the history of advertising and its critics demonstrates that both parties have considerably changed over the past 130 years. The public's opinion about advertising has changed over three periods:

- The age of exaggerated claims (1865-1900). During this period, most people have accepted advertising as a communication form such as "the buyer is able to take care of himself". In fact, any product presentation was allowed. Some

business presentations, especially for the so-called miracle drugs, were so unnatural that nobody could trust them.

- The age of the public's maturity (1900-1965). In the early twentieth century, laws such as The Genuine Food and Drugs Law and demonstrated that the public required an accurate description of public goods and services. Many responsible companies have feared for the existence of this economic activity because the misleading advertising was increasingly spreading at the end of the nineteenth century.
- The age of the social responsibility (1965-up to the present). In the past thirty years, the companies involved in advertising have understood that the simple truth was not enough to meet the consumer's demands. These companies are aware of the fact that they must meet a standard of social responsibility, in addition to the achieving a fair advertisement.

Although the main offenders in the field of televised debates have few supporters among the public, there is reluctance to the idea that advertising holders should "cooperate" with the producers as far as the content of the programs is concerned. In the same way that tobacco companies against the First Amendment condemns interpretation to prohibit advertisements cigarettes, many disagree with the direct involvement of companies in the content of programs, however accurate would be the reasons.

7. The Evolution of Brands in 2010-2011

David Haigh, CEO of Brand Finance asserts: "The rise of the technology brands has been expected for some time, although Nokia's fall shows that it is tough to stay at the forefront of such a dynamic industry. Over the last couple of years, we have found that, across many leading companies, senior management are increasingly using brand valuation dashboards to monitor the health of their brands throughout the year in order to make better informed strategic marketing decisions. This trend is likely to continue as the sheer size of these brand values becomes impossible to ignore". [8]

Table 1. The Top 10 Brands

Brand				Brand Value (USD \$ Millions)		Brand Rating		Market Cap (USD \$ Millions)	
2011	2010	Logo/Icon	Name	2011	2010	2011	2010	2011	2010
1	2		Google	44,294	34,158	AAA+	AAA+	143,014	157,970
2	5		Microsoft	42,805	33,403	AAA+	AAA+	143,724	199,969
3	1		Walmart	34,220	41,343	AA	AA	134,324	190,803
4	4		IBM	34,157	33,704	AA+	AA	189,717	180,027
5	7		Nokia	30,674	28,995	AAA+	AAA	192,455	178,403
6	12		Bank of America	30,419	24,047	AAA-	AAA+	120,156	111,794
7	6		HSBC	30,304	31,909	AA+	A+	470,044	528,712
8	20		Apple	29,943	19,829	AAA	AAA-	244,381	154,414
9	15		WELLS FARGO	28,944	21,914	AA+	AA	134,009	131,223
10	11		ARISTA	28,884	24,383	AA+	A+	233,987	229,732

Source:

http://brandirectory.com/global_500_2011.html

Although the top tier of the Brand Finance Global 500 contains many household names brands that have existed for decades – IBM, Bank of America, HSBC – the world’s increasing dependence on the Internet is reflected by Google’s position at no.1. Five of the top ten largest growers are technology-related companies, reinforcing the commercial importance of embracing technological innovation to give a seamless, value-enhancing brand experience for customers and consumers. ‘Don’t be evil’-Google’s dominance of the search engine sector means it tops the 2011 table. The company has repeatedly undertaken ventures that are comparatively un-commercial but have a positive impact on its brand rating (AAA+) which is the highest in the table. These actions include developing services help rescue efforts following the natural disasters in New Zealand and Japan and its growing not-for profit arm.

Apple’s success continues as it moves up twelve places, supported by innovative design, a very loyal consumer base and well-executed marketing activities. However, Coca Cola has dropped out of the top ten for the first time. This is underpinned by the consumer trend in developed markets to move towards healthier, non-carbonated drinks. Wal-Mart was one of the few brands to actually increase its brand value during the banking crisis due to its well-defined, value-

oriented proposition. Its value has dropped slightly but, due to its overall size, its marginal loss (12%) means it also becomes one of the largest losers for 2011. BP suffered a torrid time in 2010 although, according to a Brand Finance study in August 2010, the brand value had dropped as low as \$4.7bn. It has now rebounded to \$8.8bn but is facing further problems relating to its partnership with Rosneft. Nokia suffered the largest fall in brand value – \$9.9bn. The company has struggled in the smart phone market, a victim of Apple’s success, although the partnership with Microsoft may help to revive their fortunes. Facebook enters the Brand Finance Global 500 for the first time with a brand value of \$3.7bn. Although monetisation of the world’s largest social networking site remains contentious and its product diversification strategy remains relatively opaque, there is little doubt concerning the brand’s huge popularity, its effectiveness in entering new markets and stratospheric levels of consumer usage.

Advertising, as any other business, must operate in a complex environment of ethical, social and economic, in a business world increasingly complex, may not be offered easy answers to many questions raised as critics and supporters of advertising. Companies that advertise, their agencies and mass media continued to struggle with ethical issues of content, presentation and acceptability of multitude of product categories, statements and advertising practices. These problems have easy solutions and should be resolved on a case-by-case basis.

The key to successful advertising is the concept of putting the consumer at the forefront. Companies operating from the perspective of business management in a manner that favors the consumer will benefit themselves. Also, firms that carry advertising may not be blocked by any critic or critical opinion. Eventually, companies will have to listen to advice from the branch manager, who said that companies must take into account all criticism, but to follow his own conscience and their sentimental value.

Advertising industry leaders are increasingly worried about the attacks made on legal advertising and fair, the critics fail to

understand the social and economic value of unhindered communication.

As different phenomena happen in this space, the job is going to evolve. You constantly have to be challenging yourself, challenging your client and learning new things.

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Strategic Measures to Decrease the Adverse Effects of Financial Crisis

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Abstract

Romania, as in all countries of the world, can not overcome the financial crisis without business growth, without finding opportunities for economic development and attracting investment into the country without. Successful managers find ways to overcome situations of uncertainty. The strategies adopted are based on a series of simplistic reasoning such as analogy, taking into account the ideas of experts, rigorous debate and experimentation. Business leaders today must deal with an avalanche of ambiguity, it must decide on the future of the company. In this paper, I propose to develop marketing strategy called "blue ocean" as an opportunity to transform challenges into opportunities of economic crisis.

Key words: crisis, blue ocean, strategic sail

J.E.L. classification: O16

1. Introduction

After a considerable number of failures and bankruptcies landslide, companies have begun to pay increasing attention to be justified, how they are managed in-house activities, and identify all possible threats and skilled construction plans to address them.

The first step is to differentiate between the problems, threats and actual crisis. Although we use the term crisis management, effective management of the crisis is, in general, that the crisis is not reached. Basically it's more a management problems, or efficient management of business. Amid economic crisis, more and more companies are facing with financial and budgetary deficit. In these circumstances it is necessary to find solutions to finance

economic activity, to be developed, implemented and effectively managed.

In this paper, which is structured 5 chapters, I propose such a strategy, called blue ocean strategy, strategy developed by foreign researchers, which try to apply the current situation in Romania.

2. Chaos and economic crises

Rigid structures based on functional specialization, behavior formalization of the hierarchy of authority and claim to have the mission to preserve and coordinate the rarest resource of all, the most valuable economic factor - the information. Currently, more and more economic values are incorporating information and knowledge. Therefore, increasing the productivity of information and knowledge is no. 1 challenge of the new economies. Solving this problem related, in essence, by increase use a factor of production, is the focus of information and knowledge where they are really necessary for making decisions and solving operational situations. As sources of information and knowledge are diverse, their concentration, "where should" implies the imperative, to ensure their free flow throughout the economic system [1].

In the current economic crisis, some sectors or markets have been hit particularly hard, are practically the outbreak of the crisis. Most corporations that make up these sectors have been facing a rapid quantitative expansion, being adjusted, especially through central planning, and vertically oriented with a strong vocation Directive. In such circumstances, any short circuit, in particular information and data, the hierarchical control of disseminates pathways, accumulation and distribution of errors throughout the system. It's about quality degradation feedback circuits and as a consequence, the potential losses of self-organization. Massive

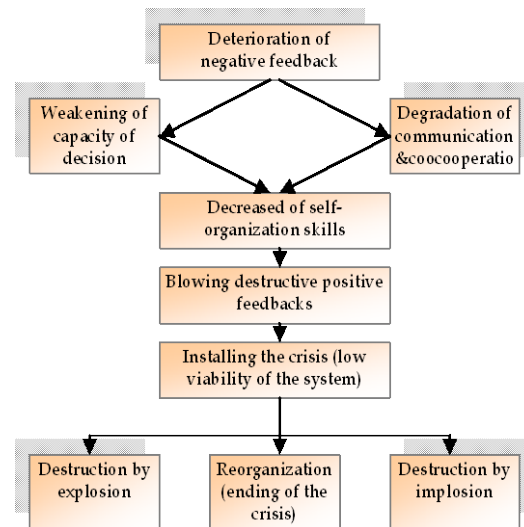
weakening of self-organization skills (based mainly on the horizontal relationships between the actors and autonomous decision-functional aspect) made impossible the resorption of these tensions dynamics of adjustment and "local" [2] adaptation.

The crisis is not simply a direct expression of these deficits: the systems are not able to be "The self" efficiently and simply, the "spoils". Any economic crisis is, above all, a crisis of adjustment, meaning that the mechanisms of information processing and knowledge, communication circuits, routines for cooperation and decision-making procedures do not work [3].

It begins with the deterioration of negative feedbacks that stabilize and control mission system. Malfunction negative feedbacks can happen under the pressure of both the external constraints, and those internal. The effect is essentially the same: the errors lead to error feedback control (management), and these, in turn, causes distortions in the functioning of the system. Impaired negative reverse connection circuit generates global and local decision-making capacity erosion and degradation intrasystemic communication and cooperation. Degeneration is to reduce the effect of these processes of self-organization skills. The harder is the recovering of the system from shock. More difficult problems are identified, mobilized resources, created internal and external connections necessary for effective action.

According to Vadim Dumitraşcu outlines the main elements of establishing a general model of crisis in the overall pattern of economic systems is the installation of the crisis.

Fig. no. 1. The overall pattern of the installation crisis



Source: Vadim Dumitraşcu, Smile of chaos. Management of hipercomplex systems Ed SEDCOM LIBRIS, Iasi, 2010, p. 127

The crisis begins when one or several variables of the economic system tends to shift to the border is the so-called "safe beaches", their behavior becomes unstable and abnormal, in other words is chaos. Installing the growing intensity abnormalities and, at some point becomes so great that manages to destabilize the entire economic system. Based on the model system - a company, we see a rapid increase in sales as possible (lead, after some time, adverse developments in other variables, resulting in those causing eventually a downward trajectory of the cash-flow and dangerous proliferation of various economic and financial risks [4].

The financial crisis that is currently going through was also triggered by a "local event" – bankruptcy of Lebman Brothers and ING banks - which has spread throughout the financial system violent world. A small economic crisis became the most highly consumed much of his energy and resources just to ensure simple survival.

The crisis is the negative aspect, destructive, destabilizing the chaos in economic systems [5].

In clarifying the mechanism of seizures in the economic systems, it holds an important place Volterra paradox: while the system no longer responds to stimuli that usually apply,

but instead displays the opposite behavior normal and expected [6].

The descriptive (qualitative) model of the evolving crisis could be an economic system. Let us assume a relatively simple economic system - company. Modeling this system based on two interrelated variables: the volume of sales (turnover) and cash flow (cash flow for the period), which evolves out of phase periodically.

Apparently, between turnover and cash flow, there is a positive correlation: higher sales increase cash flow and cash flow enhancement provides additional resources to expand operations and thus to further increase the annual business. However, this positive correlation only works in certain circumstances, and in others not.

Thus, too rapid a growth in turnover can cause, while a decrease in cash flow and, consequently, a reduction in future sales. Volterra is an illustration of the paradox. In this dynamic, can be detected following factors:

A too rapid sales growth, particularly if it becomes a normal development of the sector, followed by most operators will lead to market saturation and thus to a decline in sales and future cash flows.

Expansion of turnover may be driven mainly by lending to commercial customers to encourage purchase orders which mean a revenue deferral period and therefore a reduction in cash flow.

Multiply the number of clients will increase the percentage of bad payers' customers, with negative impact on earnings and cash flow.

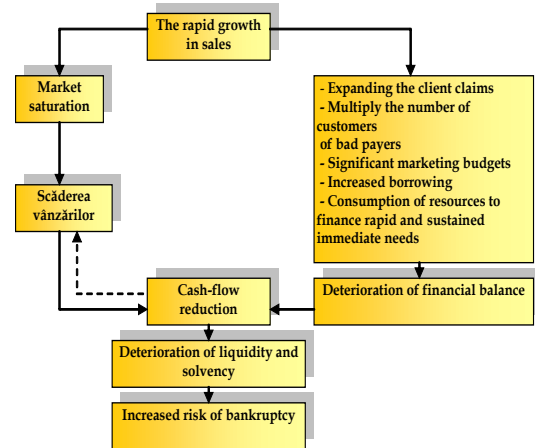
Turnover expansion means expanding the operating system (increasing the volume of current assets and assets), which means increasing financing needs both short and long term, with obvious negative effects on cash flow.

Expanding the market for sales growth may require significant allocation of marketing budgets, which will reduce cash flow.

Self-financing, regarded as a gross cash flow may not be sufficient to support the financing needs of increasing turnover, appealing to leveraged companies, a process that will reduce future cash flows from payments made in repayment of debt.

Entry mechanism in the crisis-business system is illustrated below.

Fig. no. 2. Installation mechanism crisis in the system – company level



We see a very rapid acceleration of growth in turnover can lead to suffocation financial-firm system. The two interdependent variables - turnover and cash flow – have not of the same period of development. Forcing one, in this case, the turnover will lead to the deterioration of values of other variable - cash-flow.

This development became possible because the firm left-attractor system stable, "friendly", which determines its behavior in the past, moving more in the area of influence of a chaotic attractor, "selfish". Stable attractor was represented by a prudent development policy management, balanced and rational, based primarily on grounds of sustainability of growth. Chaotic attractor is developing the new policy as soon as possible, which neglects important prudential restrictions, based on overly optimistic forecasts of future market developments. The company entered into a "whirlwind" of growth at any price, and while this growth has proven to be inconsistent in terms of money.

In this processuality, many errors are detected and feedback and destabilizing positive feedback. Imagine an entire sector or even more sectors are covered by such a "fever" of growth. In fact, this happened, at least if we consider the manifestations of the crisis in Romania. Let us remember the sudden drop in sales in the retail sector's durable goods storage platforms or packed

the car dealers or real estate collapse. These and other calculations have been based on unrealistic scenarios, but cyclically evolving markets, they can not grow indefinitely.

Each of the elements described above process creates specific risks, the cumulative action, fragile system, leading to a sharp weakening of financial balance [7] conditions:

- risk due to the fast-growing financial needs against available resources;
- increase the risk of not collecting due to bad payers customers;
- risk of non-recovery of expenditure invested in expanding the operational and marketing budgets;
- specific risk of borrowing;
- reducing the risk of liquidity and solvency.

Combined action of these risks, "hot" system, leading to a chronic financial balance and therefore increase the danger of bankruptcy risk.

3. Chaos between risks and opportunities

A critical feature directly related to the propensity of be a chaotic economic system, but also to stabilize their behavior, is the length (duration) of its normal operating cycle.

A typical operating cycle, specific micro-systems, the business cycle is the sequence of operations they carry out a firm from taking control of the customer and ending with receipt of invoice issued by the client.

Systems with short operating cycles are usually more sensitive, more frequent and can record large fluctuations in their functioning, but have at the same time, a stronger capacity to rebalance: they are "familiar" with the turmoil. Systems with long operating cycles are more stable, fluctuations in their operation being rarer and less spectacular if the shock enough to seriously disturb them succeed, it takes tremendous energy to stabilize them. The current economic crisis provides many examples: the most affected sector firms have been characterized by long business cycles (construction, metallurgy, shipbuilding, machinery and automobiles, chemicals, etc.), although the crisis first erupted in sectors

shorter business cycles (banks, financial services, retail, etc.).

4. Blue Ocean Strategy

W. Chan Kim Professor of Strategy and International Management at INSEAD, the firm Boston Consulting Group Bruce D. Henderson with Renee Mauborgne, Professor of Strategy and Management at INSEAD, Fontainebleau, France have developed the "Blue ocean strategy" [8] (2005) a famous book of marketing strategy that has been sold millions of copies sold and translated into 41 languages (Romanian and published by the Old Court, 2007).

The two teachers were studied over 20 years how to create novel market areas, so that competition becomes irrelevant. Their conclusion is based on a market universe composed of two sorts of oceans: some red, others blue. Red oceans represent all fields available today. This market area is known. Oceans blue means all areas which today still exists. This market area is unknown.

The central idea is this: it is pointless to continue fighting in "red oceans" with fierce attacks on the competitive market share and profits, but must seek or create "blue oceans", free from competition, which can grow rapidly and profitably. In red oceans of existing market you operate in and fight to be better than competitors by exploiting existing demand and choosing between differentiation and lowest cost. In blue oceans, creating a new market where competitors are irrelevant, develop and manage application and get the lowest cost and differentiation.

It criticized the theory that companies can create value for the client at a higher price (differentiation strategy) or to obtain a reasonable value at a lower cost (lowest cost strategy) and the proposed path of "value innovation" ("value innovation ") that create value and reduce costs at the same time.

In red oceans, within each business are defined and accepted, and the competitive rules of the game are known. By contrast blue oceans are defined as areas of virgin market with an application to be created with a high probability of profitable growth.

Although some blue oceans are created well away from existing areas within, most blue oceans emerge from the red oceans by expanding existing business boundaries, as

did the Circus of the Sun of Canada has developed a new circus, another audience, theater audiences closer than the public circus that Ringling Bros. and Barnum address & Bailey (Circus World Champion in the industry). In blue oceans, competition is irrelevant because the rules are not yet established.

"There will always be important to swim in red oceans, surpassing your competitors. Oceans will always look red and will always be a reality in the business world. "

A delicate situation is created when supply exceeds demand in more and more economic side, and goes fight for a share of a declining market, although necessary, however, will not be enough to maintain high performance.

Companies need to move beyond mere competition, and to possess the potential profits and take advantage of growth opportunities; they need to create blue oceans.

Unfortunately, blue oceans are unexplored because in the last thirty years the main concern in developing organizational strategy to focus on red oceans, based on the idea of competition.

Red ocean strategy, based on competition, "assumes that all branches of economic structural conditions are predetermined and that firms are forced to fight In a given framework. Scientists call this structural view or environmental determinism. In opposition to this vision is the specific value innovation blue ocean (see figure below).

Fig. no. 3. Red ocean strategy vs. blue ocean strategy

Red Ocean Strategy	Blue Ocean Strategy
Competing in an existing market area	Creating a market undisputed
Upgrading competition	Making competition in an irrelevant factor
Exploitation of existing application	Creating and attracting new applications
Compliance ratio value / cost	Abolishing the ratio value / cost
Adaptation of the whole system of activities of the company the option of differentiation or low cost strategy	Adaptation of the whole system of activities of the company's business objective of differentiation and low cost

Source: W. Chan Kim, Renee Mauborgne, "Blue Ocean Strategy", Ed Curtea Veche, Bucharest, 2007, p. 36

5. Strategic vela

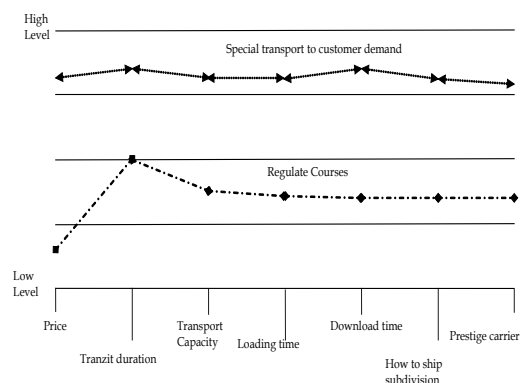
Strategic Vela is a diagnostic method and a framework for designing a compelling blue ocean strategy. Strategic Vela should answer two questions:

a) How come the red ocean of bloody competition for making your competitors irrelevant?

b) How to discover and take possession as a blue ocean, the undisputed market areas?

The following figure range on the abscissa the factors that are manifested in the provision of transport services in Romania inland today, and the ordinate shows the level offered to buyers for each key part.

Fig. no. 4. Rendering the Vela strategic cargo shipping services in Romania



Source: processing by W. Chan KIM, op. cit., p. 45.

As shown in the figure above, the industry sector provision of cargo shipping services, there are seven main factors influencing the market

- Price
- Duration of transit
- Transport capacity
- Charging time
- Time of discharge
- The subdivision of the ship
- Prestige carrier.

For a better interpretation of strategic sails, it must be supplemented by matrix eliminates, reduces, develops and creates that if SNCF NAVROM SA looks as follows:

Fig. no. 5. Matrix Elimination-Reduction-
Development-Create

<p>DELETE Additional maneuvers load times Disadvantageous mode of subdivision of cargo vessels</p>	<p>DEVELOPING Special transport different price than that of the general transport Involvement of port operators</p>
<p>DECREASES Offering unspecialized Working on the basis of commitment Bunkering operations</p>	<p>CREATE Competitive transit times Client access to temporary storage facilities at berth Combined Transport in collaboration with naval + road transporters</p>

Source: processing by W. Chan KIM, op. cit., p. 58.

6. Conclusions

Blue Ocean opportunities have always existed, and as have been explored, the universe expanded business. This expansion is the foundation of economic growth.

Blue ocean strategy challenges companies to leave the red ocean of competition by creating areas still undisputed, to determine competition becomes irrelevant. Thus, instead of dividing the existing demand, blue ocean strategy refers to an application already on the rise and the elimination of competition.

Through this work, we tried to challenge other companies to have the attitude that they adopt solutions for overcoming the financial crisis to the firm to achieve its objective by adopting a new mentality by putting into practice innovative ideas, those of creating "blue oceans".

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Innovative Strategies Development of the Company in Terms of Global Competition

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Abstract

Blue ocean strategy challenges companies to emerge in the middle of the fierce competition that is by creating undisputed market areas which result in competition to become irrelevant. Only, instead of dividing the existing market demand, blue ocean strategy refers to a growing demand and to eliminate competition. Blue Ocean opportunities have always existed and have been explored as the universe expanded business. This expansion is the foundation of economic growth.

Key words: blue ocean strategy, competition

J.E.L. classification: M10

1. Introduction

W. CHAN KIM is Professor of Strategy and International Management at INSEAD, the firm Boston Consulting Group Bruce D. Henderson and RENE MAUBORGNE is Professor of Strategy and Management at INSEAD, Fontainebleau, France.



"Blue Ocean Strategy" (2005) is a famous book written marketing strategy by two teachers mentioned above, required reading in MBA courses, sold millions of copies and translated into 41 languages (Romanian and

published by The Old Court , 2007). The book is punctuated with many examples, case studies, and policy tools easy to use.

The two teachers were studied over 20 years how to create original areas, so that competition becomes irrelevant. Their conclusion is based on a market universe composed of two sorts of oceans: some red, others blue. Red oceans represent all fields available today. This is the area known market. Oceans blue means all areas which today still one exists. This market area is unknown. [1]

The central idea is this: it is pointless to continue fighting in "red oceans" with fierce attacks on the competitive market share and profits, but must seek or create "blue oceans", free from competition, which can grow rapidly and profitably. In red oceans of existing market you operate in and fight to be better than competitors by exploiting existing demand and choosing between differentiation and lowest cost. In blue oceans, creating a new market where competitors are irrelevant, develop and manage application and choose between differences and get the lowest cost.

It criticized the theory that companies can create value for the client at a higher price (differentiation strategy) or to obtain a reasonable value at a lower cost (lowest cost strategy) and the proposed path of "value innovation" ("value innovation ") that create value and reduce costs at the same time.

2. Blue Ocean Strategy

In red oceans, within each economic activity are defined and accepted, and the competitive rules of the game are known. By contrast blue oceans are defined as the virgin market with an application to be created with

a high probability of profitable growth. Although some blue oceans are created well away from existing areas: limits, most blue oceans emerge from the red oceans by expanding existing activities borders, as did Sun Circus in Canada has developed a new circus, another audience, theater audiences closer than the public circus that Ringling Bros. and Barnum address & Bailey (Circus World Champion in the industry). In blue oceans, competition is irrelevant because rules game is not yet established.

"It's always important to swim in red oceans, surpassing your competitors. Red Oceans are always looking for and will always be a reality in the business world " A delicate situation comes when supply exceeds demand more and more economic side, and go fight for a share in a falling market, although necessary, though not enough to maintain high performance [2].

Companies need to move beyond mere competition, and to take possession of the potential profits and take advantage of growth opportunities; they need to create blue oceans.

Unfortunately blue oceans are unexplored in the last thirty years because the main concern in organizational strategy to focus on red oceans, based on the idea of competition. [3]

Red ocean strategy, based on competition, "assumes that all branches of an economic structural conditions are predetermined and that companies are forced to go fight a given framework" [4]. Scientists call this structural view or environmental determinism. In opposition to this view, innovation is the specific value blue oceans (see Figure below).

Fig. no. 1 - Red Ocean Strategy versus Blue Ocean Strategy

Red Ocean Strategy
Competing in an existing market area
Upgrading competition
Exploitation of existing application
Compliance ratio value / cost
Adaptation of the whole system of activities of the company to strategic choice of differentiation or low cost

Blue Ocean Strategy
Creating a market undisputed
Making competition in an irrelevant factor
Creating and attracting new applications
Abolishing the ratio value / cost
Adaptation of the whole system of activities of the company's business objective of differentiation and low cost

Source: W. Chan Kim, Renee Mauborgne, Blue Ocean Strategy

3. Blue ocean strategy for Arabesque Company

To have brilliant performance, innovation is needed, creating something new or at least moving towards a new field, the blue ocean. First, there is a risk search or wrong choice of the field of commercial opportunity. This risk can be eliminated if it remains in the field of excellence and we try broadening of the six boundaries of competition: industry, strategic group, group purchasing, product or service use, functional-emotional orientation of industry, time.

If Arabesque, traditional areas of construction materials are markets for retail for merchants (Arabesque is now the largest wholesale market trader profile, with a turnover at the end of 2010 1.492.649.686 lei and commercial transactions occurred globally). New areas of opportunity for Arabesque e-commerce site are construction materials and the development of chain stores that final consumers. In light blue ocean strategy, the risk of wrong choice of domain boundaries is dissipated by increasing competition as follows:

- Expanding the Strategy Group - from a relatively small group (wholesale traders) in a large group (end users)
- Use of products and services - accessibility is extended to products and services of company
- Focus on emotional-functional branch of trade - the strategy is based on social impact, particularly among end users, and focus on a closer approximation of them, including the introduction of the 'door to door.

Secondly, there is a risk of entangling planning because no new action is unprecedented and can not be predicted correctly financial. This risk can be eliminated if you forget the numbers and focus on the visualization strategy. There are four steps:

1. Visual awakening when they first built the strategy chart (horizontal axis competitive factors, supply-side vertical axis for all competitors).

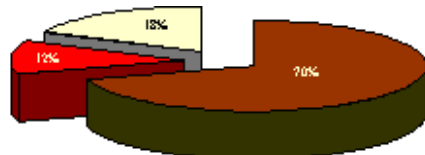
2. Visual exploration - analysis of the six boundaries of competition and innovative ways, the benefits of each alternative. How can I get a new value curve? The four types of action: reducing non-essential factors, the elimination of harmful or useless, increasing the positive impact and create new ones.

3. Visual presentation strategies - and are asked to draw feedback from enterprise customers, of competitors and non-customers.

4. Visual communication - is distributed before and after strategic profiles and supports only projects that lead to the target situation.

Thirdly, there is a risk of scale: the business will reach a size that ensures profitability. To counter this risk, should aim beyond existing demand. Those who are not customers can be classified into three categories: Category 1 - those waiting to become consumers, to test the product, Category 2 - those who refuse product, Category 3 - those who have never thought about the product. The rule is to attract those who are in greatest number. If Arabesque, the risk is covered scale, Category 1 - those waiting to become consumers holding the largest share among the three categories mentioned above.

Figure no. 1. The structure of potential market



Category I (70%) – Those who are waiting to become consumers

Category 2 (12%) – Those who refuse the product

Category 3 (18%) – Those who were never thinking to the product.

Fourthly, there is a risk business model. It is diminished if you follow the correct sequence by putting the four strategic questions:

1. Is there exceptional buyer utility?

2. Is the price affordable for the mass of buyers?

3. You can reach the target cost for a profit at the chosen price?

4. Can you solve the problems of adopting the product?

If Arabesque, the answers are all yes, so the idea is commercially viable.

Fifthly, there is an organizational risk can be overcome by providing organizational problems and treatment: cognitive problem (need not be understood), the issue of resources, motivation problem, political problem (there are opposing interests). The best way to overcome these problems is the "tipping point leadership, i.e. acting on key points with small resources to get the epidemic spread of a huge change. Rather than act on the masses, act on the extremes: Opponents and supporters make it visible and motivate them. Their actions will have disproportionate influence over the management of change.

Sixthly, we risk management. For it must be ensured that the strategy is being executed. Blue ocean strategy recommends a fair trial based on three E: engagement (commitment), Explanation (reasons), Expectation of clarity (clarity of expectations).

4. Drawing new boundaries of the market

The first principle of blue ocean Strategies refers to redrawing boundaries so necessary for the separation of market competition in creating blue oceans. The challenge is to successfully identify, from the multitude of existing opportunities, those opportunities own blue ocean and the commercially appropriate. KIM CHAN Renee MAUBORGNE Teachers have identified six basic ways to market boundaries withdrawn:

1. Prove alternative fields;

2. Prove the strategic groups within the two areas'

3. Three categories of buyers Prove

4. Search the complementary product offerings and services;
5. May prove functional-emotional existing customers;
6. Prove timing.

5. Conclusions

Good for the blue ocean strategies have three characteristics:

- Focus on objectives (for Arabesque, the objective is broadening the target group)
- Unique, divergence from the general trend in the industry (it is a new trend, to try to reduce supply chain and network address of the final consumer prices up by the importer, this phenomenon of globalization which is active for Arabesque, plays an important role by providing access to cheap supplies)
- An intention, a great slogan .

The major problem of blue oceans is their sustainability: how long it takes to make strategies to be imitated by competitors? Solutions can be sought among the barriers to imitation, and here is an interesting list that begins with the attitude of other companies to ridicule the new offer, the small size of the market that do not bear a second player, etc., but the real solution is still innovation to be ready again to look for a new blue ocean.

Blue ocean strategy becomes even more interesting in the context of the following observations:

- There are always great industries.
Attractiveness increases or decreases after a period of time.
- There is always excellent company.
Companies rise and fall in time.
- Creating a blue ocean is a catalyst for business and industry.
- Blue oceans are created by old players or new entrants.
- Oceans appear blue not only by technological innovations, but innovations in value.
- Creating blue oceans is correlated with strong and profitable growth.

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Eco Tourism Contribution to Sustainable Development in Romania

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Abstract

The theme of this paper is the relationship between tourism and environment, with particular reference to the ways of protecting tourist areas characterized by fragile ecosystems, such as parks and beaches.

This paper analyzes and tries to show that environmental protection is not only a legal obligation in relation to the hydro-geology of the territory, but could also become an important tool for strengthening a tourist area. Green Tourism is one of the recently entered words in our vocabulary, and which, although using it increasingly more often, sometimes we do not fully understand it. In fact this notion still seeks a more complete definition, closer to the area of activities it virtually covers. Most often the preferred formula is "tourism that does not harm nature."

Key words: green tourism, sustainable development, promoting eco tourism

J.E.L. classification: L83, Q01, Q57

1. Introduction

Tourist activities, particularly those related to mass tourism imply clear environmental and social costs. Among these the most important may be air pollution, water pollution, noise pollution, and excessive production of waste, water shortages during the peak season, ecosystem damage, fires, overcrowding and congestion.

Many resorts, particularly those most required by tourists can be identified in this scenario. Here, in fact, tourism seems to have reached a critical limit for some time, with reference to certain peaks of the season, a

limit that affects the actual quality of the capacity utilization.

Tourism is a big business. It is one of the largest industries in the world and in many regions is the single most common source of investment and workforce employment.

Although transportation, as a base service in the tourism product, does not have the same image of the 'chimney' as the manufacturing industry, it is not at all safe for the environment, generating significant levels of pollution and consuming considerable amounts of natural resources. Romania is an attractive and preferred tourist destination for at least the domestic tourists and, therefore, it faces significant challenges in its action to make green the tourism industry.

One of the biggest beneficiaries of a more sustainable tourism industry will be the industry itself in the sense that fewer people will want to visit a region where mass tourism has destroyed the rural areas and polluted the beaches.

The number of tourists in mostly all regions is growing. The tourism is one of the main causes of the high demand of transportation, especially for those ways with the most severe impact on the environment: private transport, and especially air transport.

2. The impact of tourism on the environment

Coastal areas, islands and mountain regions are the most vulnerable to tourism development. Already there has been an irreversible degradation of the environment in certain areas which are popular tourist destinations.

It is estimated that the impact of this sector will increase as a result of growing affluence of tourists and the lifestyle and demographic changes. Tourists' behavior remains still a

crucial factor for sustainable development of the sector.

In addition, regarding the types of architectural structures, the problem applies alongside the providing of tourist facilities such as parks, golf courses or water parks with high land consumption and a significant impact on natural resources (e.g. water) along with the connecting road infrastructure, often constructed with little or no respect for the precious and fragile habitats.

A second critical point was identified in the "induced development", namely the distortion of local economies that appear in order to meet the needs of tourists and can lead to severe environmental pressures. This is the case, for example, of the rapid development of agricultural activities in order to satisfy the food demands of tourists, which translates into an increased use of pesticides and water consumption.

A third set of issues is related to "the loss of habitat and biodiversity", which means the destruction or deterioration of the natural habitat that leads to extinction of plant and animal species.

There are also a number of problems related to the over-exploitation of the environment in periods of peak season. First, the lack of sewerage and wastewater treatment. Only 30% of sewage is treated before being discharged into the sea. This clearly has negative effects on the quality of bathing water. Even the tourist boats are a source of pollution. There are also various forms of "unsustainable exploitation of natural resources." In particular, excessive water use.

Finally, another form of pressure is to be found once the season starts in traffic congestion on linking roads, which is the most responsible for short-term traffic pollution.

3. Tools and policies to reduce the environmental impact of tourism

World Tourism Organization, Pacific Asia Travel Association, World Travel and Tourism Council (WTTC) are among the international and regional organizations to develop policies and guidelines on conservation and natural resource protection. It should be noted that the hospitality

industry has initiated an aggressive move to combat water losses and energy use, by reducing chemical use in laundries and increasing the use of recyclable materials like toilet paper, soap, etc..

The World Organization of Tourism publication "Tourism in 2010" shows that the twenty-first century faces two major problems:

1 a great responsibility and a profound respect for the destination host populations and their culture.

2 a great responsibility to those who traveling are reflecting on new ways of consumption, an increasing attention paid by tourists education.

Therefore, sustainable tourism reflects three important aspects:

- **Quality** - sustainable tourism provides a valuable experience for visitors, while improving quality of life of the host community and protecting the environment;

- **Continuity** - sustainable tourism ensures the continuity of natural resources on which it is based and the continuity of the host community's culture with satisfactory experiences for visitors

- **Balance** - sustainable tourism ensures a balance between the needs of the tourism industry, the environment and the local community supporters.

The goals of sustainable tourism can be found in the following areas: improving the host community's life quality, provisions on intra-and inter-generational equity, environmental quality protection by maintaining biological and ecological systems diversity, the insurance of cultural integrity and social cohesion of the community and the providing of a high quality experience for the visitors.

The integrated, balanced and long term development- the so-called type of "sustainable" or "supported" development - implies the existence of community policies that support 'green tourism' for the capitalization of rural areas. In this regard it is worth to mention the recent *Community Action Plan for Tourism* and the *Community Programme of policy and action on environmental and sustainable development*. Furthermore, structural funds were allocated (Structural Development Fund and Regional Fund) for development of rural tourism and training in this area. (12)

4. Measures to support green tourism in Romania

The system operators and managers of Romanian tourism and of the places with high fragility of the environment and beyond are increasingly aware of the risks posed by improper use of components in a travel environment.

Developing ecological tourism is considered incompatible with mass tourism in terms of environmental objectives. The main strategies are identified to reduce negative impacts of tourism (in environmental and social terms) are two: the concentration and dispersion of tourist flows (Collins, 1999).

Focus is aimed at reducing the impact of flows of tourism on an area, the method of achieving this goal is identified in the creation of attractive places where the resources are held accountable and the services are integrated, in places defined in the literature as honey pots.

The solution adopted in many sensitive areas of interest, primarily within national parks, seems not to be in accordance with sustainability criteria, which requires integration between development and conservation and not sacrifice some sites for the redemption of certain other sites.

A second option much closer to the principles of sustainability, is the spread in different areas and in various periods of time of the tourist flows. In this way, excess demand in tourism, in some places or at certain times, is approached by reducing the discomfort created by the seasonal peaks and concentrations in specific sites.

Once established that the number of visitors present in a given area exceeds its absorption capacity, the tools available to reduce this number are different, being possible the identification of direct and indirect methods of intervention.

Direct interventions are those aimed at reducing or regulating tourism activities by thorough supervision of the area and limiting access.

Indirect interventions, by contrast aim visitor behavior that can be influenced by actions on prices and supply opportunities, with large variations depending. In the latter

case, there is need to seek and find alternative travel segments that can contribute to the recovery of losses in the low season months, given the lower earnings from reduced tourist flows in peak periods.

The continuing increase in the amount of tourist flows involving the above issues combined with increased attention to environmental quality in the affected tourist areas and not only, necessitated a series of instruments with long-term action.

These tools can be classified into measures to restrict access, seasonal adjustment of tourist flows and increase of the number of units and tourism products labeled organic.

Considering data provided by the ministry empowered with the tourism problems, the cost of the losses caused by non conservation of biodiversity are at 7% of GDP.

In the absence of funding mechanisms of SOP or the Environment Fund, Romania's efforts in sustainable tourism development are near to the lower limit compared with those of developed EU countries. It is noteworthy that the state institutions should take concrete steps to save the biodiversity, a chapter where Romania continues to face delays from the rest of the European Union (EU). (11).

According to data from the Ministry of Environment and Forests (MMP) is found that Romania is within the limits imposed by the EU in terms of biodiversity with a cumulative margin of 17 percent. Official data posted on the website ONG Natura 2000 shows that on the territory of EU-27 countries, including Romania, have been identified nine biogeography regions. Among the EU member and candidate countries, Romania has the largest biogeographically diversity, distributed in five biogeography regions: mainland (most common), Alpine (in countries with mountainous areas), Pannonian (available in Hungary and neighboring countries), Black Sea (only in Romania and Bulgaria), steppe (only in Romania).

The list of proposals for Natura 2000 in Romania's case includes 108 SPAs (11.89 percent of the country) and SCI 273 (13.21 percent). The total area of proposed Natura 2000 sites represents 17.84 percent of the country.

Romania is in infringement proceedings before the European Court of Justice (ECJ) on protected areas for not respecting its commitment regarding the protected areas management. Romania, with its high biodiversity value, holds an important contribution to the Natura 2000 European Ecological Network.

Many of the existing proposals for Romania network sites list overlaps protected natural areas of national interest (national parks, natural parks and reserves). Environmental organizations affiliated to Natura 2000 NGO Coalition have made requests to the authorities to support the protected areas in Romania, one of which was to allocate a budget for them.

The next reporting that Romania needs to sustain before the officials in Brussels is set for the year 2013 and currently is being worked on finalizing a research on biodiversity done by the National Institute of Biology. Until then, in the first half of 2011, the EC will present a perspective on future sources of financing of Natura 2000.

After analysis of eco-touristy potential identified the following strategic objectives for the development of eco-tourism in the Romanian area:

- the development of regional organizational conditions specialized in promoting agro-tourism and alternative tourism;
- the official acknowledgement of areas with a rich touristy potential and the development of county cooperation with concrete responsibilities;
- the union of efforts in consolidating forms representing genre offers, in which both owners and local councils play a role;
- the conservation and protection of environment by taking all the measures concerning meadows, water courses, forest limits, etc.;
- the mending and modernizing of roads and equipment;
- the setting of population and the control of youth exodus;
- the development of information and instruction of rural population;
- the protection, conservation, and rehabilitation of natural patrimony in areas of scientific interest and of cultural and historical patrimony.

5. Romanian tourism eco-labeling

The purpose of introducing the eco-label is to promote products with reduced environmental impact, eco-labeling being a voluntary action. The Certification Program offers tourists the certainty that the tourism product they are buying is of good quality and contributes to nature conservation and sustainable development of communities in the area of the program.

The action of organic certification is possible for: accommodations (hostel with 25 rooms), travel programs offered by tour operators (at least one day, maximum 15 participants) and tourist destinations (areas that offer products, promotes and coordinates eco tourism services in a uniform manner).

Eco-Certified products are on the tourism products market since 2006. So far, 17 products have been certified (hostels and packages / tours) in the certification system "Eco-Romania".

They are available in various parts of the country: Retezat Apuseni National Park, Sibiu, Brasov, Saxon villages, Danube Delta.

The certification system "Eco-Romania" offers a wide variety of benefits both for those who carry out tourism activities, and tourists, and not least for the nature of Romania.

For the operators in eco tourism this is a simple method of recognition of the quality of their services and an opportunity to promote products/services as products "eco". For consumers of eco tourism, certification is a guarantee that the chosen products offer quality services and nature experiences in a way that does not impact the site, nature and culture.

Validity of a certificate in eco tourism is 3 years. The system is not binding; it is based on voluntary participation by its beneficiaries.

6. Conclusions

The concept of sustainable development is a goal of developing a bridge between watching a good chunk of time without spectacular results, even satisfactory, and a movement to save the nature and the environment.

Tourist activities, especially those of mass, require social and environmental costs such as air pollution, water and noise pollution, excessive waste production, water shortages, deteriorating ecosystems, crowding and congestion.

Strategies to reduce negative environmental and social impacts of tourism are: the concentration and dispersion of flow. Concentration strategy involves the creation of attractions (honey pots) in order to organize the necessary resources.

This solution is not fully in line with sustainability criteria because it does not realize the integration between development and conservation, assuming a "sacrifice" to save some places rather than others. The dispersion includes reducing the discomfort created by seasonal peaks and the degree of concentration in some sites.

The instruments available for policymakers to limit the environmental impact of tourism are: direct (monitoring, zoning, restricting access) and indirect (visitor behavior).

Access restriction tools require the imposition of a maximum number of visitors in a sensitive area, in accordance with regulations in force and also with a permanent control.

These tools are effective because they aimed at alleviating congestion of the end environmental interest, but there are side effects of tourists and residents.

The seasonal adjustment tool shows effective response to problems of congestion in peak periods and the possibility of extending the tourist product life cycle when it reaches the stage of maturity.

This requires the ability to deflect a part of traditional users in different periods of peak season (tools of taxation or promoting the advantages of the season), but also a reorganization of the tourism product concerning the interception of new application segments (sports tourism, environment, elderly people).

It also appears the possibility of refurbishing the premises for the adoption of voluntary instruments for accommodation (ISO, environmental, disciplinary) and eco-labels for tourist destinations.

Green Tourism knew a development in Europe and represents that form of tourism based on the use of rural heritage, with specific improvement of local resources.

Green Tourism can get one of the following meanings: all the tourism – environment relationships, environmental protection in tourism, direct contact in harmony with nature, a natural form of tourism, supportive to the nature, friendship between tourism and environment, the protection of the environmental resources by conscious tourist attraction, as to obtain economic benefits through nature for the nature; Generator of added value, given to the benefit of the Nature: well-being to human nature that creates wealth, compatibility between pleasure and joy experienced in the middle of the nature and the concern towards environmental resources, the knowledge of transforming leisure while spending as much relaxation time in nature.

Promoting green tourism in Romania can be achieved through actions focused on awareness for tourists and tourism operators on the role of that type of tourism in the sustainable development of an area, but also through the financial resources that will channel tour operators to find those products that will bring long term benefits in terms of financial and as well environmental considerate. European Eco-label identifies overall environmental performance of products and services based on life cycle analysis, but the trader is not obliged to apply to his goods or services.

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Sibiu - The European Cultural Capital and Beyond

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Abstract

This study is a work in progress and presents the findings of field researches in Sibiu about cultural profile of tourist during and after the European Cultural Capital Program (ECOC). This paper focus on gender, age, education, occupational profile, usual holiday type used by coming tourists, visitor origin, previous visits to Sibiu, relation with the 2007 ECOC, sites visited and their score, spending. The overall conclusion is that cultural tourist profile in Sibiu has improved during the period for town tourism benefit.

Key words: cultural tourist profile, visitors' origin, education, scores

J.E.L. classification: L83, O17

1. Introduction

This study is a work in progress that presents some of the results of a ten year monitoring program on cultural and tourism development in the city of Sibiu.

This research is unique in that it is probably the first long-term study of the cultural and tourism development of a city in a former Socialist country in Central and Eastern Europe. The data in the current report build on and extend the analysis provided in the earlier report "The Impact of the 2007 European Cultural Capital in Sibiu: A long term perspective", published in 2010.

The backbone of the research program is provided by surveys and residents and visitors to Sibiu, conducted at regular intervals over the 10 years between 2001 and 2010. The most important findings of the research to date, largely based on the resident and visitor surveys, are presented below.

The surveys were conducted in sites around the city, with sampling over different days and times to try and achieve a representative sample of visitors.

2. Profile of visitors to Sibiu

In most cultural programmes, the most important segment of the audience is local residents. Not only are they numerically more important, but events such as the the ECOC are specifically designed to cater for the needs of citizens. In the case of Sibiu, however, tourism has also been particularly important, since Romania was being opened up the EU and because the ECOC in 2007 represented a unique opportunity to develop an image for Sibiu internationally.

The early results of the Sibiu surveys indicated that the proportion of men has increased and in 2009 and 2010 the proportions of men and woman were more or less equal. This to some extent reflects the shift in the types of events surveyed from fairly specialist to more general cultural events

Gender distribution of visitors 2001-2010

%	2007	2008	2009	2010
Male	49,3	60,5	51,6	49,3
Female	50,7	39,5	48,4	50,7

Foreign visitors were more likely than domestic tourists to be male, with almost 60% being men in 2009.

The age distribution of participants in cultural events in Sibiu also reflects general European patterns. The largest single age group is consistently 20-29, although visitors

over the age of 40 have also gained ground over the years. This may be an indication that Sibiu has developed a more varied cultural offer which is better able to cater for all age groups.

Age distribution of visitors 2007-2010

%	2007	2008	2009	2010
15 or younger	1	2	1	2
16 - 19	8	8	5	5
20 - 29	50	35	38	39
30 - 39	24	25	28	24
40 - 49	10	17	16	19
50 - 59	4	9	7	8
60 or over	3	4	5	7

The education level of participants in cultural events is consistently high, with almost three quarters of respondents having some form of higher education qualification in 2010. This is far higher than the level of higher education participation in Romania as a whole, and indicates that cultural events are attracting highly educated people to the city. This level is also higher than the average for Europe as a whole, as revealed by the ATLAS surveys of cultural tourists in different European countries

Highest education level (%)

	2007	2008	2009	2010
Primary school	0	10	2	2
Secondary school	4	8	8	7
Vocational education	11	20	16	17
Bachelor degree	16	40	58	53
Master or Doctoral degree	68	22	15	21

Over time the occupational profile of visitors also tends to be high, with a peak of 77% having a managerial or professional occupation during the ECOC in 2007.

Foreign visitors were even more likely to have managerial or professional backgrounds than Romanian visitors.

Many of those attracted to cultural events in Sibiu also have an occupation related to culture. This may be an indication that the successful events policy of the city has been able to raise the profile of Sibiu as a cultural centre, which in turn will tend to attract those in the cultural and creative occupations. Comparison with ATLAS data indicates that Sibiu tends to attract more visitors with a cultural occupation than the average European city (around 30%).

Occupational profile (%)

	2007	2008	2009	2010
Director or Manager	16	12	13	14
Professional (doctor, lawyer, teacher, etc)	33	26	25	23
Technical profession (technicians, nursing)	28	17	20	20
Clerical/ Administratio	9	20	18	15
Service and sales personnel	11	16	20	23
Manual and crafts worker	3	9	6	5

Perhaps not surprisingly, the type of holiday most frequently taken by respondents is sun and beach holidays. Mountain recreation is also popular, reflecting the location of Sibiu. More surprising is the fact that visitors indicating that they normally take cultural holidays has declined since 2007. This may reflect the fact that Sibiu has become a destination with wider tourist appeal for a general, rather than a specialist market.

Usual holiday type (%)

	2007	2008	2009	2010
Health/sports	2.9	13.9	5.1	4.8
Rural holiday	6.8	6.1	7.1	9.8
Touring holiday	15	18.2	13.7	14.4
Cultural holiday	16.5	19	11.1	12.7
City trip	16.9	9.9	15.2	17.0
Mountain recreation	21.3	13.5	18.1	20.5
Sun/ beach holiday	23.5	21.6	28.8	22.4

For foreign visitors, cultural holidays and touring holidays were particularly important.

In terms of area of residence, the largest single group of visitors is drawn from Sibiu itself, which accounted for almost half the respondents in 2009. Over the monitoring period, significant changes have taken place in the origin of visitors to cultural events. In general, the proportion of local participants has fallen while the number of visitors from elsewhere in Romania and abroad has increased. The growth in foreign visitors was most noticeable in the years up to 2007, when the ECOC recorded a record level of foreign visits, and has declined since then. This is at least partly in line with national trends, which have seen international tourism fall dramatically as a result of the economic crisis. However, the increasing importance of domestic cultural tourism is also a trend seen in other countries, for example as measured in the ATLAS surveys in Portugal

Visitor origin 2001-2010

	2007	2008	2009	2010
Sibiu	38	37	49	40
Elsewhere in Transylvania	12	23	23	16
Elsewhere in Romania	34	22	23	27
Abroad	16	18	5	17

Among the foreign tourists interviewed, the most important source countries were Germany, Italy and France, which together accounted for two thirds of foreign visitors recorded in 2010. Germany in particular has grown in importance as a source market for visitors, reflecting the cultural ties with Sibiu.

Top origin countries for visitors to Sibiu, 2010

	% of total foreign visitors
Germany	40.2
Italy	8.9
France	8.9
Spain	5.3
United Kingdom	3.6
Austria	2.4
Greece	2.4
United States	1.8
Belgium	1.2
Bulgaria	1.2
Canada	1.2

This picture in general reflects the pattern of visits to the ECOC in 2007 as well, except that the Netherlands was a much more important source market for the ECOC event (which may be related to specific events surveyed during the ECOC itself).

The proportion of visitors who have previously visited the city shows that it has steadily become an established destination within Romania. In 2001 less than half the visitors had been to the city before (even though most of the visitors came from Romania), whereas in 2009 and 2010 over three quarters had been to the city before. This shows that Sibiu has succeeded in generating a higher level of repeat visitation over the years, which is also related to improvements in the quality of the tourism product (see below)

Have you made a previous visit to Sibiu?

	2001	2008	2009	2010
Yes	49,6	68,1	80,0	76,0
No	50,4	31,9	20,0	24,0

Much of the repeat visitation since 2007 has been related to the ECOC. The proportion of visitors who had been to the city in 2007 grew from 50% in 2008 to over 70% in 2009 and 2010. There is clearly a high degree of overlap between repeat visitation to the city and having visited the ECOC in 2007.

Did you visit Sibiu in 2007?

%	2008	2009	2010
yes	50	74	72
no	50	26	28

There is also a strong relationship between those who visited the city in 2007 and those who participated in at least one ECOC event in that year. Again, it seems that the active ECOC participants have come back to Sibiu in relatively large numbers in 2009 and 2010, adding considerably to the long-term impact of the event

Did you visit ECOC events in 2007?

%	2008	2009	2010
yes	19,8	61,9	55,2
no	80,2	38,1	44,8

The proportion of first time visitors varies considerably according to the reason for travel. In particular, cultural events and attractions generate a relatively high level of first time visitation, whereas shopping or visiting friends and relatives are much more likely to be motivations for repeat visitors.

*Sites visited in and around Sibiu
(% of visitors)*

	2007	2008	2009	2010
Orthodox Cathedral	27	40	50	?
Bruckenthal Museum	27	71	61	57
Evangelic Church	25	60	46	39
The Lower Town	25	35	52	47
ASTRA Museum	20	58	58	54
The fortification	19	25	38	33
Fortified Churches around Sibiu	12	24	24	19
Street animation		50	42	43
None of these	36	4	7	4

Multiple responses allowed. One of the key questions about a major cultural event such as the ECOC is the effect it has on the consumption of cultural attractions by visitors. People who came to the ECOC in 2007 primarily to participate in an event in the ECOC programme obviously have a positive impact on the economy and the cultural life of the city. But if they also get involved in the wider cultural life of the city and visit other attractions, this may help to spread the impact of the event and to persuade visitors to stay longer in the city.

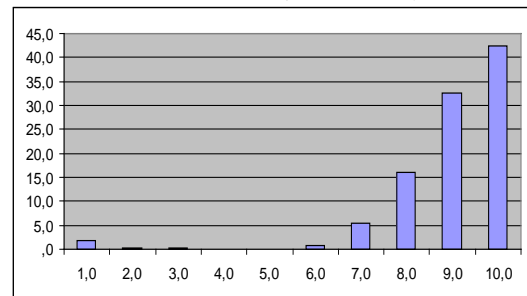
The evidence from 2007 suggests that almost two thirds of respondents also made visits to other cultural sites in and around Sibiu.

Since 2007, it is clear that visitors to the city have been visiting an even wider range of attractions. In particular, visits to the Lower Town and the Fortifications have increased, reflecting the investment in these areas.

The investments that Sibiu has made in culture and tourism certainly seems to have paid off, because visitors now rate the quality of their visit to the city much more highly than in 2001. The ECOC in 2007 did not in itself produce an increase in the quality of experience, which may point to a more critical cultural audience being attracted by that event. However, it seems that one legacy of the event is a markedly increased visit quality.

Even though foreign visitors scored Sibiu lower on average than Romanian visitors, it is clear that they also tend to give relatively high scores, with over three quarters scoring a 9 or 10.

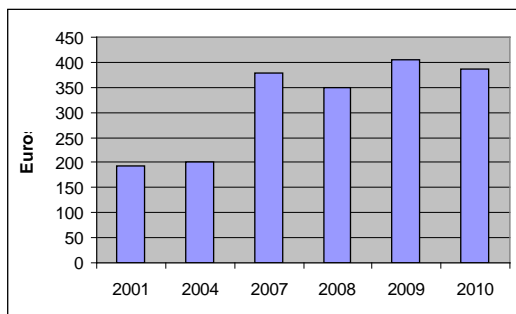
Quality score distributions for foreign visitors 2010(scale 1-10)



An important aspect of the ECOC is the economic impact that it can have on the host city. The bulk of the economic impact of the ECOC usually comes from visitor spending, because visitors inject new money into the local economy. In 2007 we estimated that the total economic impact directly attributable to staying visitors to the ECOC was €19.35 million. It is difficult to compare this figure directly with other years, because the ECOC as a direct visit motivation is no longer there.

However, the figures on average visitor spending show that spend levels have increased since 2007. The average visitor to Sibiu now spends almost twice as much as the average visitor before 2007. Again, this underlines the structural change in the nature of the tourist market.

Average total visitor spend 2001-2010



3. Conclusions

The ultimate measure of success for any project is the extent to which it has been able to meet the aims set for it. If we look back to the original aims for Sibiu 2007, we can see that the most important aspirations were:

- Raising the profile and changing the image of the city
- Attracting more tourists
- Enhancing local pride

- Growing the local audience for culture.

The changing of cultural tourist profile seems that the city was able to meet all of these aims. The visitor surveys indicated that those visiting Sibiu cover a large diversity. In spite of it, many of them are repeat visitors that show the power of attraction of the town.

The large number of tourists coming to the city was also significant, as this had boosted the cosmopolitan nature of the city and the feeling that the city had something to show the rest of the world.

An overall conclusion, based on close observation of the city and nearly 10 years of survey research is that the ECOC in 2007 was the first time that Sibiu had developed a clear (cultural) tourism product

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Going Concern after the Global Downturn

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Abstract

One of the fundamental accounting concepts which underlie the annual financial statements of companies all around the world is “the going concern principle”. This paper presents “going concern” as a major risk assigned to the business environment starting with 2008 during the economic downturn from the auditor’s perspective. Positive features can be viewed at the horizon after the crisis including the major improvements in auditor’s approach when dealing with “going concern assumption” in connection with going concern risk. These aspects are going to be detailed in this study including the additional assurance and tests of the auditors in dealing with management assertions in respect of going concern versus professional judgment and skepticism.

Key words: going concern principle, global downturn, reasonable evidence, Clarity Project, material uncertainties, adequate disclosures,

J.E.L. classification: M42

1. Introduction

Going concern is a very complex concept that includes: going concern principle, going concern assumption, going concern value, going concern risk. The core of this concept refers to a viable business that should continue to use the resources and to operate in the foreseeable future for at least 12 consecutive months and has no risk of being wound up (gone concern).

Going concern principle is one of the accounting principles that is included in generally accepted principles (GAAP) and

refers to a company's ability to continue functioning as a business entity

Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

Going concern value is viewed as “the value of a company as an ongoing entity”(www.investopedia.com) and this value differs from the liquidation value of a company, being the value of intangibles associated with the running of the business, such as goodwill and intellectual property(www.investorwords.com).

Going concern risk is associated with the auditor and the impact in auditing activity will be further developed and presented.

2. Going concern risk and auditor’s approach

Going concern risk is the risk associated with the auditor during overall audit process: preliminary assessments of going-concern, planning, performance of the audit and completion and reporting. An auditor shall consider whether the use of the going concern assumption is appropriate, and whether there are material uncertainties about the entity's ability to continue to operate as a going concern that need to be disclosed in the financial statements.

The biggest challenge for an auditor is to issue a going concern opinion because this “prophecy” may have dramatically implication in company’s existence and in

the auditor's professional activity, being subject to severe moral and ethical dilemma. A going-concern opinion has always fundamental impact in shareholders' and creditors' confidence in the audited company.

The concept of going concern has been in the profession's headlines during the last 3 years due to the economic climate and it is a very sensitive area where auditors and the audit clients alike encounter major difficulty in applying the concept.

The possible questions asked by the auditor may be:

1. Have I obtained sufficient and reasonable evidences in connection with understanding of the client's business that makes me comfortable (taking into consideration the Code of Ethic and Conduct requirements) to document that there is a threat of going-concern in the next 12, even if this going-concern opinion will escalating the financial distress of my client?

2. Have I obtained sufficient and reasonable evidence in connection with understanding of the client's business, even if it is the risk that interested parties wouldn't be informed in time of the possible failure of the company, that makes me comfortable (taking into consideration the Code of Ethic and Conduct requirements) to document that issuing a going-concern opinion might promote timelier rescue activity?

In both cases the auditor has a huge risk if his going-concern opinion fails:

- Question no.1- the auditor has not obtained sufficient evidences and the going concern was wrongly interpreted by the auditor and this situation can bring important prejudice to a viable company that should have been resources to continue its activity. In this case the auditor may be subject to lawsuit initiated by the client

- Question no.2- the auditor has obtained sufficient evidences but due to the intention to "protect" the audit from further financial implication in respect of inability to obtain new capital and an increase in the cost of existing capital company, he failed to inform the shareholders and creditors about the critical problems of the audited company. In this case the probabilities to be sue and held responsible is very high (WorldCom, Enron, Parmalat).

New research in this domain have been carried out in 2011 by Antony Young and Yi Wang Multi-risk level examination of going concern modifications) and focuses on all Australian listed companies within the volatility industry of building. This research examined all auditors' going concern modifications along with all indications of going concern problems identified by directors. The findings have demonstrated the above assertions about the major problems of auditors when dealing with going-concern opinion. The auditors have been more affected (the level of under reporting of going concern risk by auditors was of 75 per cent) that directors (the incidence of underreporting was of 57 per cent).

3. Changes in the evolution of going-concern concept since 2001 subject to research and studies

Several studies and research tried to present, using an empirical approach the close relationship between an auditor and his failure to express an appropriate going-concern opinion and also the various factor that influences this matter.

In 2005 Marshall A. Geiger, K. Raghunandan, and Dasaratha V. Rama examined the changes in the likelihood of bankrupt firms having received a prior going-concern modified audit opinion. (Recent Changes in the Association between Bankruptcies and Prior Audit Opinions) and noticed that beginning with 2002 the auditors became more conservative in their opinion. The main reasons of auditors presented in the research can be presented as follows:

- enhance their reputation as a high-quality auditor
- reduce the auditor's litigation risk
- give the heightened level of investor and public scrutiny of the profession
- to be proactive in an attempt to reduce the extent of government intervention and legislation imposed on the profession.

Another study of Geiger and Rama, dated 2006 (Audit Firm Size and Going-Concern Reporting Accuracy) indicates that over an extended 11-year period, auditors issue modified opinions to only about half of their client's who file for bankruptcy in the succeeding year. This finding was a warning

signal obtained using empirical consideration for the concerns expressed by legislators in respect of the lack of prior warning by audit firms.

Another new study has been prepared in 2007 by Tae G. Ryu and Chul-Young Roh (the auditor's going-concern opinion decision) and research the implication of materiality threshold level among BIG five and non-Big five and the study finds that Big five had higher materiality threshold and were less likely to issue a going-concern opinion to their clients with financial problems than non-Big five firms.

A new research based on an empirically study published in 2008 by Ilias G. Basioudis, Evangelos Papakonstantinou and Marshall A. GeigeR (Audit Fees, Non-Audit Fees and Auditor Going-Concern Reporting Decisions in the United Kingdom) reveal that the magnitude of both audit fees and non-audit fees are significantly associated with the issuance of a going-concern modified audit opinion, i.e. financially stressed companies with high audit fees are *more* likely to receive a going-concern modified audit opinion, whereas companies with high non-audit fees are *less* likely to receive a going-concern modified audit opinion.

In 2009, Brad Tuttle and Scott D. Vandervelde initialize a research (DOES THE GOING CONCERN AUDIT OPINION HAVE A STABILIZING EFFECT ON THE OVERALL STOCK MARKET?) that revealed that an important role for going concern opinions is to stabilize the broader market and not just to inform investors about companies with the going concern.

New investigation in going concern reporting decision has been researched by Linda A. Meyers, Jaime J.Schmidt and Michael S. Wilkins in May 2010 (An Investigation of Recent Changes in Going Concern Reporting Decisions Among Big N and Non-Big N Auditors). The findings revealed that those non-Big N auditors became more conservative while Big N auditors became more accurate.

Taking into consideration the above presented research and studies we can summarize that after the big scandals generated by major failures of auditor in issuing an appropriate going-concern opinion, the accounting profession has come under an increased scrutiny over recent ten

years and especially in the period of the economic downturn.

There were several motivations such as: the continuing concern of the accounting profession, legislators, third parties and the public regarding early warnings from auditors about pending client failures in the form of modified audit opinions, and the need to assess the impact of the new economic condition that severe influence the auditing environment and auditors' opinion.

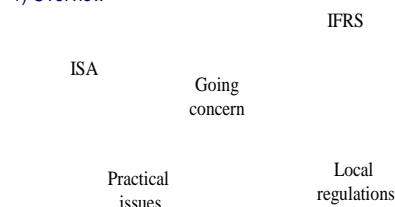
4. Effective changes in auditor's reporting as a result of economic crisis

As an immediate effect of the global downturn and the implication in the financial reporting and auditor's opinion, the IAASB, serving the public interest has completed so called "Clarity project" at the end of 2008 and has determined that all of its clarified standards are to be effective for audits of financial statements for periods beginning on or after December 15, 2009.



Going concern in the global downturn

1) Overview



The main target of this project was to set high quality international auditing and assurance standards that are understandable, clear and capable of consistent application, thereby serving to enhance the quality and uniformity of practice worldwide. (IAASB basis of the conclusion).

According with IAASB, the Clarity Project comprises 36 International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) 1, including:

- One new standard, addressing communication of deficiencies in internal control;

- 16 standards containing new and revised requirements (these have been referred to as "revised and redrafted ISAs"); and

- 20 standards that have been redrafted to apply the new conventions and reflect matters of general clarity only (these have been referred to as "redrafted ISAs and redrafted ISQC 1").

ISA 570 "G5INTERNATIONAL STANDARD ON AUDITING 570, GOING CONCERN" has been an important part of this project that includes the main matters and concluded that, since the going concern assumption is a fundamental principle in the preparation of financial statements, it is appropriate for the auditor, in fulfilling the auditor's overall objective of obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, to obtain sufficient appropriate audit evidence about whether management's use of the assumption is appropriate.

The IAASB also agreed that the form of the objectives appropriately reflects the two substantive elements of extant ISA 570 (Redrafted):

- appropriateness of management's use of the going concern assumption
- whether there are material uncertainties about the entity's ability to continue as a going concern that need disclosing
- whether there are adequate disclosures about going concern

Highlights possible warning signs including may include the following aspects in respect of:

financial issues		operating issues	other issues
adverse key ratios	borrowing facilities not agreed	loss of key management and staff	non compliance with statutory requirements
negative operating cash flows pre or post	indications of withdrawal of financial	loss of a major customer, license, supplier etc	pending legal claims which could not be settled

year end	support		
borrowings approaching maturity	substantial operating losses pre or post year end	fundamental market technology changes	changes in legislation with adverse effects
over reliance on short term borrowing	cessation of dividend payments	dependence on a few products where market depressed	issues with a wide range of outcomes
major restructuring of debts	inability to pay creditors when due	shortage of important supplies	
net liability position	non compliance with loan terms	obsolescence of key products	
unable to raise finance for essential investment	reduction in trade credit terms		
substantial sales of fixed assets not replaced	reduction in cash on delivery		

Source: "Going concern in the global downturn", Saffery Champness presentation, Nexia International, European Conference, Barcelona, 2009

5. What comes with the going concern after the crisis?

In a healthy economic environment going-concern has not been too much of a problem for the auditors, but a combination of the downward economic climate and the more risk-averse attitude of the banks to lending will mean that much more in depth consideration will need to be given to this issue. Auditors have a more important and sensitive role in assessing if a company is

subject of going-concern or not. Market conditions merely increase the risk of a potential material uncertainty materialising and increases the level of uncertainty in assessing future outcomes. Therefore the "blanket policy of emphasis of matter" is not the answer for the auditors anymore.

Forming an opinion on financial statement will be a higher degree responsibility work that an auditor can carry out and according with the new ISA 570 redrafted it is essentially to adopt the decision tree approach and to range of opinions for going concern issues in accordance with a very comprehensive evaluation of any of the possible warning signs presented above that may affect your opinion. Even if there is adequate disclosure the auditor need to use his professional judgement and to use emphasis of matter even to draw readers attention to this. That is not to say that we will see modified audit reports, i.e. 'emphasis of matter' paragraphs, everywhere we look, although inevitably the number will increase.

This new challenge for the auditor also raises the necessity to take into consideration the following aspects:

Ethical considerations – provision of non-audit services relating to refinancing and restructuring e.g. advising on valuations, advising on forecasts or projections, advising on restructuring programmes, advising on funding/financing

Quality control review – consider involving independent partner review at planning stage and completions stage for non-standard audit reports

Limitation of auditor liability – consider limiting or capping audit liability for high GC risk clients if allowable under local law and commercially viable. Also review specific conditions in professional indemnity insurance (e.g. prior warning of qualifications)

Legal advice – Take legal advice or specific specialist advice on certain issues [ISA 570] e.g. on complex intellectual property rights and revenue streams thereon

Bank confirmations – the absence of confirmation bank facilities does not itself cast doubt upon going concern or require

going concern to be referred to in the audit report – it must be looked at individually on the evidence to hand.

The main objective of auditor in the general level of uncertainty in financial reporting and economic environment is to encourage disclosure concerning judgments and assumptions made by the economic entity. If this issue is properly done than the risk of material misstatement and wrong audit opinion is getting lower.

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Improvement of Managerial Accounting in Electricity Industry by Applying the ABC Method (Activity Based Costing)

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Abstract

The objective of this scientific approach is to present a valid and reasoned opinion on the contribution of a modern method of cost calculation, ABC method (Activity Based Costing), in improvement of managerial accounting, to conduct a comparative study of traditional methods of calculation and to highlight the benefits of adopting and implementing modern methods of calculation. ABC method is a methodological approach of "refining" the system costs, that places in the centre of cost matter the concept of activity.

Key words : activity-based costing method, cost driver, activity, limits, benefits.

J.E.L. classification: M40, M41.

1. Introduction

The *purpose and the objectives* of this research is to study, present and adapt the modern methods of calculation of production costs in the energy sector. To achieve this goal, I suggest the implementation of ABC method (Activity Based Costing), aiming, through others: examining specific principles governing this method revealing the causes that led to choosing the method of activity-based costing; transverse reorganization of entities where the method is to be implemented, taking into account the organizational and technological aspects of production in energy system, development of system accounts used for consumption and cost reflection on activities, specific to the entities in the energy sector; preparation of specific documents that match the needs of

evidence, analysis, control and highlighting the links between them; contribution of activity-based costing method to develop methodological and informational support to the energy sector entities.

2. Research methodology

Approaching the theme of research focused on investigating the ABC method of calculation, by presenting the general reference framework of the theme in literature. *Descriptive research*, used as research strategy, involves a preliminary study of collecting information in a complex research project, being used for the knowledge of systems and social processes.

The research type used is, on one hand *quantitative research*, based on the principles of *positivism*, and of *neo-positivism* and, on the other hand, *fundamental research*, aimed at deepening the theory.

The main research scientific methods used in my approach were the *analysis* and *synthesis*. The selection of these research methods directly depended on the nature of the studied phenomena, but also on the theory from which this study is claimed. I also made use of the *empirical method*, which is the simple observation of the facts without making assumptions, and of *experimentalism*, that both complements and opposes empiricism. Experience aims to control the assumptions, being a mental and rational operation, that brings certainty.

3. The theoretical significance and the practical value of this study

The theoretical significance of this study consists of the following issues: finding the need to address the complexities of the training costs of the production in energy sector, developing principles and methodology of accounting for production costs, highlighting the advantages of activity-based costing method and demonstrating the need for its application, The argumentation of the need of using the information provided by the ABC method to determine the steering indicators focused on the dashboard for managerial decision making.

The practical value of the work is to develop concrete suggestions referring to improving the method of accounting specific to activity-based costing method, namely: transverse organization of entities in the energy sector, on activities and processes; adaptation and use in the General Chart of Accounts on the production and cost accounting according to the specific method of calculation of activity-based costing; use the allocation process based on cost inducers or cost drivers of expenditure of activities and processes on objects of calculation, creating the dashboards based on the steering indicators specific to ABC method, setting the sequencing of the successful implementation of the ABC method and ensuring the continued operation - post-implementation of this in the energy sector entities, designing and using forms of supporting and calculation documents specific to ABC method.

Further on, I will try to outline a *qualitative analysis* of the state of my research up to this moment, I will describe the evolution of this methods of calculation and its framing in all modern methods of calculation used by managerial accounting.

4. The objective and the benefits of the ABC method

ABC management method is one of the new strategic initiatives in business, being considered by specialists an innovation in cost management. From conception to maturity, depending on the area of users' origin, ABC method (Activity Based

Costing) received different meanings. While some economic professionals have called it "technical" and other "process" or "system", researchers have given it the title of "method". Regardless of how it was made, the ABC method circumscribes to a continuous effort to improve the activity of an entity, with a dual role, of analysis and evaluation, being applied in accordance with accounting principles to interpret data on costs and provide a serious source of information which management decisions to be based on. *The origin of the method of calculating the cost on activities is found in U.S. literature, in "The Hidden Factory" developed by Jeffrey G. Miller and Thomas E. Vollman, in which it is subjected to critical analysis the sectors generating the indirect costs* [1]. The two authors have examined with great accuracy the places of production of indirect costs, reaching the conclusion that it is very important to assign a decisive role in controlling costs to the development of more detailed model of the causes of these costs. They have not insisted on creating a new system for determining the costs, but on the detail of producing indirect costs and on the measures to be taken at clarifying the causes which have contributed to record negative deviations of indirect costs

Some authors stated in the literature that the first attempt for the achievement of such a computer system and cost analysis dates back to 1987, belonging to Kaplan, Cooper and Jhonson. According to Robert Kaplan's statement "*costing calculation and the inspection procedure of the costs at that time did not show the production costs distorted and the nonfinancial crucial data was necessary for business efficiency and effectiveness in a new competitive environment.*" Coming out in 1989 in Germany, the paper "*Calculating process costs*" by Horvath and Mayer, was the starting point in the development of the so-called process costs calculation. The two concepts introduced by the authors, "Activity-based costing" and "Process-based costing" are used in the international literature as synonyms.

Since the beginning of the activity-based costing method (ABC), other methods have also appeared, such as: ABM or ABB. *Activity Based Management* (ABM) was defined as a systematic method of planning,

control and improvement of labour and indirect costs, being focused on the concept of "activities consume costs". If the traditional systems of costs were focused on the idea of 'labourer', ABM system is centred on the idea of "labour", the building core of ABM being activity-based accounting. *ABC method is motivated by the belief that, traditional accounting information is not useful to managers, who are interested in assessing the effectiveness of decision resources allocated in their businesses* [2]. *Activity Based Budgeting (ABB)* is the reverse side of activity-based accounting, being a systematic method of planning and budgeting the resources of an entity. In essence, this method defines cost per target and plans work tasks for each activity to determine the number of employees and expenditure budgets. Activity-based accounting is *a system that allows to follow the development of an enterprise in an "interactive" manner. This can be taken in any field, regardless of company profile. The new approach is (in different ways and with different names) to steer the company through its management activities and processes* [3].

Empirical research conducted on the effectiveness of the ABC method have shown its benefits by supporting the continuous improvement process of the activity, by developing methods to determine actual costs, by increasing financial performance. Although the ABC method has found rapid acceptance, however, there were a variety of views on the effectiveness of the method. In time, by simulating the transition to this method of calculation, in literature were identified a number of factors which influence the effectiveness of using this method, especially financial factors. Study results have confirmed the benefits of the ABC method, when it is used in parallel with other strategic approaches and when implemented in complex business entities in which costs are relatively important.

The ABC calculating system was born because of criticism to traditional cost calculation model, which uses the allocation process, according to which allocation bases were not the real model in which the products consume resources [4]. The practical application of the ABC method was performed for the first time in the "General

Electrics" company in the 60s in the U.S. The main causes which led to the need to apply this method of calculation were: shortfall in deepening of modern costing systems, deficiencies in traditional costing systems, diversity of information requests for company management and producing changes in the strategic position of companies on the market.

ABC method hypothesis is that careful analysis of the activities should lead to identification of relationships that more products maintain, little by little. The ABC method rejects cascade allegations and seeks to keep relations between costs and the causes that have triggered them. For this reason it considers that each entity producing directly productive activities also ensures peripheral activities. Thus, for each product a list of directly consuming activities is being drawn and also of those the activities generate. Basically, we are dealing with two types of activities: *on one hand, activities that can be attached to products, also called **primary or main activities** (are those used outside the entity, either by a product or by another entity; they express the main mission of the entity but they do not necessarily have a direct relationship with the products that can be support activities); on the other hand, we consider the activities that the entity carries out in a conjunct manner to the main activities, as their support. They are called **secondary activities** and they are not related to products* [5]. ABC Method (Activity-Based Costing) was perceived as an alternative to traditional accounting systems, having the specific of organizing the production process as a set of activities. Managers were asked to consider the resources consumed by these different activities, and only then to allocate costs to products. Practically, the ABC method is based on the entity's cut into transverse. It has been noticed as a measurement process of operations costs using: analysis of costs elements, determining activity-based performances, measuring production and operational costs.

In fact, the ABC method (Activity-Based Costing) is *an instrumental extension of the ABM method (Activity-Based Management). Activity-based management method is an excellent way to improve the quality of managerial decisions, relying heavily on*

information provided by the ABC method [6]. The objective of the ABC method is the allocation of effective action activities determining costs. "People can not manage costs, they can only manage activities that determine the costs". The basic principle of the ABC method can be described as follows: activities consuming products / services that consume resources. Products and services may be assimilated to processes. The relationship between the three concepts can be expressed by two equations: "consumption" and "necessary". The processes consume sub-processes or activities which in turn consume resources. Resources are needed both for carrying out activities and for implementation of processes, whereas processes consist of activities. If each stage of the relationship is.

5. Conclusions

The applicability of the ABC method highlights two categories of benefits: advantages of applying the ABC method over other methods of calculation and competitive advantages of entities which apply the method to those that do not apply it. The first category of benefits includes issues such as: identifying the causes of low performance and negative performance, eliminating the damage limits of the cost of products from dividing the entity in productive and unproductive components, identifying the real players in the overall performance of the entity, delimitating and identifying the most profitable and the most unprofitable components of entity's business, ensuring the achievement of performance management through cost drivers. The essence of applying the ABC method is not cost calculation but determining its origin on the background of functional relations. Establishing customer profitability through the two components of the cost (product cost and customer cost), accountability of staff, adaptation to continuous changes on market are some competitive advantages of entities applying the ABC method.

ABC approach is demanding in terms of mapping activities and the "anticipation" of support in relation to the products. Getting a real advantage, entities with multiple sources of deviation may be ignored in their economic consequences. Every success has its limits and the applicability of the ABC method has encountered a number of critical factors that contribute to the failure of its implementation. These include: heavy volume of work in collecting the information it requires, the accuracy of provided data, absence of a computer program, confusion in the preparation of other records in addition to those from financial accounting.

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Error Detection in ESL Teaching

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Abstract

This study investigates the role of error correction in the larger paradigm of ESL teaching and learning. It conceptualizes error as an inevitable variable in the process of learning and as a frequently occurring element in written and oral discourses of ESL learners. It also identifies specific strategies in which error can be detected and corrected and makes reference to various theoretical trends and their approach to error correction, as well as to the relation between language instructor, students' motivation, classroom activities and assessment strategies.

Key words: communicative competence, error correction, error detection, coorrective tools, corrective strategies.

J.E.L. classification: Z 00

Over the last decades, the concept of error detection and correction in communicative language teaching has acquired buzzword fashionability in ESL teaching. It features proudly and prominently in innumerable books on methodology, articles and conference papers and scholars compete in exploring the various dimensions, uses and mutations of the concept. This study documents some personal insights related to ESL teaching and addresses issues regarding the fluid conceptions and misconceptions surrounding error correction in the larger paradigm of our beliefs, knowledge and current teaching practice. My reflections are based on empirical observations and discussions with high school and university teachers in the area of ESL teaching. This article deals with the pedagogical applications for error analysis and error correction and is addressed to foreign language teachers, second language teachers, be they in the pre-university or university

levels. The article does not specifically discuss why learners of L2 make errors, as they can stem from a variety of causes: interference between L1 and L2, the second language has inherently confusing aspects, the teacher and/or the course materials unintentionally lends itself to erroneous interpretations, learners foster their own second-language errors or errors are merely careless, unrepeatabe mistakes. The study focuses on the relation teacher-student when the variable of error is introduced. It also aims to address practical questions related to error reception and correction. A review of the literature on error correction identifies answers to five fundamental questions:

1. Should errors be corrected?
2. When should errors be corrected?
3. Which errors should be corrected?
4. What methods should there be used in correcting errors?
5. Who should correct students' errors?

Traditional perspectives on error detection and correction recommend instructional procedures conducive to quick error detection and the use of such strategies that would prompt students into producing error-free utterances. Although they admit the inevitable character of errors, the theoreticians recommend adequate instruction so as to prevent mistakes from occurring. "The principal method of avoiding error in language learning is to observe and practice the right model a sufficient number of times; the principal way of overcoming it is to shorten the time lapse between the incorrect response and the presentation once more of the correct model" (Brooks 58)

Such an approach also favours the idea that the chance for learners to make mistakes is minimized by practicing each grammatical pattern through stimulus-response drills until it becomes a habit. A number of studies have investigated the effectiveness of explicit error

correction in grammar instruction. Tomasello and Herron found that learners taught with a technique that induces them to make errors and then immediately corrects them did better in oral and written tests than those taught with traditional grammar instruction.

Structural linguists introduced the concept of contrastive analysis as a more effective technique to deal with students' errors when practising L2. They start from the assumption that interference from L1 caused errors to occur the target language. Contrastive rhetoric describes patterns of rhetorical preferences in other cultures, patterns which may explain and justify some inappropriate choices in terms of rhetorical strategies. Therefore, without adequate knowledge of cultural preferences, teachers are likely to see differences as weaknesses and quantify them as errors. In order to avoid generalizations, one needs to consider at least two issues: 1. not all members of a particular ethnic group may manifest all the problems or cultural preferences associated with a group (see for instance the preference of Arab students for digression in composition) and 2. not all problems arising can be attributed to transfer of L1 patterns. Once aware of this phenomenon of language interference or transfer, the teacher can identify adequate strategies and exercises meant to alleviate a certain problem

The focus on communicative competences started in the 1980s determined a change in the approach to error detection and correction and fostered new directions in determining learning goals, instructional materials and methodological strategies. In the light of the new principles, students are no longer expected to produce flawless structures in a foreign language, but to communicate in L2 about things that are relevant for their interests, even if this implies the tolerance of some minor mistakes. The educators tend to adopt a more lenient and tolerant attitude toward language mistakes and regard them as omnipresent facts of life in the learning process. Moreover, they consider that an adequate and systematic error analysis can provide useful insights into the process of language acquisition and indicate the rate of students' progress in a foreign language. "Errors provide feedback, they tell the teacher something about the effectiveness of his teaching materials and his teaching

techniques, and show him what parts of the syllabus he has been following have been inadequately learned or taught and need further attention. They enable him to decide whether he must devote more time to the item he has been working on. This is the day-to-day value of errors. But in terms of broader planning and with a new group of learners they provide the information for designing a remedial syllabus or a program of reteaching". (Corder 265)

The process of error detection as such can be a tricky problem, because the teacher finds it hard to discriminate between deficiencies arising from the student's low level of language proficiency or faults determined by weak writing skills. A two-paragraph essay written by an ESL student can indicate either of the following things: 1 linguistic difficulty : the student's lack of language proficiency prevents him/her from fully expressing the otherwise abundant ideas which he might be able to express in his native tongue. 2. the rhetorical difficulty : the student is unable to identify a number of consistent ideas and structure them into a fully developed essay

Harris and Silva (534) identify the following types of errors most likely to occur in the speech and written productions of high intermediate and advanced ESL students:

- Verbs Inflectional morphology (agreement with nouns in person, number, etc.)
- Verbal forms (participials, infinitives, gerunds)
- Verb complementation (the types of clauses or constructions that must follow a particular verb)
- Nouns Inflection (especially in terms of singular/plural and count/mass distinctions) Derivation (deriving nouns from other parts of speech)
- Articles (related to problems in classifying nouns)
- Misuse of article
- Prepositions (primarily a result of limited lexical resources) Knowing which one goes with a particular noun, verb, adjective, or adverb
- ESL students with lower levels of proficiency may also exhibit more problems with basic sentence, clause and phrase structure

In the act of learning, students may encounter different linguistic environments which construct various interactional contexts in which the teacher's feedback (in the form of error correction) may be immediate or delayed. The act of improving the knowledge and skills of a foreign language necessarily entails the transition from many errors - few errors - fewer errors and in the happiest cases - no error at all. When students are unable to detect their own errors, they need the assistance of a person whose language skills are superior to their own. If done correctly, without intimidating or making students lose confidence, error correction can prove an invaluable teaching instrument that helps student set higher and higher goals in language acquisition. This is particularly true in the case of adult learners, who express their specific desire of having their mistakes corrected and being also explained the rationale behind the rule. Many of them usually report that such mistakes which have been "topicalized" during the lesson through commentary generate meaningful knowledge in the future.

Before analyzing and correcting an error, this needs to be localized, in the sense that the teacher needs to know what was actually said or done, by whom, what was meant and what was intended to be conveyed.

Many foreign language educators have moved away from the obsessive concern with error avoidance and feel that discriminating between minor and serious errors can definitely improve the students' confidence and motivation. Research on students' evaluation strategies and their attitude to them seems to suggest that students prefer "not to be marked down for each minor speaking and writing error because this practice destroys their confidence and forces them to expend so much effort on details that they lose the overall ability to use language" (Walker 103). To put it differently, students would rather be praised and encouraged for their overall ability of communicating a message successfully, despite the existence of some errors, rather than be held responsible for each imperfection of their discourse. Other educators employ different corrective tools, depending on the type of exercise practiced. If in grammar exercise drills error correction can be seen as an acceptable mechanism, in communicative

activities, students feel the need to receive a type of feedback meant to instill success.

Foreign language practitioners consider that mistakes should be prioritized according to the intelligibility criterion. Once an error prevents one from comprehending the message, then such an error should receive top priority in correction. If errors do not interfere with the overall meaning of a message, they may not be promptly or systematically corrected. We described such a distinction in minor vs serious error. Burt and Kiparsky propose the distinction between global errors (as communicative errors that causes a native or proficient speaker to misunderstand or consider a message incomprehensible) and local errors (linguistic errors that makes a form or structure awkward, without preventing a native or proficient speaker from understanding the message). Global errors are usually associated with poor lexical knowledge and seriously misspelled lexical items. Local errors are occasioned by misuse or omissions of prepositions, misspelled words, lack of concord and agreement. The writers suggest that the teachers should aim at eliminating global errors first and only later should he/she attempt to remedy local errors as well. Teachers should be particularly aware of errors that tend to become permanent rather than transitional entities in someone's discourse. Such "fossilized" errors should also be corrected based on their degree of incomprehensibility (Waldman) The general rule to apply in this case is: the more an error detracts from the overall meaning of a discourse, the sooner should the teacher consider remedying it.

When correcting students' errors, teachers should avoid using correction strategies that intimidate and embarrass students and deter them from producing meaningful responses in the future. Once the tone of the correction has been decided upon, the teacher needs to figure out the answer to another pressing question: Should students be provided with the correct form or structure immediately after their error has been detected or should they be encouraged to identify the right variant on their own? This last variant is supported by Waldman who considers that a discovery approach helps students make inferences and formulate concepts about the

target language, thus "rooting" the information in their long-term memories.

There are specificities concerning errors in oral and written productions respectively. An error spotted in conversation is easier to correct due to proximity in time (error moment-correction moment). However, the teacher should refrain from interrupting the flow of conversation. A better approach is to note down/remember all the mistakes and then start the correcting process as soon as possible. In the case of written productions, error correction can be a more time consuming process, as the teacher is faced with a variety of mistakes, from spelling to word omissions to morphological, syntactic and pragmatic errors. Wingfield lists five techniques for correcting written errors (p. 311):

1. the teacher gives sufficient clues to enable self-correction to be made;
2. the teacher corrects the script;
3. the teacher deals with errors through marginal comments and footnotes;
4. the teacher explains orally to individual students;
5. the teacher uses the error as an illustration for a class explanation.

Most teachers feel that the responsibility of correcting students' mistakes lies entirely with them. As the teacher is expected to act like an invaluable source of information, it is only natural that he/she should react to errors as they feel most appropriate. Not only is the teacher expected to correct the error, but he also needs to provide data, examples, information in order to ensure the adequate understanding of the concept and prevent the mistake from reoccurring. Teachers who work with ESL students have the tendency to "tell" things, to provide cultural, rhetorical and/or linguistic information in order to help their students cope successfully with classroom tasks and home assignments. Indeed, tutors will not be able to elicit knowledge from ESL students if the students do not have that knowledge. However, an increasing number of teachers suggest alternative strategies. Such an approach favors the involvement of other students in the correction of oral and written errors. Peer correction makes students more aware of their own errors and more willing to learn

from each other's contribution to classroom discussions and activities. In cases of written texts, the teacher can assist students in their identifying and remedying their own errors. Moreover, students can be helped to develop effective personalized strategies for revising and editing a text. Such goals can be successfully achieved especially if the teacher works with a small number of students.

In the case of ESL students it is worth remembering that teachers should not have unrealistic expectations and ask from their students a native-like level of correctness. Language instructors teaching students who are not majoring in letters, and who are likely to use English as an instrument rather than as an end in itself should adopt a positive attitude towards error and accept it as inevitable in the discourse of their students, thus focusing on substance rather than on style.

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Teaching and Learning Culture

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Abstract

This study is premised on the idea that culture teaching and learning should become a staple in foreign language curricula, as it fosters cultural awareness and understanding and has a positive impact upon linguistic competence at the same time. The article illustrates specific strategies by means of which culture-related topics can be integrated into classroom content. Specific references will be made to the elements that prevent language instructors from using culture-related activities extensively in classroom setting. Throughout the study, culture learning will be defined as is a dynamic, developmental, and ongoing process which engages the learner not only cognitively, behaviorally but also affectively. More specifically, culture acquisition is the process of acquiring the culture-specific and culture-general knowledge, skills, and attitudes required for effective communication and interaction with individuals from other cultures.

Key words: ESL, culture teaching, culture learning, communicative competence, cultural context, intercultural competence.

J.E.L. classification: Z00

Teachers associate language teaching and learning with the development of essential linguistic skills such as reading, writing, listening and speaking. Due to the effort of theoreticians and practitioners of education starting with the 1980s, people involved in language teaching have begun to understand the inextricable relation between culture and language and realize the fact that without the study of culture, teaching L2 is inaccurate and incomplete. Indeed, acquiring a new language means a lot more than the manipulation of syntax, morphology and semantics. What is more, without appropriate

exposure to cultural elements, most language learners find it hard to develop acceptable linguistic skills.

This study aims to investigate whether cultural knowledge can become a valuable source of understanding in the classroom and identify the relation between increased cultural awareness and linguistic competence. Does the incorporation of culture into the foreign language curriculum have a positive impact upon L2 communicative competence? If so, what techniques can language instructors implement in real and concrete teaching and learning situation with a view to fostering cultural insight into the target civilization? What assessment techniques are more likely to test the students' cultural competence? The study also considers the relationships among culture, classroom setting, curricular materials, instructional methods, assessment strategies and students' motivation in order to introduce students to a type of learning which shapes and restructures their perspective on the world and their cultural identity.

This study documents some personal insights related to ESL teaching and addresses issues regarding the fluid conceptions and misconceptions surrounding culture teaching in the larger paradigm of our beliefs, knowledge and current teaching practice. My reflections are based on empirical observations and discussions with high school and university teachers in the area of ESL teaching and stirred by a paradoxical personal finding: ESL educators are adamant about the necessity to integrate culture-related task in their curriculum, yet in concrete learning situations they seem to favour and discreetly promote grammar and vocabulary learning at the expense of interactive, negotiated and interpreting activities that capitalize on culture teaching. While reading and interpreting the personal ideas mentioned below, caution must be taken so as to avoid a narrow and

deterministic interpretation of personal insights which may favor stereotyping and overlook individual variations and evolutions. The topic of **teaching and learning culture** has recently raised considerable interest to language educators and much has been written about the role of culture in foreign language teaching instruction. This is hardly surprising as culture learning is not only the domain of language teachers. On the contrary, the field is highly interdisciplinary in nature, as contributions to this area have come from psychology, linguistics, anthropology, education and intercultural communication.

McKay considers that culture influences language teaching in two ways: linguistic and pedagogical. Linguistically, it has an impact upon the semantic, pragmatic, and discourse levels of the language. Pedagogically, it determines the choice of the language materials because cultural content of the language materials and the cultural basis of the teaching methodology should be carefully considered prior to deciding upon the language materials. For example, while some textbooks provide examples from the target culture, some others use source culture materials.

Culture has been defined mostly in terms of "facts" about the target culture. The emphasis has been on culture-specific knowledge and that knowledge has been primarily about surface-level, visible culture (food, clothing) rather than deep culture (values, beliefs). There has been little written on culture defined in more culture-general, intercultural competence terms. This is precisely the reason for which modern teaching should set new culture learning goals and outcomes. The learning goals should shift from the memorization of cultural facts (including sociolinguistic conventions for language use) to higher order learning outcomes including: the acquisition of "interactional competence" (a term suggested by Allen and Moore at the 1996 culture conference in Minneapolis) and learning how to learn about culture. According to Paige (1997), such learning would include:

- 1) learning about the self as a cultural being,
- 2) learning about culture and its impact on human communication, behavior, and identity,
- 3) culture-general learning (learning about universal, cross-cultural phenomena such as cultural adjustment, including its language)
- 4) culture-specific learning (learning about a particular culture)
- 5) learning how to learn(becoming an effective language and culture learner)

We feel the last point is particularly worthy of our attention and the lines to follow will elaborate on it. To become effective culture learners, students must develop a variety of learning strategies ranging from observation and reflection to active experimentation, all under Kolb's term of 'experiential learning' style.

Culture Learning in the Classroom

Practitioners and theoretician of education and language acquisition alike confirm that the benefits of studying abroad to the fostering of culture-sensitive individuals. The real challenge lies in imagining the classroom setting as a locus conducive to culture learning, creating a context for culture learning in the classroom means finding ways to approximate the target culture in the classroom.

According to Krashen , the formal classroom as a venue for culture learning does not lead to language or culture acquisition, only to the learning of rules. Others argue that there may be little difference between learning in the classroom versus learning in a natural setting because introductory or intermediate level students cannot communicate sufficiently well to take advantage of the naturalistic environment (Van Lier). Most researchers though, fall somewhere in between and consider that there are both disadvantages and advantages to language and culture learning in the classroom.

There are several trends of theoretical criticisms of the classroom as an environment for culture learning. Damen (1987), for example, argues that classroom-based learning is cognitive and deductive in nature and relies far too much on rule-ordered teaching. Consequently, students simply memorize the material without reflecting or

integrating it into a larger cultural knowledge base. Ellis (1992) considers that the classroom discourse is rigidly controlled by the teacher, who determines who speaks, how long they speak, and when they start and stop. Accordingly, this type of setting offers students little opportunity to become culture sensitive individuals. By contrast, naturalistic settings do not emphasize the clear articulation of rules, as the meaning is more important than the form, and error correction rarely occurs. However, other authors have theorized that the classroom as an artificial community can provide unexpected benefits for language and culture learning (Kramsch). The above mentioned researchers state that the classroom is a protective environment where students can feel free to make mistakes without enduring consequences. This protective setting enables students to experiment with the language, thus encouraging them to make sense of the language and culture on their own. Ellis argues that both environments can be satisfactory as long as the tasks that are utilized in the classroom are adequate for the purpose of the learning. As Freed notes, the stress should not fall on the external environment, but the internal one created by factors such as the type of instruction, the level of the class, and the individual differences associated with the teacher and the students. This does not mean that the external context is unimportant, as each type brings different potentials and problems, but it is the interaction between external and internal context that determines the type of learning to occur (Freed). Breen suggests that classrooms should be described as living cultures which are interactive, differentiated, collective, normative, asymmetrical, inherently conservative and jointly constructed.

One of the most effective strategies to integrate cultural content into classroom activities is to use examples, data, and information from a variety of cultures (or from the target culture) in order to illustrate key concepts, principles, generalizations, and theories in their subject area or discipline (Banks, 1993, p. 5). This general goal can be operationalized when considering the following concrete activities:

1. integrate culture-related activities into lesson plans
2. use cultural contexts for language – practice activities (grammar, speaking, listening and reading)
3. exploit meaningfully textbook illustrations and photos
4. encourage students to investigate the connotative meaning of new words when teaching vocabulary
5. devise adequate tests to assess cultural understanding
6. propose activities that contrast between national culture and target culture

However, teacher of ESL are reluctant at integrating a rich cultural content in their activity. Most of them justify their choices on the little amount of time they have at their disposal, time which needs to be devoted to language based activities. Another reason which teachers are less willing to admit is the insufficient knowledge of cultural issues. Lack of adequate resource materials can be another deterrent that keeps teachers away from culture teaching. Prior to the 1990s, most of the textbooks published in Romania did not consider the multiple realities which make up culture, as the underlying belief was that a homogeneous and relatively static national culture is easier to structure, present and teach. Now the availability of informational sources and means expose students and teachers to a large variety of cultural materials and the target culture reaches students via “authentic cultural materials”. In classroom settings, the textbook is used extensively, function as instructional guide, and determines themes and sequence of material. Furthermore, textbook influences most of the internalized knowledge the students had of English culture. As textbooks still remain the central tool to language educators and the main source of culture learning course book writers need to revise the material included in such materials, and the course instructors should also consider ways to supplement it with relevant materials. There is a large and growing body of theoretical writing concerned with the use of authentic materials, and concrete ways of including these materials into the curriculum have been devised. Nonetheless, there is little actual

research which has investigated the effects of authentic materials on linguistic or cultural competency.

Another thing that prevents language instructors from including judicious culture-related material in their classroom activities is the anticipation of students' negative attitudes. Indeed, although many students are likely to enjoy the opportunity of being exposed to cultural information, there are some other who consider any other material which is not strictly focused on language as a distraction from language instruction as such. Motivation can be broadly defined as the factor which drives the student to study a language in the first place and to stop studying to it. However, the identification of motivational factors may be different from student to student, depending on their age and proficiency level. What determines one to start studying a language may be different from what compels him to continue the language study, or to begin a third or fourth language where it is not required. Momber and Myers both found that students need high motivation to continue, but that motivation as a trait is highly unstable. The same student, for instance, may resort to different motivations in various stages of his academic existence. Attitudes can be generally defined as the positive or negative feelings that students have toward the language, the language teacher, the language class, the culture(s) of people who speak that language, and the study of the language. A student might be highly motivated to study a language and culture for instrumental reasons, which would not necessarily entail the development of positive attitudes towards the target culture.

Last but not least, teachers find it difficult to measure cross-cultural awareness and change in attitudes. Unlike linguistic or vocabulary issues which can be easily evaluated and the teacher's feed-back can be given almost instantly, it is hard to quantify the extent to which students internalized cultural norms and precepts. Kordes, Meyer, Byram and Morgan have identified the enormous challenges that go hand in hand with the assessment of culture learning and this perhaps the reason for which many educators abandoned the idea altogether. Byram notes that in England, the Minister for Education left out criteria associated with

cultural understanding because it was felt that only "practical communication" could be listed as a criterion for learning. Other researchers have concluded that culture learning can only be evaluated through informal means and only "by the learners themselves" (Damen). Whether we accept it or not, for many teachers, culture teaching and learning is a relatively new and unfamiliar topic. The problem lies in the lack of concrete examples of how to teach intercultural competence and in teachers' misconception that they need to be culture experts. However, the target at which teachers should aim is to become guides and partners in a process of culture learning and discovery with their students, rather than culture expert upon whom their students exclusively rely for cultural knowledge.

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The Monetary Policy Transmission Mechanism under Financial Distress. An Overview

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Abstract

The aim of the present paper is to underline the international financial crisis implications on the monetary policy transmission mechanism at the European level. Our study illustrates the main features of the pass-through process in the light of recent financial tensions and the general impact of Eurosystem's non-standard measures on the functioning of monetary transmission channels. Our results outline that pass-through process remained operational during the crisis and that unconventional measures ensured a proper functioning of transmission of monetary policy impulses to real economy. The extent to which this mechanism has been irreversibly damaged by the credit crunch is premature to determine and thus it would be misleading to draw definitive conclusions, especially when some non-standard measures are still in place and financial tensions persist.

Key words: monetary transmission mechanism, pass-through process, financial distress, unconventional measures

J.E.L. classification: D53, E52, E58, G01

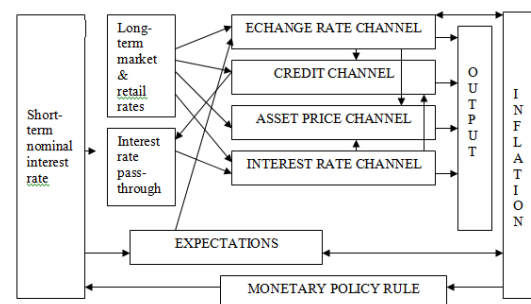
1. Introduction

Based on various channels, monetary policy transmission mechanism allows monetary policy decisions to influence the behavior of markets, economic activity and finally, the general price level.

Monetary policy influences real economy through financial markets; first, monetary policy decisions involve changes in financial variables (bank interest rates, exchange rates, the price of financial assets, etc.), which in turn lead to modifications of the real economy.

Central bank policy rate defines the starting point in highlighting the impact of monetary policy on real economy. Under normal conditions (no crisis or turmoil), interest rate fluctuations affect real economy and, ultimately, the price level through several channels, as summarized in figure 1.

Figure 1. The monetary transmission mechanism



Source: [1]

Under financial distress, monetary policy transmission mechanism can be affected by significant inefficiencies and even be blocked. If central bank policy rate falls to 0, we have a typical example. In this context, monetary policy can no longer influence real interest rates. Disturbances in the monetary transmission mechanism may also appear if the banking sector does not function normally, so that lending to the economy is significantly reduced or even discontinued.

The blocking of monetary policy transmission channels does not mean the incapacity of central banks to influence real economy. From this point of view, both academic literature and economic practice highlights the increased concern of central banks to design and implement certain monetary policy measures considered, in the light of recent events, as *unconventional* or *non-standard*.

Given the current financial tensions, *interest rate channel* efficiency is extremely important. As the money markets, along with other credit markets became increasingly interconnected over the past twenty years, the recent developments have attracted severe adverse macroeconomic consequences. Based on these premises, monitoring and evaluating bank interest rate pass-through is an essential aspect.

The present paper is structured as follows: second section points out the particular features of pass-through process in the context of the international crisis; the third one shows the impact of unconventional measures applied by the Eurosystem in order to support the functioning of monetary policy transmission mechanism; section four includes the final remarks.

2. Main features of bank interest rate pass-through in the light of the international financial crisis

Analyzing the *bank-based* Eurozone financial system, the extent to which central bank policy rate affects retail bank interest rate pass-through represents a fundamental aspect of single monetary transmission mechanism.

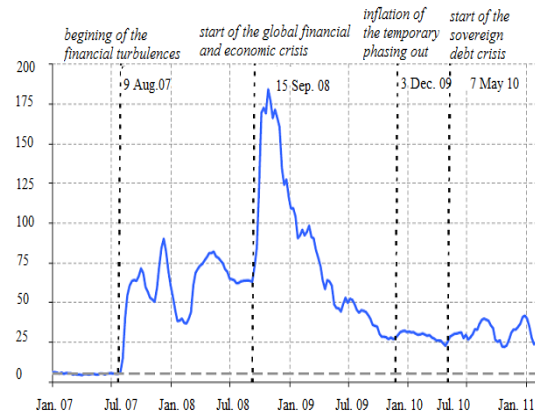
The onset of financial turmoil in mid-2007 generated an increase of credit risk premiums for interbank loans and a sharp decline of market transactions. Bank uncertainties regarding the creditworthiness of their counterparties extended rapidly [2]. By September 2008, when it became clear that financial system could collapse, the spread between 3-month EURIBOR and overnight index swap (OIS) with the same maturity displayed extremely high values (figure 2).

Since bank interest rates are determined and by LIBOR interest rates (EURIBOR in the euro area) and the latter are often used as

an index, they also increased.

The worsening of money market conditions has been reflected by the pronounced interest rates volatility, which made it difficult to measure and to evaluate the monetary policy position.

Figure 2. The spread between three-month EURIBOR and OIS (basis points)



Source: [3]

Note: End of week observation;

Latest observation: 11 February 2011.

As a result, the risk of severe deterioration of the transmission mechanism first line (defined by the connection between the central bank and credit institutions) appeared. Because a significant share of bank loans are carried out in the unsecured money market, spreads increase has had a direct impact on bank interest rates [4].

As a result of banks lower capacity to attract funds, credit standards applied to firms loans and credit lines have been considerably tightened [5].

In an economic environment where the monetary policy transmission channels have been significantly affected, the typical response of central bank, namely reducing ECB policy interest rate is insufficient to ensure the functioning of monetary transmission mechanism. In this context, it was necessary to implement some *unconventional* monetary policy measures, so that the next level of the transmission mechanism (from banks to households and non-financial corporations) to remain fully operational.

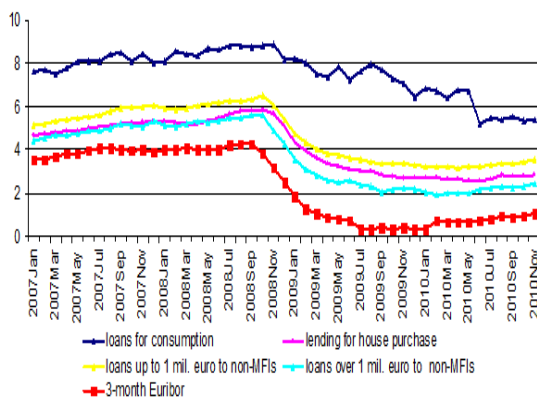
From the onset of international crisis, bank interest rate pass-through remained an efficient process, the immediate and most pronounced impact of the turmoil being

experienced by the short-term interest rates. The explanation lies in the deterioration of connections (normally closed) between overnight rates and term rates. This evolution has influenced the pass-through process due to the fact that short-term interest rates are often set depending on unsecured EURIBOR.

Analyzing short-term credit market, we notice a defective functioning of the transmission mechanism, especially during 2007-2008. However, between September 2008 and February 2010 short-term interest rates have declined by 341 basis points, while EURIBOR simultaneously decreased by 436 basis points, reflecting the lowering of ECB policy rate, alongside a number of measures applied so that money market conditions would gradually normalize (in March 2009, the levels hovered well below those recorded before the crisis). Long-term interest rates fell by 151 points, while 7-year government bond yields decreased by 121 basis points.

However, we can not completely exclude that interest rate reductions have also been influenced by a lower demand from households and non-financial corporations in the context of a deteriorating economic climate marked by increased uncertainty. Considering the cost of bank financing in nominal terms, Eurozone monetary and financial institutions (MFIs) interest rates for loans to non-financial corporations fell almost in parallel with the ECB policy rate (figure 3).

Figure 3. The evolution of Eurozone monetary and financial institutions short-term interest rates (% per annum, January 2007-November 2010)



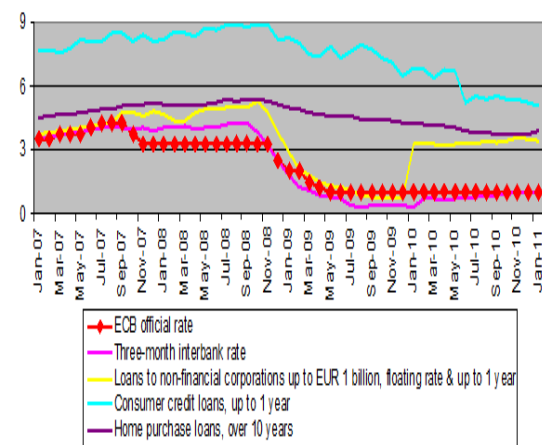
Source: [6]

Most interest rates of consumer credit and for house purchase also fell, albeit to a lesser extent than the corresponding interest rate of loans to non-financial corporations (figure 3).

Overall, between June 2007 and May 2009, the monetary policy interest rate changes transmitted on long-term interest rates in a similar manner to that of previous, normality periods. In the second half of 2007 and 2008, long-term interest rates on loans granted to non-financial corporations have fluctuated over the estimated levels of pass-through models, reflecting the banks practice to set high rates in case of a large demand manifested in a period of increased uncertainty.

In essence, it is doubtful that the effects of monetary policy rate changes have been transmitted on long-term interest rates in a slower manner than before the international crisis occurrence. However, this observation must be addressed in the context of a lower credit demand from households and non-financial corporations, which diminished bank interest rate pressures.

Figure 4. The evolution of interest rate on new loans in the Eurozone (% per annum, January-2007-January 2011)



Source: [6]

However, the lowering of money market interest rates in the context of ECB policy rate reduction have been transmitted to bank interest rates on loans with a significant gap, in line with previous developments, reflected mainly by the expansion of spread between market interest rates and bank interest rates.

The empirical evidence indicating the evolution of interest rate spreads of loans to households shows that the increase points out

their higher risk levels compared to those under normal economic conditions.

A recent study ([7]) states that the current financial distress contributed to the increasing heterogeneity of pass-through mechanism in the Eurozone member states (table 1).

Table 1. Substantial differences across Eurozone countries both in terms of speed and degree of pass-through

Loans/ deposit category	Minimum speed of adjustment	Maximum speed of ad justment	Spread (min-max)	Standard deviation
Overnight deposits	-0.07	-0.78	0.72	0.22
Savings deposits	-0.01	-0.42	0.40	0.14
Short-term time deposits	-0.14	-0.91	0.78	0.24
Long-term time deposits	-0.10	-0.42	0.32	0.10
Overdrafts	-0.04	-0.93	0.89	0.25
Short-term consumer credit	-0.04	-0.85	0.81	0.24
Long term consumer credit	-0.07	-0.42	0.36	0.10
Short-term house purchase	-0.01	-0.44	0.43	0.12
Long-term house purchase	0.00	-0.26	0.26	0.08
Short-term loans to NFC	-0.21	-0.67	0.47	0.18
Long-term loans to NFC	-0.10	-0.87	0.77	0.23

Source: [7]

Note: NFC= Non-Financial Corporations.

The bank interest rate pass-through is an integral and important part of the monetary policy transmission. Evidence of a large degree of heterogeneity across euro area countries in terms of speed and degree of retail bank rate adjustment to market (and policy) rates points to a lack of integration of EZ retail bank market and to some asymmetric implications of single monetary policy that affects bank financing costs of the private sector.

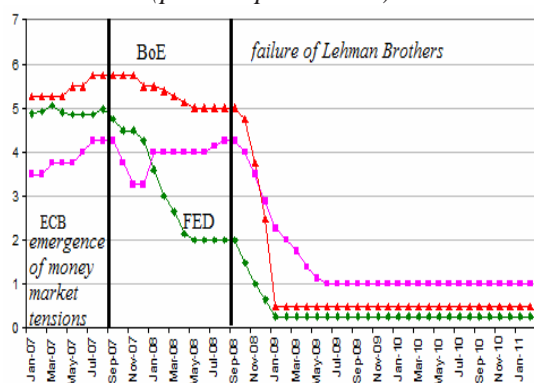
During the crisis it remained completely operational, its functioning being similar to that of economic and financial stability periods.

The extent to which monetary policy transmission has been irreversibly damaged by the implications of the international crisis is still premature to determine. It can be argued that current efforts aimed at establishing a more comprehensive and solid regulatory framework in order to strengthen the banking sector flexibility offers it the opportunity to have a more stable role in the monetary policy transmission.

3. The impact of Eurosystem's unconventional measures on the monetary policy transmission

The recent global financial tensions and the subsequent economic downturn have resulted in unprecedented monetary policy reactions of the monetary authorities. Thus, on 8th October 2008, the European Central Bank, the Federal Reserve and the Bank of England and three other major central banks have simultaneously announced a 50 basis points reduction of their policy rates. This coordinated action undertaken for the first time in history highlights the strong commitment of the central banks international community reacting to the profound macroeconomic implications of the financial markets crisis [8]. After the turmoil erupted, the sharp deterioration of macroeconomic indicators and the inflation rate (as a result of oil and raw materials falling prices), lead to further actions of developed countries central banks that significantly and repeatedly lowered their policy interest rates, (currently the latter range between 0 and 1%).

Figure 5. Evolution of key policy rates in the Eurozone, United States and Great Britain (percent per annum)



Source: [9]

Taking ECB as reference, it is noteworthy that after the collapse of Lehman Brothers, from October 2008, it gradually reduced the monetary policy rate by 325 basis points, from 25% in April 2008 to 1% in May 2009, level maintained even today and considered the lowest since the creation of EMU. However, financial tensions have detained the transmission of policy rates changes on money market interest rates and subsequently to bank interest rates.

In this context, the lowering of EZ interest rates to values that had not been recorded for decades has been accompanied by the Eurosystem design and implementation of a set of unconventional monetary policy measures aimed at *sustainable lending (enhanced credit support)* and the *correction of securities market failures (Securities Markets Programme)*. Such actions include:

a) the adoption of a fix rate tender procedure with full allotment used for the regular monetary policy operations in order to stabilize the banking sector in a period of high financial stress. By introducing this measure, the Eurosystem intended to support short-term banks financing so as to mitigate the potential negative impact of liquidity risk on credit availability for households and non-financial corporations;

b) the provision of liquidity in foreign currencies (in particular USD and CHF) to correct the failures of associated interbank market;

c) the broadening of eligible collateral by including securities (other than asset-backed securities-ABS) with BBB or higher rating, and the increase of exceptional operations average maturity;

d) the extension of long-term refinancing operations with a three-month maturity to one year maturity in order to reduce banks short-term refinancing needs. In the pre-crisis period, Eurosystem used only main refinancing operations (MROs) with one-week maturities and longer-term refinancing operations (LTROs) with three-month maturities.

e) covered bond purchases, euro-denominated and issued in the Eurozone. Based on such operations, Eurosystem facilitated the continuing decline of money market interest rates, eased the funding conditions for households and non-financial corporations, enlarged the loans volume and improved the liquidity of certain important segments of the private sector debt market [10];

d) interventions in the Eurozone public and private bond markets, based on securities market programme (SMP). Under SPM, the Eurosystem can act directly on the euro area public and private debt securities markets to correct the potential failures and to restore the normal operation of monetary policy transmission mechanism.

Analyzing the transmission of ECB policy rate, we find that the functioning of government bond market constitutes an essential factor. This is because of several channels, as follows [11]:

✓ through the *prices channel*, the interest rates of government bond influence the economy financing conditions. If the bond market functions normally, the state financing conditions provide a floor for the private sector financing terms.

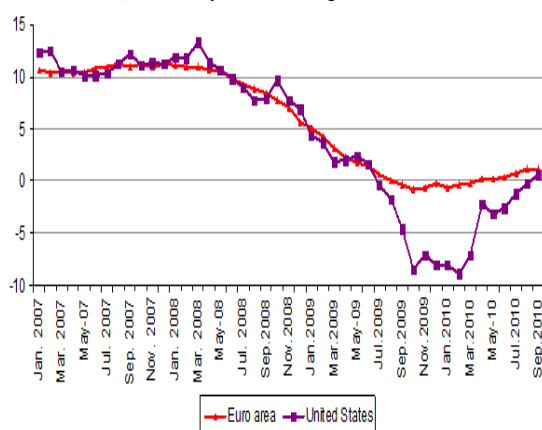
✓ *liquidity channel*; government bonds are often used as collateral for banks refinancing operations;

✓ *the balance sheet channel* is indirect; for example, the decrease of bond prices corresponding to higher yields involves the lowering of assets value held by financial and non-financial sectors.

In the context of the current crisis, the unconventional monetary policy measures implemented by central banks have mainly aimed to restore the normal functioning of monetary policy transmission by improving market liquidity and sustaining their functioning.

Also, through these measures, central banks have tried to support, to a greater extent than it would have been achieved only by reducing policy interest rates, credit flows to the real economy, market by a significant contraction.

Figura 6. The evolution of loans growth rate* in the Eurozone and in the United States (January-2007-September 2010)



Source: [12]

Note: *year-on-year, per cent.

Despite an overall positive impact of non-standard policy measures, bank lending remains low, much lower than before the crisis (figure 6) mainly due to the perception of banks' credit risk and the uncertainties regarding future developments of economic climate.

The unconventional monetary policy measures have a temporary nature and must be used only under financial distress. Thus, as the functioning of financial markets and of the economy, in general, improves, they are no longer justified.

Financial market indicators, the risk premia and monetary indicators, especially inflation expectations and the changes in money and banking have an important role in deciding the best moment to remove the non-standard policy measures.

4. Conclusion

Overall, except for some differences between the euro area countries, pass-through mechanism has functioned properly, meaning that retail bank interest rates and money market interest rates do not significantly differ from patterns displayed in previous years. This process was operational even in

the peak periods of the international crisis and respond appropriately to EURIBOR and long-term rates movements, albeit with some problems in relation to the EONIA, due to the strong tensions of the interbank money market.

By using unconventional policy measures, central banks tried to avoid the blockage of the financial intermediation process and to ensure an effective transmission of monetary policy to the real economy.

Currently, the main challenge for the central banks is the receding of the unconventional measures application as a response to financial markets tensions. By abandoning such measures, ECB aims to return to the normal course of monetary policy, which means using the refinancing operations with a one-week maturity as a main instrument for managing interest rates, market liquidity and indicating the monetary policy stance.

The present global economic crisis has highlighted the importance of monetary policy transmission mechanism and the soundness of financial system to ensure the efficiency of monetary policy.

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Considerations Regarding the Managerial Competence

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Abstract

By the present study, the authors bring into question three important aspects of the professional competence.

The first aspect refers to the fact that obtaining by studies a professional competence must be based on or start from the genetic background of general organization of the human brain, that is from the native abilities/skills and aptitudes of the individual.

The second aspect, developing the above-mentioned idea, emphasises the causal report between knowledge, behaviour and performance. Only on the innate skills there can be set the sound knowledge, create skills and form acting behaviours adequate to the profession with purposeful emotional personal satisfaction and genuine professional performance.

The final part of the article deals with the specific features of the managerial competence closely linked to the triple meaning of management as a science, art and mood.

Key words: competence, aptitudes/skills, professional knowledge, acting behaviour, performance, management

J.E.L. classification: L20

1. Argument

Considered as a determining factor in the success of the activities carried out by an individual, the professional competence, by its social significance and usefulness, is a theme always current and contemporary and very exciting for the specialists in education in terms of defining the concept, but especially of the insurance of its content through the formative process, but also for the educational product recipients or beneficiaries, the practitioners who find the

existence and driven manifestation of the competence which is expected.

The hidden qualitative feature of an individual, which manifests itself in the carrying out of the activities through motivations, character traits, personal opinions, attitudes, knowledge, cognitive and/or behavioural, the professional competence is achieved through education or studies. The diplomas issued by authorized institutions confirm the formation or development of skills for a profession or another. By mentioning what knows, what is able to do the graduate, these diplomas represent for the owner a preliminary condition for occupying a specific function and prefigures a possible success in life, by anticipating the professional performance.

2. Theoretical considerations

Through syntactic constructions of the phrase specific to the each author's style of expression, as well as through the degree of detailing the ideas, specialists in charge of the study of the competence concept highlight the following defining components:

- „set of knowledge, skills, behaviour types, standard procedures and types of reasoning that can be used (immediately) without learning something new" [4];

- „theoretical knowledge, procedural knowledge (that prescribe how to do), procedural skills (i.e the practical application of the procedures), skills developed from experiences, social skills (manifested, for example by the argumentation and negotiation skills), cognitive skills (that refer or relate to mental operations)" [3];

- „knowledge, skills, the self-image (given by the self-confidence), personality traits, motivations" [6];

- „hard competences appropriate to the knowledge and skills, and soft competences,

appropriate to the self-image, to the personality and motivations”[6];

- „, the assembly or set of the factors and conditions that relate to the general organization of the human brain, so as to cope with and respond appropriately and adequately to the demands of the internal and external environment of the body”[1].

The definitions presented focus on two components of the competence: knowledge and behaviours. The professional knowledge and acquired skills as a result of the school education and the gained one through the practical experience in exercising the function are those that confer some degree of intellectual organization to the human brain. The behavioural component consists in the way to act/work in different professional contexts by applying the most appropriate procedures, reflecting the way in which the human brain, through its degree of organization, succeeds or fails to meet the demands of the profession.

In order to confer a comprehensive definition to the competence, we consider that it should be taken into consideration a third component, that is, in some cases more implicit in the selected formulations for comparative analysis and by no means explicit. This component that should not be absent from the definition of the concept, is that it represents, actually, the foundation on which there are set the knowledge and formed the professional behaviours, namely, **the native skills**. It is widely known the fact that the individual are born with a certain predisposition for a certain field of activity or for a certain profession. The professional performance, as well as the personal satisfaction, for the work well-done, as forms of expression of the acting behaviour, is much larger and fuller, the more the component of professional knowledge is grafted on vocation, on the innate skills. No matter how much speciality knowledge would be passed through to an individual who by birth has the vocation of shoemaker, it is hard to believe that he could do or make performance as a philosopher or virtuoso violinist, for example.

In this way we consider that a definition of the competence might be formulated in the following terms: *the competence represents that intrinsic qualitative trait or feature of an individual who, based on its*

native skills, consists of a set of knowledge and skills acquired through school education and practical experience that confers to the human brain that way of general organization that, responding more adequately or appropriate to the demands of the profession, allows to have a performing and efficient professional behaviour.

Put in a mathematical expression, the individual competence (Cp), is of the following form:

$$Cp = \frac{\sum_{i=1}^n X_i}{\sum_{j=1}^m Y_j}, \text{ in which:}$$

$\sum Y_j$ represents the possible problematic situations specific to the profession;

$\sum X_i$ represents the multitude or set of responses that the individual can give to these problematic situations of the profession.

Ideally, the maximum competence would correspond to the relationship:

$$Cp_{\max} = 1$$

Since this maximum competence limit cannot be achieved or reached by the human brain, it is important to note and remember the fact that the sub-unitary value of this report expresses the *possible behaviour*, which reflects, in fact, *the individual competence*. It is the result of the information and the storage of theoretical information (the result of the professional education) and practical (the result of the work experience) filtered in advance and adapted as response, to the specific requirements of the profession. This is the reason for which, in practice, the individual competence is always situated below the level of the maximum competence, that is:

$$C_p < 1$$

3. The competence – performance relationship

Between skills, expressing *the possible* behavioural and performance, that reveals *the real* behaviour of the individual, there is a causal relationship: the competence is a premise for performance, and performance expresses the effect of the competent behaviour in exercising the function, so that

knowledge, competence and performance form by inter-conditioning a dialectical unity based on the native skills.

Knowledge grafted on skills, acquired and developed continuously by research or studies and experience, determine the competence; the competence as a source of the possible professional behaviour, during the carrying out of the activities and work determines performance; in its turn, the performance enriches knowledge with new information of a great intensity, generating innovation.

For example, in the business field, the potential possible behaviour based on solid professional knowledge and strong character traits predicts the entrepreneurial behaviour depending on the strategic options and policies adopted, by the way of acquisition of the targets and objectives, by the choice of methods and procedures for action, risk taking and responsibilities. This behaviour leads to a continuous improvement of the staff, to the constant enriching of the quality, to the increase of profitability, to the development through innovation of new products and services.

The power – performance causal pattern, provides the managers, among others, the means of assessing the "risk" in the assessment of the candidates for employment, but also especially in the career development. The risk of assessment of a person who, although he/ she has the necessary training or professional preparation, but has not the professional vocation, has no serious motivation of work leads to lower work performance, to the competitive behaviour disturbance and to the reduction of the capacity for innovation.

The management practice has shown that although it is difficult, it is not impossible to intervene to change attitudes and values of an individual, the motivation in his work, the way of thinking that leads, directs and selects the individual's behaviour through specific means of the organizational culture to change the traits of character.

4. The managerial competence

The management is a profession like any other, being carried out by individuals who, belonging to a particular or special socio-professional category, are endowed with the

ability to organize and manage an enterprise in an innovative spirit and expansionist. Long before being used in business or economic field, the management concept was used in the field of politics, journalism and public administration, having specific ways to find out, for example, if a politician was appointed to the best or most appropriate position, depending on his skills and training. Irrespective of the field of activity and scope of duties assigned in the organizational hierarchy, the qualities of a real manager are focused on dynamism, large initiation to knowledge, communication and adaptability.

By meeting the same basic/definition elements such as professional competence, in general, the managerial competence, through the content of its defining components, it wears certain specificities closely related to the triple significance of the management as science, art, state of mind.

Thus, the scientific component of the managerial competence is expressed through initial and continuous education acquisition of an organized and coherent set of knowledge (concepts, principles, methods, techniques and management instruments) and the formation of behavioural skills oriented towards the achievement of the company strategy and policies through the rigorous organization of carrying out the activities, the systematic analysis of their success and failures, in order to validate the positive experience in the field, to improve the existing management methods and techniques and to add some new ones.

Without the field-specific knowledge base, the practiced management process is based on intuition, the so-called personal flair and improvisation that are an unprofessional one, with consequences manifested unquestionable sooner or later on performance.

The component of „art” of the managerial competence is based on the manager's personality, on his ability to behave with people, with the employees and business partners: clients, suppliers, creditors etc. Through this prism, the managerial competence is manifested as a skill that is different in relation to vocation, talent, and the manager's personality traits expressed by:

- The personal capacity / ability of the manager to ensure the profitability of the a organization that he leads,

- The managerial responsibility for guiding the objectives, the allocation and use of the resources in order to achieve the best possible results;

- Organizing the staff's work and its motivation in order to obtain an adequate or appropriate productivity, by taking into account the employees' aspirations and the fulfilment of the social function of the organization.

By the component of „art” of the managerial competence it is emphasized the leader's skill to assert his managerial skills that he applies to the realities of the organization in efficiency conditions.

The specific managerial competence mood is reflected in a certain way of looking at and addressing the issues related to the management process in a concrete way to wish, search, find, accept and implement progress, a concrete method to manage in a dynamic vision directed to a well-defined goal, namely to maximum efficiency. The formation of a new organizational culture that should focus on a behaviour and responsibility for the assumed work, to promote the new, the creativity, the innovation, constitute the essence of a mood based on the manager - employee communication, on the achievement of a genuine partnership between management and social actors, the promotion of the participatory management

5. Conclusions

The professional competence, irrespective of the activity field and of the hierarchical level to which it is exercised, is a synthesis between innate abilities/ skills, developed through the acquisition of knowledge and behaviours formed through a lifelong learning process, dynamic and cumulative. It is manifested through action and is maintained only by action in the exercise of the assigned or entrusted function. It is important to remember that it has a volatile nature: when competence is not activated, it disappears.

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The Methodological Framework of the COMOR Research

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Abstract

In the present study, the authors refer to the methodological landmarks that led to the organization and the COMOR project development for the research of the managerial behaviour in the organizations from Romania. In this respect, there are described:

- The procedures for establishing the research sample;

- The contents and characteristics of the questionnaire used for the data collection on value judgements about the forms of manifestation of the dimensions of the organizational culture;

- The dissemination procedures of the research and of the field data collection;

- The categories of statistical-mathematical indicators used as analysis supports;

- Ways of exploiting the conclusions obtained from the analysis of the results.

Key words: scientific research, methodology, sample, value judgements, opinion, item, evaluation, scale of values, analysis indicators

J.E.L. classification: C81, L26, M10

1. Preamble

COMOR is the acronym of the research project of the managerial behaviour in the economic organizations from the Romanian space, initiated in the year 2008 by the Scientific Society of Management from Romania – SSMAR.

This exploratory research is carried out according to a proper/own methodology designed to ensure the completion of its

phases and stages in a systematic and uniform way and in compliance with the scientific requirements from the field, in such a way that through the data processing and the proper analysis of the supplied information, realistic conclusions could be drawn that can allow:

- The knowledge of the managerial behaviour in different types of economic organizations from Romania;

- The comparative analysis of the elements that characterize the organizational culture from the different counties of the country and areas of economic activity;

- Verifying the measure and way in which the dimensions of the organizational culture and the managerial behaviour from the Hofstede and GLOBE patterns (Global Leadership an Organisational Behaviour Effectiveness) are found in the organizations from our country;

- The identification of the personality and behavioural traits and the efficient manager and of the leader of excellence.

The research methodology was completed through several rounds of discussions and debates on workgroups with the participation of teams composed of academics and și business representatives from Craiova, Bucharest, Timișoara, Târgu Mureș, Oradea, Suceava, Constanța, Cluj Napoca, Galați, Brașov, Târgu Jiu.

The main issues for discussion and debate referred to:

- The stability of the sample to be studied;

- The development of the instrument of measuring the opinions;

- The organization of data collection;

- The processing of the data collected from the field;

- The exploitation of the research results.

2. The Sampling

The starting point in our research consisted in the determining the statistical units (of observation) on the one hand, and of the survey units, on the other hand. In both cases, it was conducted a stratified sampling, in such a way as to ensure a more detailed and eloquent representation of the opinions expressed about the various investigated aspects. In order to determine the statistical units of which there were selected the respondents, there were decreasing in number three layers, as it follows:

Layer 1. From the list of all the economic units that deposited to the county chambers of commerce and industry accounting (balancing) statements until 31st of December 2008, it was formed a first layer of the units that had a number of at least 50 employees.

Layer 2. For each county, on the basis of algorithm, out of the number of units that have at least 50 employees, it was established number of units that are going to be studied, by drawing up their list.

Layer 3. From the list formed in the layer 2 there were chosen the representative units for the economy of the county, on areas of activity according to NACE code. The list was finalized only after the management of the units concerned agreed to participate or take part to the research.

The establishment of the survey units (the respondents) took place in more steps in their passage through other six different layers, as it follows:

Layer 4. For each economic unit established in the layer 3, with the help of an algorithm, it was established the approximate number of respondents, depending on the total number of employees within the respective unit.

The following steps took into account the nomination of the respondents by the distribution of the number established in layer 4, depending upon:

- The type of activity carried out or performed within the organization (*layer 5*: production, administration, marketing, research, development, financial accounting);
- The hierarchical level to which there are the respective persons (*layer 6*: top managers, middle managers, managers from the base, performers);

- The sex and the age (*layers 7 and 8*);The level of the studies (*layer 9*: higher education, medium studies, elementary education)

3. The measurement of the opinions

• *The Structure of the questionnaire*

For the data collection, COMOR project used a complex questionnaire, within which the items were structured into six distinct segments according to the intended purpose or goal by obtaining responses as it follows:

1. The sheet/ record of the organization that contains identifying information of the statistical observation unit: the name, locality, county, NACE code, the date of establishment, type of organization, form of ownership upon the social capital, the main economic indicators, the staff structure.
2. General information of identifying the respondent: the hierarchical position held by the respondent; the sex, the age, the marital status, the level of the studies, the managerial training or formation, the field of activity in which he/ she works etc.;
3. Value judgements that should allow the characterization of the dimensions of organizational culture ;
4. Opinions regarding practices of organizational behaviour;
5. Value judgements regarding the profile of the efficient manager;
6. Value judgements of the excellence leader.

In order to ensure the proper and correct understanding by the respondents of what we intended by the research undertaken, each segment of the questionnaire is prefaced by short information with methodological character (content) and/or how to complete the expected responses.

We mention that there were set or established in a very explicit way:

- The voluntary nature of participating to the survey , in the sense that the requested or solicited person may accept or not to be part of the sample, as well as the fact that he/she can answer all the questions of the questionnaire, or only to some of them;
- To ensure the anonymity and the confidentiality of the expressed opinions.

- *The Typology of the questions*

The questionnaire contains closed questions as well as open questions. The closed questions are factual questions that refer to the identification of the observation unit, as well as of the respondents. The close questions are abstract questions, through which the respondents are requested to make judgments of value and/or to express opinions regarding the investigated aspects.

Since it cannot be drawn a conclusion regarding the people's opinions and attitudes by analysing the answers to only one question, there have been made some sets of questions which should allow the establishment of the position towards the problem investigated.

Thus, "the distance from power", as dimension of the organizational culture is being characterized by several forms of manifestation, among which we can include: the stated hierarchy; the people's behaviour towards hierarchy; the mood or state of mind from the organization etc. In order to ensure a much more real and comprehensive characterization of a certain form of manifestation, there were formulated batteries of questions. Thus, for the characterization of the stated hierarchy there were formulated five questions, of the privileges offered by the hierarchy three questions, the mood or state of mind existing in the organization seven questions and so on.

As the carried out research pursues a double purpose, the shooting of the existing situation, but also the identification of some future projections, each question asks the respondents to express their views and points of view in the two situations.

- *The rating/ evaluation scale*

In order to express the intensity of the attachment, agreement or disagreement to the investigated aspects, the rating/ evaluation scale of the answers covers the entire spectrum of opinions:

- From intensely or highly positive to intensely or highly negative, with the intermediate steps: total agreement, partial agreement, indecision, partial disagreement, total disagreement, respectively,

- From the total acceptance – Yes, to the total rejection – No.

4. The data collection

In order to collect the data from the field, the investigation operators were university teachers or academics, who also used the extemporal method (for the persons with elementary and secondary education), as well as the self- management method applied to the ones with higher education and to the managers.

5. The data processing

The stage of the processing of the field data with the help of the questionnaire are based on its own IT/software program that allows:

- The creation of a database;
- The tabular of the summary statements;
- The calculation of the econometric analysis indicators.

The database is made up or consists of the centralized processing at the level of the statistical observation units of the data obtained by completing the questionnaire by the respondents from the sample.

Starting from this level of taking of data in the next phase it proceeds to the tabular combined concomitant multi-criteria, on counties, development regions and national economy, for each dimension of the organizational culture, forms of manifestation of the managerial behaviour, characteristics and behaviours of the efficient manager and of the excellence or effective leader.

For the descriptive and factorial analysis of the elements that characterize the organizational culture, in the research framework it was established the system of indicators composed of indicators of position, of the central tendency, of variation and correlation.

With the help of position *indicators* (*percentage shares*) that are relative sizes, of structure, are characterized by:

- The representativeness of the sample (the degree of trust given to the given answers), reflecting the structure of economic units subject to research, on areas of economic activity, according to the size degree and the form of ownership of the social capital;

- The reliability or degree of trust of the value judgements/opinions expressed by the respondents, on different social variables

(sex, age, studies, hierarchy), for each item that characterize the dimensions of the organizational culture and the managerial features.

In order to calculate the other indicators it was done, in advance, the conversion of value judgements in numerical expressions on scale of values with 5,3 or 2 levels of the spectrum of opinions, as it follows:

- On the scale with 5 levels, the conversion led to the following correspondences:

Total agreement, value	5
Partial agreement	4
Indecision	3
Partial disagreement	2
Total disagreement	1

- On the scale with 3 levels:

The agreement, value	3
Indecision	2
Disagreement	1

- On the scale with 2 values:

Yes, with value	1
No, with value	0

As indicators of the central tendency, in the COMOR project is used: the average value, the median, mode, asymmetry coefficients. The interpretation of these indicators allows us to highlight the essential trends of the variability of the answers given to the questions from the questionnaire.

The variation indicators allow characterizing the homogeneity degree or of spreading the opinions expressed at the level of the company, county, development region, as well as on social structures of the respondents (sex, age, education, hierarchy). In this group of indicators we can distinguish simple indicators of variation (the amplitude of variation and the individual deviations from the average calculated values) and synthetic indicators of variation (standard deviation and the coefficient of variation).

Within the COMOR project we are dealing with factorial correlations highlighted by the following indicators of co-measuring of the intensity causal connections between the factorial variables (behaviours, character traits etc.) and the variable outcome (the dimension of the organizational culture): the correlation table, the graphic method, the regression coefficient.

6. The analysis and exploitation of the results

According to the methodology, the research results are analyzed on levels of aggregation (large organizations, counties, development regions, national economy). The development is going to be made by analysis reports addressed to the decisional governing bodies at the above-mentioned levels, by exposures to scientific meetings, publishing of articles in professional journals or speciality magazines, editing books on the topic of the organizational culture in the Romanian culture and space.

In conclusion, we consider that the completion and ending of the COMOR project is going to be a modest contribution to the promoting of indigenous scientific research in the field of the organizational culture and the affirmation on the scientific international level /plan of the Romanian school of management, by providing the decision-makers useful information for business development in the context of globalization.

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The Analysis of Some Dimensions of the Organizational Culture in Suceava County

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Abstract

In the context of economic globalization, the scientific knowledge of the managerial behaviour from the economic organizations that carry out their activity in different geographical areas of the country, it represents a way to prevent poor performance or even failure in business. The COMOR project, launched by the Scientific Society of Management from Romania has as purpose the identification of the cultural dimensions that characterize the organisational management from our country by knowing:

- The effects that the national culture, or its subcultures, exercise upon the organizational practices and the managers' behaviour;

- The managers' perception and the execution staff's perception on leadership;

- The dominant features of the cultural dimensions that characterize the organizational management in all the counties of Romania and in the most representative areas of economic activity.

In the present material or paper there are presented the results of the preliminary analysis of the way in which it is manifested the „individualism – collectivism” and the „masculinity – femininity” in the organizations of Suceava county.

Key words: the organizational culture; dimensions of the organizational culture; individualism – collectivism; masculinity – femininity.

J.E.L. classification: C81, L26, M10

1. Introduction

The study of the organizational culture in Suceava county is a component part of the COMOR project that is researching this topic at a national level, by investigating the phenomenon in all the counties of the country. We mention that for Suceava county 222 respondents expressed their views and points of view out of 15 companies with activity carried out in trade (5 units), the manufacturing industry (4 units), construction (2 units), tourism (2 units), mining industry (one unit) and the water supply/ distribution(one unit). The respondents are distributed on social group variables as it follows:

- by gender/sex: 150 men (67,6%), and 72 women (32,4%);
- by age: 39 young people under 30 years old (17,6%), 174 persons having the age between 30 – 60 years old (78,4%) and 9 persons having the age over 60 years old (4,0%);
- by studies: 111 persons with secondary education and 110 with higher education;
- by hierarchy: 81 managers of all organizational levels: 4 top managers, 21 middle managers, and 56 from the basis (36,5%) and 141 executives (63,5%)

In the present article we are going to present an analysis only for two cultural dimensions: individualism – collectivism and masculinity – femininity. This segment of the research is constituted as pilot- study subject to a wide debate in the project work groups within COMOR, following to be developed and improved by the suggestions and critical comments and observations of those

concerned or interested. As a quantitative indicator for measuring the intensity of the opinions expressed by the respondents, we are going to use the medium values of the scores calculated for the most significant forms of expression / manifestation of the two cultural dimensions mentioned above.

2. Individualism – collectivism

This cultural dimension is based on the relationship between individuals and the way in which the organization, through its culture, encourages the individual or the group interests.

Where the individualism is high, the connections and relations between people are weak (confused, superficial and temporary), each carrying out about himself, while the collectivism emphasises the group, on good confidence in the team and on the decisions adopted by the group, on the devotion towards the organization.

Furthermore, we are going to present the specific forms of manifestation of this cultural dimensions highlighted by the development of the COMOR project in Suceava county. The data analysis and interpretation is based on the significance of the scores calculated for the opinions expressed on the scale with 5 values: from intensely positive (5), to intensely negative (1) of the value judgements as answer to the questions from the questionnaire.

Judging the opinions of the respondents by the size of the calculated scores on the two adverse features, individualism – collectivism, (table 1), we conclude that in the organizations from Suceava it prevails the collectivism both in the current situation (average score 4,053, as compared to the individualism's score – 3,665), as well as in the future projection of this economic entities (4,554 the score of collectivism, as compared to 3,626 the score of individualism).

Table 1
The Scores of the main forms of manifestation of the dimension „Individualism – collectivism” (Preliminary results)

Forms of expression of the cultural dimension „Individualism – collectivism”	Scores of the opinions according to the practices		Trend individualism (I) or collectivism (C)
	Existent	Wanted	
Decisional authority of the - managers - managerial bodies	4,590 3,838	4,086 4,806	I ↘ C ↗
Methods of organizing work oriented on - individual work - team work	2,428 4,099	2,311 4,833	I ↘ C ↗
Practices of wage motivation oriented on - the personal interest' s stimulation - the group interest' s stimulation	3,872 3,570	3,844 4,360	I ↘ C ↗
The employees' dependence to hierarchy - unconditional acceptance of the decisions - criticizing the decisions	3,026 4,721	3,401 4,932	I ↗ C ↗
Favours of the hierarchical position	3,104	2,666	I ↘
Personal aspirations	4,108	4,473	I ↗
Involvement in the settling of conflicts - by managers - by the members of the group	4,527 4,079	4,599 4,266	I → C ↗
The attachment to the organization - of the managers - of the employees	4,234 4,052	4,509 4,281	C ↗ C ↗
Satisfaction towards the group achievements	3,833	4,446	C ↗
Average score for - collectivism - individualism	4,053 3,665	4,554 3,626	↗ ↘

The scale values: 5 – intensely positive;
1 – intensely negative

Mainly in the forms of manifestation of the organizational culture, the **collectivism** is present by:

- practicing a participatory management that confers/gives decisional authority to the management bodies;
- the people's preference to work in team, focusing on the group cohesion accompanied and sustained by policies that stimulate and enhance the group interests;
- the attachment or commitment to the organization that provides safety and stability in the workplace;
- cultivating some close relationships between people based on attitudes and behaviours of kindness, tolerance and compassion for the joys or sorrows of the people;
- confidence in the group calling for help to the others professional issues, but also the improvement of the interpersonal relations (involvement in the settlement of tensions or conflict states or moods);
- freedom of expression through the criticism of the managerial decisions as well as by the possibility of the employees to choose the most appropriate methods of work in order to fulfil the tasks.

It is worth mentioning the fact that in perspective it is intended that the values of collectivism to be stronger supported and developed, while the individualism values to remain at a relatively constant level, yet with a slight downward trend.

On the background of moderate collectivism (average score 4,053) in the units from Suceava county there are also present forms of individualism embodied in the decisional authority of the managers and the severe addiction of the subordinates to the bosses' decisions, individual aspirations, the stimulation of personal interests, the existence of some favouritisms, the authoritative involvement of the managers in the settlement/settle of certain tensed/conflict states or moods.

3. Masculinity – femininity

The degree of masculinity or femininity at organization level implies some behavioural characteristics with orientation towards some material values based on offensive strategies and politics.

Where *masculine values* predominate, there are specific the offensive strategies and policies that gives to the organization an emphasised dynamism centred on immediate outputs, measurable (profitability), there are practised hierarchical organizational structures with excessive centralization of the decisions and growing authoritative management in which it is cultivated the determinant role of the managers and the hierarchical subordination. The division of roles is made discriminatory in the favour of men, the women are marginalized in secondary roles, the staff training is based on material motivations differentiated by post, sex, preparation/education, experience, and the control is highly formal, rigid and focused on the tasks fulfilment.

In the organizations with a *high femininity index* the focus is on the belief in sex/gender equality, with a democratic management in which the strategic plans, less offensive, are focused on the company, being pursued the competitive enduring advantage by approaching the results in terms of humanistic values (the environmental preservation, the quality of life, the concern for the others), focalization on the organizational culture, the organizational climate, interpersonal relations. The training is based on a balance of the material and moral motivation.

For the organizations from Suceava county, the COMOR research highlights the various forms of expression of the cultural dimension „masculinity – femininity” presented in table 2, together with the intensity of their manifestation. The location of scores below or above the average value of the calculated scores allows us to draw conclusions about the prevalence of one or another of the values of the complementary – adverse: features masculinity or femininity.

Thus, among the *traditional masculine values* there are observed:

- The rigorous or thorough organization of the activities based on standards and performance indicators with detailed instructions on how to obtain the established or stated objectives;
- The ostentatious encouragement to performance, accompanied by the ambition of accomplishing the objectives to the set/established parameters, attitudes and behaviours that ensure the haloed image of

the winner, the performer's victory or glory once with significant financial rewards are strong in the existing situation and there is the desire to develop them in future projects;

- The egocentrism with male valences present by encouraging the people's desire to be strong by the positions they occupy in the organizational hierarchy, dominant towards the others;

- Practices of custody of the job and of wage motivation that are not related to performance, being based on seniority, sympathy feelings and emotional relations, political interests, business or family interests .We must mention that these values , although disavowed (score of only 2,383), have the tendency of cultivation in the future (score of 2,572), which reflects the people's dependence on mentalities not complying with the principles of a modern society in which the human personality and professional competence to assert themselves freely and without artificial barriers.

The main forms through which the *traditional feminine values* are expressed consist of the following:

- the promotion of humanistic values with an emphasis on the concern for the people by: the trust given to them to choose the most convenient methods for the carrying out of the work tasks; the material and moral stimulation of the performance; the cultivation of the team spirit and loyalty towards the group; promoting new strategies of human resources based on the creation of the lifelong learning culture; promoting a consensus in the interpersonal communication process and of negotiation of interests;

- concern about the company's interests by: promoting change as a state of normality in the design and implementation of activities adapting flexible structures of organization and management; the adaptation of the cultural organization to the European integration needs and economic globalization; the adoption of new marketing strategies meant to promote new products and services or to penetrate on new markets; the adapting of the style and management methods to the organizational dynamics and the training of successors to ensure the competitive lasting advantage to the organization.

Table 2
The Scores of the main forms of
manifestation of the dimension „masculinity
– femininity”

<i>Forms of expression/manifestation of the cultural dimension „masculinity – femininity”</i>	<i>Scores of the opinions according to the practices</i>		<i>Trend of masculinity (M) or femininity (F)</i>
	Existent	Wanted	
The desire for glory, honour shown by managers through	4,174	4,539	M ↗
- The ostentatious encouragement towards performance	4,311	4,721	M ↗
- The ambition to achieve the objectives of the organization			
Egocentrism manifested by the people's wish to be strong, dominant	4,390	4,539	M ↗
The organizational hierarchy reflected in	3,746	3,410	M ↘
- Employment opportunities for managerial positions	3,784	3,662	F
- The percentage (share) of women managers	3,416	3,301	M ↘
- Gender discriminatory practices			
The wage motivation is oriented towards	3,908	4,275	F
- performance	4,518	4,108	M ↘
- performance and other factors	2,383	2,572	M ↗
- other factors			
The role of the managers expressed through	4,113	4,545	M ↗
- the rigorous organization	4,081	4,625	F ↗
- the encouragement for quality and efficiency	3,613	4,194	F
- the support of the initiative, loyalty and training of the successors	4,101	4,679	M ↗
- the creation of conditions for an efficient carrying out of the activities	4,356	4,595	
- achieving the set /established objectives			
Interpersonal relations expressed by	3,833	4,446	F ↗
- the manager's behaviour	3,790	4,114	F ↗
- the employees' behaviour			
Average score for			
- masculinity	3,934	4,037	↗
- femininity	3,873	4,285	↗

(Preliminary results)

The scale values: 5 – intensely positive;
1 – intensely negative

In conclusion, the dominant feature of the organizations from Suceava is the masculinity. It remains and maintains itself as a future orientation, with a slight increase trend expressed by the value of the score of 4,037 as compared to the existing one of 3,934. It is to be noted the fact that the feminine values are the ones to which the respondents give a higher credit in the future (the desired score of 4,285, as compared to the actual score of 3,873).

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Customers' Perceptions Regarding Channel Innovation in the Retail Banking Sector: a study on Internet Banking in Romania

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Abstract

The banking industry has undergone significant operational changes over the last decade, thanks to advances in information technology. The rapid diffusion on the Internet has revolutionized the delivery channels used by the financial services industry.

This article examines consumers' perceptions of Internet Banking. A survey of bank's customers on Internet Banking in Romania revealed that familiarity in using computer and new technology has been found to positively affect consumer attitudes with regard to usage of electronic banking, as well as online banking adoption.

Users with lowest Internet banking experience use only the basic functions of this service. This group tends to be young in age and has the lowest income. Their income is expected to rise with age, and banks could enhance auxiliary features. These findings may provide useful guidelines for developing Internet bank services and for marketing Internet banking.

Key words: Internet Banking, customers' perceptions, innovation, retail banking, marketing strategy

J.E.L. classification: G21, L86, M31

1. Introduction

Innovation is positively related to firm performance (Goosen et al., 2002; Rauch et al., 2004). Managing multiple distribution channels is now a key strategic challenge for retail banks (Bruce et al., 2009; Capgemini et al. 2008).

The retail banking sector is currently struggling as it comes under greater competitive pressure from customers which

are becoming more demanding (Accenture, 2008) and non-banking organizations that are increasingly entering the marketplace to compete for customers (Deloitte, 2008). In this increasingly competitive marketplace, banks must differentiate themselves through innovative products and services.

A key area of strategic importance for retail banks is distribution channel management (Bruce et al., 2009; Capgemini et al., 2008).

The importance of the Internet in today's competitive and increasingly global banking environment has been widely acknowledged (Bauer, Cologan, 2001; Li, 2001; Thorton, White, 2001).

Together with the increasing rate of Internet and mobile services penetration, bank service providers have been constantly adapting to these changes, and at the same time they have met consumers' requirements with new services. The core of banks new strategic orientation currently consists of developing new alternative for the distribution channels for their traditional services (Moga, 2011).

Electronic banking services or E-banking is now a global phenomenon. It is an invaluable and powerful tool driving development, supporting growth, promoting innovation and enhancing competitiveness (Kamel, 2005; Nath et al., 2001).

Technological innovations have been identified to contribute to the distribution channels of banks (Goi, 2005). The evolution of banking technology has been driven by changes in distribution channels: ATM, Phone-banking, Tele-banking, PC-banking, Internet Banking (Chang, 2003; Gallup Consulting, 2008).

A strong banking industry is important in every country and can have a significant effect in supporting economic development through efficient financial services (Salehi, Alipour, 2010).

In the E-banking growth, security concern (Financial Service, 2001) and the quality of delivery service (Furst et al., 2000) were the major challenges.

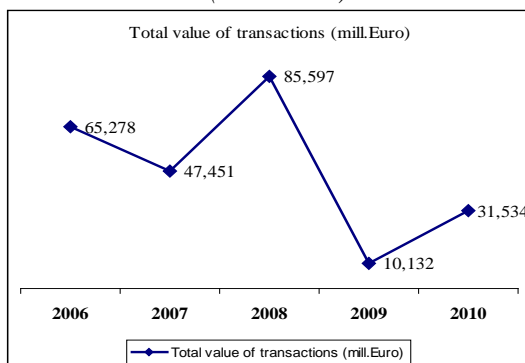
Main advantages of Internet Banking are: increase productivity and efficiency, eliminate duplication and wastage, cut down maintenance and shortage cost, proper planning and monitoring and proper use of resources. From banks' point of view, the first benefits for the banks offering Internet Banking services is better branding and better responsiveness to the market.

2. Internet Banking in Romania

Currently, every third European uses online banking and there are no signs of a slowdown in adoption. By 2020, more than 60% of Europeans may use online banking (Meyer, 2010). Northern European countries are home of the most enthusiastic online bankers with adoption rates of 62-77%, followed by the European core with adoption rates between 35-54%, Southern and Eastern Europe that rates below 32%, and finally there is a group of countries (including Romania) where banking has barely taken hold (Deutsche Bank, 2010)

Romanian Internet Banking services market is in the early adoption stage; although developed rapidly over the last few years there are still considerable development opportunities. Most of these services were introduced in the years 2000 and 2001.

Table 1. Total value of Internet Banking transactions (mill. Euro) 2006-2010

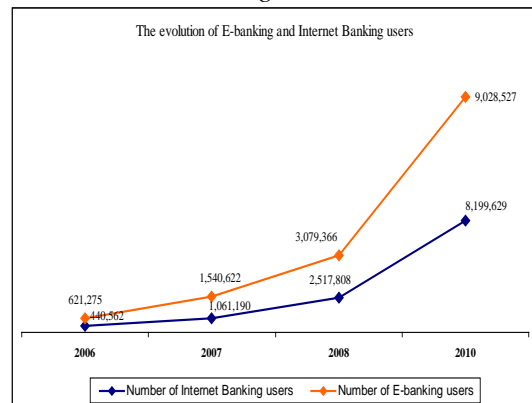


Source: The Ministry of Communications, Technology and Information, Status summaries of the use of payment instruments with remote access form 2009 and 2010

The financial crisis had an enhancing effect on these services, and so we witnessed a positive trend concerning the number of users, the number of transactions conducted in Euro and the value of transactions.

Increased use of these services is due to the increase of Internet penetration among the population. According to a study published by ECLAC at the end of last year, Romania is among countries with the lowest degree of public access to Internet.

Table 2. The evolution of E-banking and Internet Banking users 2006-2010



Source: The Ministry of Communications, Technology and Information, Status summaries of the use of payment instruments with remote access form 2009 and 2010

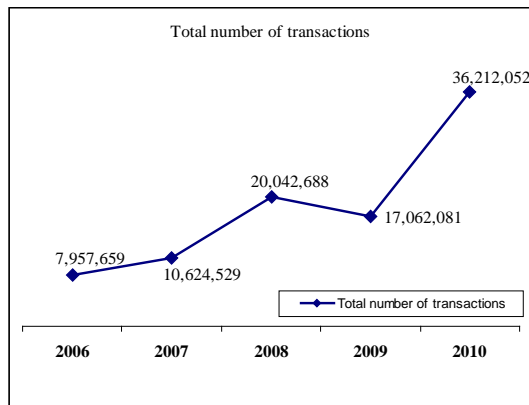
The number of E-banking services users increased by 66% in 2009 compared to previous year, showing a constant interest and increased public awareness of such services, although according to a study of Deutsche Bank, less than half of Romanian small enterprises use E-banking and automated payment instructions.

The development is based primarily on the adoption and use of online banking applications by individuals. This expansion is not proportionally reflected in the increase of transaction numbers and their value, which indicates a lower use of these services compared with their extension.

An online survey conducted by Bursa de Reclama in 2010 shows that 31.1% of Internet users use E-banking. In general, banks with high market shares in offline have high market shares in online; the top four ranked in terms of number of users were BCR, ING Bank, BRD and Raiffeisen.

The potential of E-banking services has been identified by banks, which have as a challenge to provide online banking services easy to access and use, but also very safe. Not only do banks have realized the potential of these services, but also customers that have found an effective, economical and reliable way to manage their accounts and payments.

Table 3. Total number of Internet Banking transactions 2006-2010



Source: The Ministry of Communications, Technology and Information, Status summaries of the use of payment instruments with remote access form 2009 and 2010

The need to reduce costs has led banks to move a larger part of their operations towards alternative channels, which provide lower costs. On the other hand, customers are more aware of the price paid for bank services, the time spent, the speed and safety of operations.

E-banking services represent a challenge for banks' customers. In Romania, many will be persuaded to enter the race, and share with the bank the benefits of each online transaction.

3. Customers' perceptions on Internet Banking

The interview guide included 15 statements and respondents were asked to indicate their level of agreement with each statement. The main results of the survey:

- Convenience in Internet Banking constitutes the relative advantage of adopting the new service channel. Convenience in the form of time savings, 24/7 access, increased service efficiency

relative to branch banking and service quality was mentioned as the most beneficial features of Internet Banking.

- Of those who adopted Internet Banking, the major services used are bill payment, account transfer, account balance inquiry and interest rate/exchange rate inquiry.
- Consumers' concerns about security (reliability, safety and privacy), which arise from the use of an open public network, is the most important factor inhibiting the adoption and use of Internet Banking.
- Other key barriers to Internet Banking are: risk, other equally convenient channels of distribution and the lack of computer skills.
- A major part in convincing clients in using Internet Banking services is being held by the inclusion of demo applications on banking institutions sites, which stimulates the mode in which transactions are progressing.
- The main reasons for bank customers adopting Internet Banking were seen to be ability to perform banking transactions anywhere, anytime and quickly.
- The factors which contribute to users' intention to use Internet banking are: perceived usefulness, perceived ease of use and trust.
- Adoption of new technologies often comes across a certain amount of resistance to change from present ways of operating.
- Willingness to use Internet Banking depends on the expectations of accuracy, security, network speed, user-friendliness, user involvement, and convenience.
- The main benefits of e-banking were as follows: increased comfort and timesaving transactions made 24h a day, without requiring physical interaction with the bank; quick and continuous access to information as they checked on multiple accounts; better cash management.
- Private customers looked for slightly different kind of benefits from Internet Banking: reduced costs, speed, and fund's management.

- The Internet Banking design provides customers to see operation alternatives more easily.
- The bank branch is still the main connection way between banks and their clients, newer distribution channels being far from being well approached by clients.
- Internet Banking achieves high success rates through coordination with brick and mortar and bank branches in stores. Brick and mortar and Internet banking are supportive banking channels.
- Internet Banking, ATM, and phone banking substitute each other.
- Internet banking is one of the most reduced used of financial services.
- Internet banking operations depend on users' performance. So, ease of use and access are important characteristics of Internet Banking.
- The adoption of Internet Banking is dominated by male.
- The customers with most familiarity in using Internet Banking are the ones with the highest household income.
- Computer-literate Internet users are generally young and well educated.
- The study highlighted a strong association between age and the frequency of usage of e-banking services by customers with the people in the age group 31–45 years using most frequently. This is understandable as people in this age group are more tech savvy than the older generation and feel more comfortable in using and in doing business online.

The study clearly emphasizes the need for banks to understand that the financial products and services supplied over the Internet must not only be tailored to fulfill wants, preferences, security, and quality expectations of customers at the present time, but also be required to induce customers to demand and use e-banking on a wider scale in the future.

Expertise in marketing and the ability to anticipate changes in market conditions as well as in customer psyche are therefore crucial to the success of Internet e-retail banking.

4. Conclusions

Internet Banking is becoming one of the most important delivery channels of banking products. In response to global trends brought about by using the Internet, banks have to better understand their clients and respond quickly and strategically to market developments in customer centric ways.

The introduction of E-banking turned operations upside down and profoundly changed the overall logistics of the support system, to the extent that customers and competitors began to think differently about the bank's know how and mission.

Evidence indicates that there are a great promotional efforts on the part of banks to create greater awareness of Internet Banking and its benefits. It is crucial for a bank to think about the future of service.

Internet Banking future challenges are: Internet security, customers' trust, the speed of service delivery, customers' information privacy, customers' awareness, continuity of the service, spread of computer use, spread of Internet use, difficulty of using online banking by some customers, pricing of Internet service, Internet infrastructure, cost and difficulty of maintaining the site, and lack of legal regulations.

The adoption of Internet Banking provides added value for the customers and opportunities for banks to bolster income streams and secure longer term customer loyalty through relationship management.

Although Internet Banking offers new frontiers of opportunities, there are several critical psychological and behavioral issues that need to be addressed in trust, security, reluctance to change and a preference for human interface.

The development Internet Banking in Romania depends on: strategic factors (new products and services, appropriate promotion, business integration, integrating different channels, expanding existing markets, building trust, costs), operational factors (good customer services, simplifying and integrating basic services, understanding customer purchase behavior) and technical factors (systems security, user-friendly web interface, personalization and customization capabilities).

In order to survive, banks will need to move away from traditional bases of retail bank competition (fees, interest, customer loyalty), to a new Internet based form of competition based on cost reduction, customer retention, responsiveness, credibility, security, ease of use, and wider scope of products and services.

To exploit the high value end of the banking supply chain, banks will need to familiarize the consumer with the processes and benefits of the service and encourage usage.

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Stress and Adaptive Mechanisms of the Seafarers

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Abstract

Today stress is psychological and not another time, mentally. This is especially multiforme and its mark where we least expect or not expect at all. Strain, race against time, pressure, but this is just the tip of the iceberg. No we have no idea of many stressors we have every day..

What happens then? What is this strange evil? Our working conditions are far from being so heavy like old times. Ever more sophisticated technologies are being developed to facilitate the tasks we most dirty and improve communication between us. Working time is reduced by regularly to leave more space to our private lives and leisure time.

And yet! All indicators show the danger. However paradoxical it might seem, occupational stress levels are unmatched, regardless of socio-professional category under consideration, employees or staff.

The consequences are difficult for the individual, whoever he may be: chronic fatigue, sleep disturbance, anxiety, depression, cardiovascular disease, digestive problems, etc.. For all these evils, one agent is responsible - stress, also in the Romanian landscape tragic news, we see cases of suicide in the workplace. Stress will be recognized as an occupational disease, as happens in other European countries.

Key words: stress, occupational disease, communication, organization

J.E.L. classification: L2, L25, L29

1. Introduction

Mental stress may be considered as a way of interacting individuals and the environment, reflected in a tense, loading. Iamandescu defines psychological stress as "a syndrome consisting of exacerbation,

beyond the mere homeostatic adjustment of certain reaction and their somatic corelator about external or internal excitation exerted by a configuration triggers (stress agents) that works hard, surprising, sudden and / or persistent and often having a symbolic effect, threatening, sometimes an extremely favorable for the subject

Some researchers distinguish among stress agents (foreign agent producing stress: noise, working conditions, lack of information or over subsolicitarea) those who threaten the psychological balance of individuals, causing intense stress (distress), which is the result of overloading and with direct impact on performance, attitude, behavior, subjective complaints and psychosomatic and / or endocrine reactions.

There is also a type of stress acting tonic, inclusive, with beneficial effects, positive empowerment of the individual resources - eustress, which keeps the tone of the man physically and mentally at a high level and has the effect of an adaptation, but stress negative-distress, defined as "stress that the potential harm to the body"

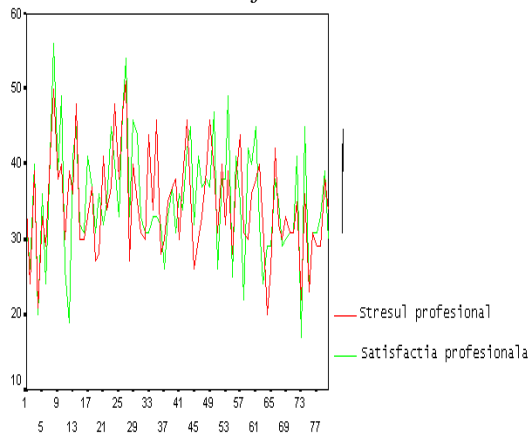
One thing is certain - a certain tension, the loading level of the organism is useful no matter what activity will take.

The minimum necessary impetus to action, mobilization of human energy as a stimulus is defined as shown, eustress. So moderate stress activates the body, it increases the adaptive capacity and only stress, to which adaptation is difficult or impossible, is harmful and should be removed.

2. Methodology of research

Professional stress and the study of its implications on professional satisfaction has been achieved on various occasions, it has been demonstrated concretely positive correlations ($p < 0.01$) effects and determinism that professional stress induces to professional satisfaction.

Fig. nr. 1 Professional stress and personal satisfaction



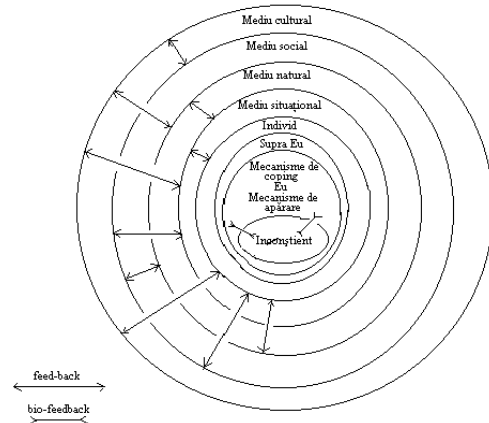
Of course, these efforts have highlighted the link between stress and satisfaction determination, finding that leaders must take account of organizations through strategies and transformational leadership styles of type in which performance is driven by job satisfaction and thus productivity in the workplace. Coping strategies used by the individual in his effort to adapt to disruptive factors are relatively elucidated but they are always mediated by individual and situational features, which make it difficult to develop general theories about their use by individuals.

Despite some criticism of the forms of integration defensive coping mechanisms, we can not ignore some evidence. There are clear results showing positive correlations rather specific situations, between denial and mental health. For example the percentage of survival and recovery from illness, was significantly higher in the cancer patients and those under open heart surgery which reacted with the same hopelessness of life circumstances. Instead denial proves to be counter-productive in the process of perception and interpretation of symptoms (Contrada, Liventhal and A Leavy, 1990). Avoiding proved effective in the short term, while confrontation proved to be a superior on long-term strategy (and Flecher Suls, 1985).

Research carried out on a group of subjects (N = 60), representing the crew has to analyze in a holistic manner, the mechanisms of adaptation of the human individual. Epistemological approach conducted along theoretical and practical

investigations to the realization of a general model for the positioning of the human individual in an existential universe, action that will help understand the environment action on individual.

Fig. nr.2 Action of environment on individual.



Creating a value axis and a positioning model of adaptation mechanisms, will lead us in a centered relational universe where the adaptive mechanisms multifactorial correlate and intercondition.

Fig. nr.3 Positioning model of the adapting mechanisms

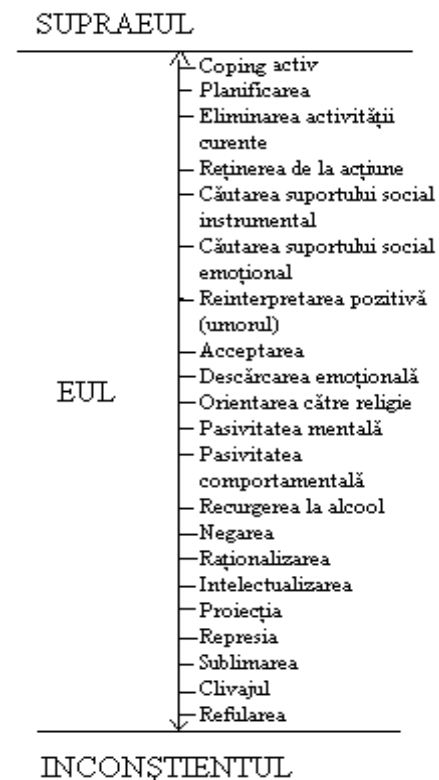
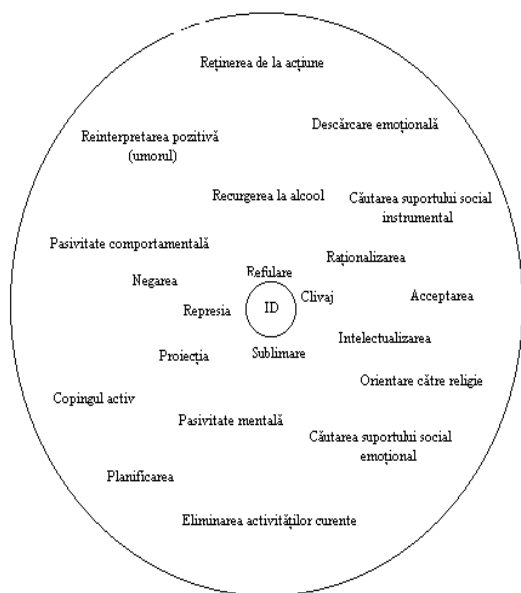


Fig. nr.4 Coping mechanisms



Imbalances caused by stress factors can lead to the use of adaptive strategies which in turn causes temporary disturbance in the worst case of permanent general homeostasis of the human individual. In the case of the research group made up of crew have emerged significant correlations between active coping and planning.

Table 1 Table of correlations between variables: active coping, planning

		COPINGUL ACTIV	PLANIFICAREA
Kendall's tau_b	COPINGUL ACTIV	1,000	,904**
	Correlation Coefficient		
	Sig. (2-tailed)	,	,000
	N	60	60
PLANIFICAREA	COPINGUL ACTIV	,904**	1,000
	Correlation Coefficient		
	Sig. (2-tailed)	,000	,
	N	60	60

** Correlation is significant at the .01 level (2-tailed).

Planning correlate significantly intellectualization with the search of the instrumental support and positive reinterpretation.

Table No. 2 Table of correlations between variables-intellectualization planning and positive reinterpretation

		PLANIFICAREA	INTELECTUALIZAREA
Kendall's tau_b	PLANIFICAREA	1,000	,935**
	Correlation Coefficient		
	Sig. (2-tailed)	,	,000
	N	60	60
INTELECTUALIZAREA	PLANIFICAREA	,935**	1,000
	Correlation Coefficient		
	Sig. (2-tailed)	,000	,
	N	60	60

** Correlation is significant at the .01 level (2-tailed).

		PLANIFICAREA	REINTERPRETAREA POZITIVA
Kendall's tau_b	PLANIFICAREA	1,000	,915**
	Correlation Coefficient		
	Sig. (2-tailed)	,	,000
	N	60	60
REINTERPRETAREA POZITIVA	PLANIFICAREA	,915**	1,000
	Correlation Coefficient		
	Sig. (2-tailed)	,000	,
	N	60	60

** Correlation is significant at the .01 level (2-tailed).

Defensive denial correlates significantly with the rationalization.

Table no. 3 Table of correlations between variables defensive denial and rationalization

		NEGARE DEFENSIVA	RATIONALIZAREA
Kendall's tau_b	NEGARE DEFENSIVA	1,000	,869**
	Correlation Coefficient		
	Sig. (2-tailed)	,	,000
	N	60	60
RATIONALIZAREA	NEGARE DEFENSIVA	,869**	1,000
	Correlation Coefficient		
	Sig. (2-tailed)	,000	,
	N	60	60

** Correlation is significant at the .01 level (2-tailed).

These correlations are understandable in view of strong autocratic environment where research was conducted, the two working instruments (SEMC and COPE questionnaire) used revealed links that can be raised to the rank of legitimate only if they can be validated by the results obtained with other tools being validated or in course of validation.

The ability to know what adaptive mechanisms used by individuals in certain stress conditions is an important step not to

be neglected in the selection of staff. Organizations must not only use this information to classify as the best available labor in the labor market, the jobs whose tasks may be performed with maximum efficiency and avoidance of serious events.

Cognitive Ergonomics highlights the improvement of the psychological profile of employment according to the particular individual, but certain jobs require a certain psychological profile that has to be closely superimposed over the psychological profile of the occupant position with specific processing capabilities and job availability at cognitive level.

Carry out research to highlight the correlation between adaptive strategies, personality factors and stress factors can bring to light and elucidate the adaptive mechanisms used by the subject in stressful situations and what implications have the personality factors in fighting stress (distress) so present in everyday life.

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Protection Public Policies of Children whose Families are Temporary at Work Abroad

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Abstract

According to the development that the international migration has recently known in Romania and especially due to its manifest effects, there appear frequent questions related to the role the Romanian state played, is playing or could play in this migration. What the Romanian state did to control the process of migration, in order to offer support and protection to its citizens beyond the borders, what it did or not to limit any negative consequences and to maximize the positive ones (or in order to correctly assess them), there are issues offering topics for an actual debate. International migration, when we refer to millions of Romanians beyond the borders, cannot be neglected within migration policies [1].

Key words: migration, social policies, work, citizen, protection

J.E.L. classification.: I3, I31, I38

1. Introduction

Our preoccupation, in the first place, will be to identify the actions/measures that the Romanian government adopted from the migration control perspective, in relation with the evolution of the process itself. It is obvious the introduction of a dynamic dimension of measures. Our interest is not a general one, for the migration policies, but a specific one related to one of the most important form of Romanian migration: emigration for work (no matter its legal or illegal status). We are concerned only by these measures and institutions related to emigration for work in Romania and particularly these measures adopted within the outlets from Romania.

In recent debates concerning these topics, the government representatives but also those from the private sector admitted the need of a global market of an efficient work, taking into account that the perspectives concerning unbalances between labour demand and offer for the coming years indicate an increase in them, due to population aging and the population decline in developed countries, at the same time with its increase in developing countries.

At the same time, it is expected a perpetuation of disparities within the income level and the opportunities to find a job in developed and developing countries, generating new spheres for mobility and migration [2].

The OECD report in 2007 concerning international migration emphasises the fact that in 2005 the group of the most important source-countries remained relatively stable, having geographical proximity as a major determining factor in choosing the country in Europe but also outside Europe [3]. The origin countries for migrating towards OECD countries are characterized through a major diversity, the meaning and the intensity of the migration fluxes depending on geographical and linguistic proximity as well as on historical connections.

As far as the European Union is concerned in this respect, it proposes a large migration policy, offering an efficient and coherent way to answer challenges and opportunities related to migration. The enlarged approach refers to all the phases of the migration process and at the same time, applying efficient measures and policies concerning illegal migration and trafficking [4]. Moreover, it is also concerned with human rights and fundamental liberties of migrants, including access to actual procedures concerning asking for asylum request.

From this perspective, this study analyses the quantitative aspects of migration but also its qualitative ones, emphasising the challenges Romania has to pass through, resulting from its new status as an EU member.

As a consequence, migration is a complex process, with a multinational character that cannot be managed from one side or all around, but through an efficient management that should take into account the benefit of people involved but also the evolving features of the migration process. Within this context, the migration policies of the countries are modified according to world economy, political circumstances, the influence of different factors: natural or social. This section takes into discussion the policies and legislation concerning migration in EU and analyses the policies, legislation and institutions relating to migration process in Romania.

2. Policies and legislation in migration in European Union

Europe was and goes on being a geographical region with powerful migration fluxes in different directions, but it will represent mostly a destination area in future. In the past 30 years European policies in migration had a powerful restrictive nature, these changing after 1990 when it was tried a larger opening and a higher degree to accept immigrants in certain countries. Demographic decline associated with decline of qualifications at European level will determine a decrease of the future working population in Europe. Thus, it appears the necessity to find solutions to find to eliminate negative effects of demographic decline.

Thus, legal immigration is regarded as a way to counterbalance the decrease of the working population in Europe. Yet, it is considered that a controlled migration in the community space is more beneficial than leaving the migration policy at the discretion of each state member. As a consequence, there appeared a common immigration policy at community level, manifesting opening towards workforce from certain forces. A change of policy in migrating process within European Union is marked by Communication concerning Immigration,

Integration and Labour of the European Commission starting from June 2003.

At the same time, EU migration policies took into account four aspects to efficiently manage the migration process:

- policies to regulate and control migration fluxes

- policies to fight migration and illegal employment of foreign workers

- policies to integrate immigrants

- policies concerning international cooperation in migration field

These policies are reflected in the laws of European Union but also in the strategies and programs adopted in migration field. They took into account a coordinated approach of the migration issue, of the legal and illegal one, in the benefit of the European Union but also of the supplying countries.

3. Policies and legislation in migration field in Romania

Policies evolutions, legislation and institutions concerning migration in Romania have been strongly influenced by Romania accession to European Union, in the past years, respectively the need to ensure agreement with community legislation and the existence of an administrative institutional framework allowing the participation at EU policies in migration. Thus, there appeared a harmonization of the national legislation harmonization with community acquis in migration and there appeared measures to improve the institutional framework and the interinstitutional coordination to manage legal and illegal migration.

Legislatively, the existent national legislation was modified and completed, so that, at present it corresponds completely to the migration from European Union.

The present research proposes to emphasize the picture of the family affected by parents' migration abroad for work, with its main problems, measures taken by institutions involved in this very important social phenomenon, but not exactly scientifically known in Romania.

In realizing the scientific debate it had been taken into account the use of specific instruments for sociological instruments as well as the statistics data in giving the obtained results. The case study initially

started from a theoretical framework, essential in collecting data. The comparative spirit must cross the whole sociological debate to systematize, classify and clarify the data from the field data and from the library [5].

With the purpose of a better understanding of the research way, we crossed a series of criteria: temporal criteria, criteria regarding the investigational debate and also the macro-microsocial conceptual binomial. According to the temporal criterion, the rules and knowledge principles of social reality of the migration phenomenon enlist within the longitudinal analysis of the phenomena or social facts within their evolution through which the main method used was case study, the target of the study being children with parents left abroad from Constanta and Topalu village, in the city of Constantza.

According to the criterion regarding the investigative approach, the methodological approach of this research is one of intersection, where there is a combination between quantitative and qualitative approach. The starting point in the respective debate was the quantitative method in the following way: the working instrument used within this method was to emphasize the effects of parents' emigration and the measures taken in this respect, was the questionnaire. Within this qualitative method, one of the features specific to these methods is the fact they possess „more the function to understand than to systematically depict or to measure”, the keywords are „comprehension, profoundness” [6]. Personally, I was interested by the illustration of the changes produced in children by the migration phenomenon. The working instrument was the interview.

Another criterion was the conceptual binomial: macro-micro-social. Through analysing „macro” I took into consideration the migration phenomenon and its realities on the whole, and through analysing „micro” I took into consideration particularly the entities forming the phenomenon and the respective realities. We have tried to identify the social costs and the profound transformations in the child's life whose parents went to work abroad.

As a consequence, the research stages revealed the following:

- ✚ The achievement of a social inquiry relying upon the questionnaire of the group made up of students with ages between 10 and 19 years old from the School with classes I – VIII from Topalu village, the city of Constanța and Theoretical Highschool „Lucian Blaga” from Constanța.
- ✚ The achievement of interviews with professionals from didactic field within school and highschool
- ✚ The achievement of interviews with specialists from medical, psychological and social care field from the community.
- ✚ Analysis and presentation of the statistical results.
- ✚ Presentation of the social care in Romania and the case management made by social care workers for children in difficulties due to their parents' leaving abroad through exhibiting the case study of a child with problems caused by this phenomenon.

The objectives of the research were to identify the following aspects:

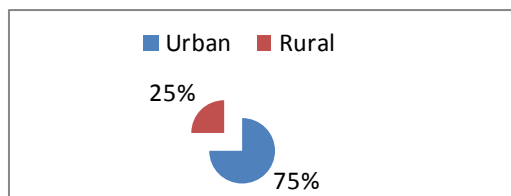
- ✚ The image of the family affected by external migration phenomenon.
- ✚ The reasons for the decision to go to work abroad.
- ✚ The way children are affected by the lack of one or both parents.
- ✚ The quality of the relation child-tutor
- ✚ Measures adopted by school authority for children with their parents left to work abroad.
- ✚ Measures adopted by authorities through institutions and services for children affected by parents' emigration.
- ✚ Presentation of a case of a child whose mother left to work abroad and how the institutions managed to help him in collaboration with child protection institution.

The collection of the data was done as it follows:

- ✚ Identifying children with parents left for work abroad from the school units mentioned above.

I realized a questionnaire involving 15 questions and it was applied to a number of 80 children: 60 children from the urban area and 20 children from the rural areas(see diagram 1).

Figure no. 1: Diagram for variable social background

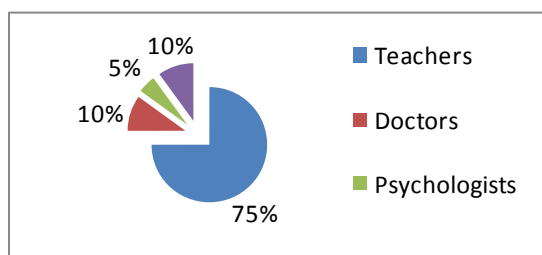


I have realized an interview guide with 5 questions, applied to a number of 20 professionals from didactic, medical, psychological and social care field: 15 teachers, 2 doctors, 1 psychologist and two social care workers from the city of Constantza but also from Topalu village.

Social-demographic features of the family: family-child profile

In order to realize the family profile, the framework profile that we tried to identify were: which parent leaves the family and opts to go to work abroad, the duration of the leaving, the reasons for this leaving and their importance, the effects felt by the remaining family (positive and negative aspects); grouping them in four presentation fields: social-demographic features, relation child-tutor, determining factors, consequences upon the family and measures taken by the specialists that come into contact with these children.

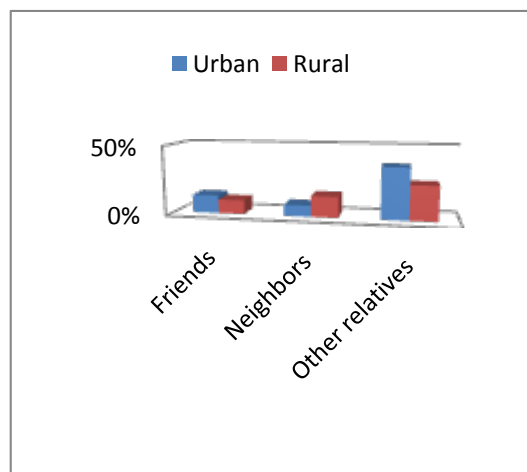
Figure no. 2: Diagram for specialists taking part at the interview.



Social-demographic features

At first question from the questionnaire „Do you have relatives abroad?“, the whole group of subjects answered affirmatively as a consequence of the purpose of this questionnaire to be applied only to children with parents at work abroad. Thus, in most situations, parents who decided to go to work abroad had already relatives or acquaintances in the emigration country (in rural areas, 5 assert that besides family members, they also have relatives and acquaintances, meaning 25% and in urban area, a number of 22, meaning 37%) and only a small part of these have neighbours or relatives left in the respective area (in rural areas, 2 persons asserted they had friends, meaning 10% and only 3 that have neighbours besides family members, meaning 15%, and in urban area, 8 meaning 13%, respectively 5, meaning 8%). This could be explained by the fact that parents usually benefit of the help of migration contacts, which help them and support them by anterior migrants represented by relatives, neighbours or friends.

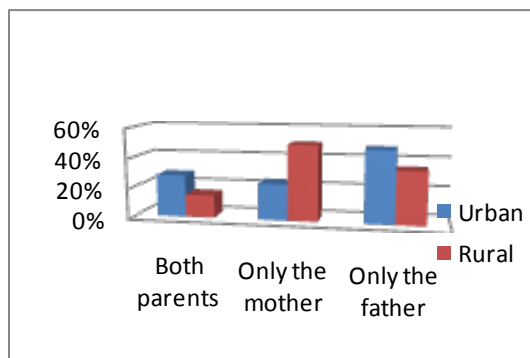
Figure no. 3: Diagram concerning the number of relatives and other acquaintances left abroad



In most situations, the parent opting to leave the country for work is the mother in rural area, in a proportion of 50%, father in 35% and both parents in 15%, and in urban area, the parent opting to leave the country for work is the father in 48% cases, mother in 24% cases and both the parents in 28%. (see Figure no. 5). We can notice that in rural

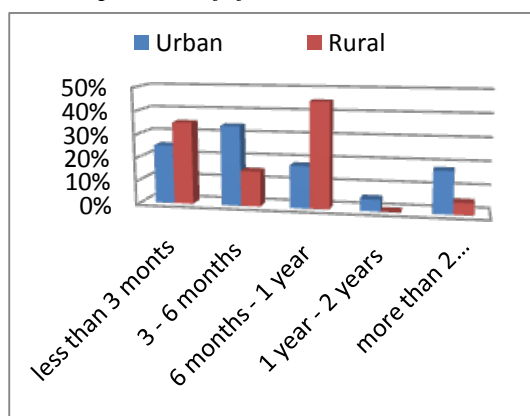
areas the missing parent in a family is the mother while in urban areas is the father. And still in the urban areas there is more frequent the case when both parents leave for work abroad.

Figure no.4: Structured diagram with parents left abroad for work



Although mother's presence is determining to a normal development for a child, most of the times she is not present within the family on a period of less than 3 months in rural areas, in urban areas she misses between 3-6 months, thus the mother's absence in the family from rural areas is shorter so that it may not affect the child too much. In urban areas, mother missing between 3-6 months, the effects are more serious like: school problems, behaviour problems, communication within the family and in friends' group.

Figure no.5: Diagram concerning the period parents left for work abroad



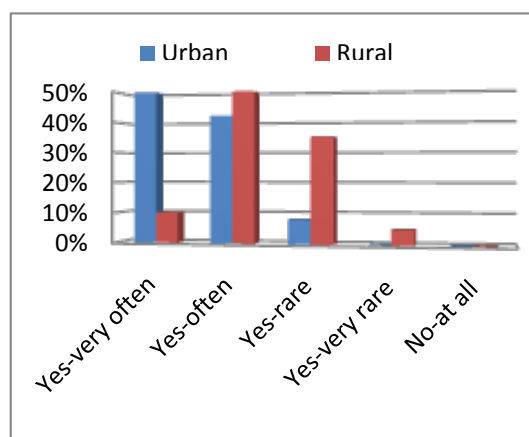
Most parents miss between 3-6 months in urban areas, and 6months-1 year in rural areas, a significant number being represented by fathers in urban areas and mother in rural areas. When the parents miss a longer period

of time, children cope with the situation hard, the effects upon their development and their growth being numerous and more emphasized.

The longer they stay in a country, the greater the possibility of parents to remain separated from their family.

At the question how often children communicate with their parents left abroad for work, most asserted that quite often.

Figure no. 6: Diagram concerning the keeping in contact of parents left abroad to work with their children



There can be seen the difference between rural areas and urban ones as far as the frequency of communication between children and parents is concerned thus, children from urban areas communicate really often with their parents in comparison with rural areas where children communicate really seldom with their parents

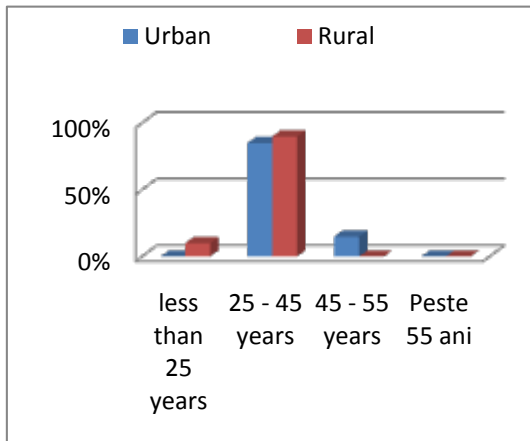
The number of both parents going abroad for work is significant (28% in urban area but also 15% in rural area), most parents missing from their family longer than 2 years (11%), entrusting their children to their grandparents (65% in urban area, respectively 67% in rural ones) rather than to their aunts /uncles (18% in urban area). Yet, there are serious cases when children remain by themselves, a part of their parents' responsibilities being taken by elder brothers and sisters (29% in urban area) or by themselves (33% in rural areas). The absence of parents in children's lives at tender age affect the way they commit to other persons, their sense of safety and self-esteem, as well as their future development as fully-grown adults.

There are situations when parents decide not to entrust children to other adult person, the children remaining by themselves, the responsibility in the house belonging to an elder sister or brother.

No matter what parent goes to work abroad, children remaining at home are usually girls, something that can be correlated with the feminine side of the investigated individuals (61%), with age between 12-18 in most cases.

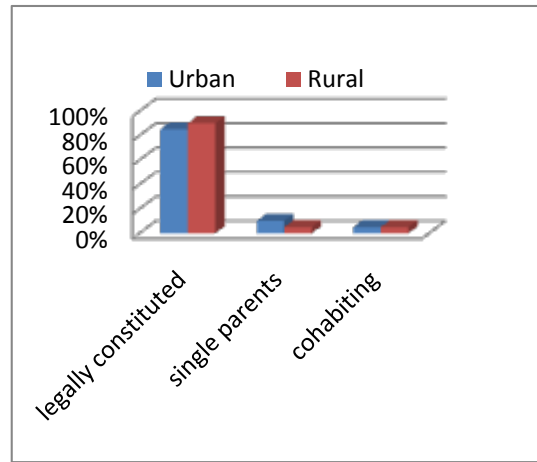
Families affected by this phenomenon are young families, with major work resources, with age between 25-45 (86%). Young parents leaving abroad equal the workforce demand on the external market oriented on this category of individuals.

Figure no. 7: Diagram structured according to the parents' age.



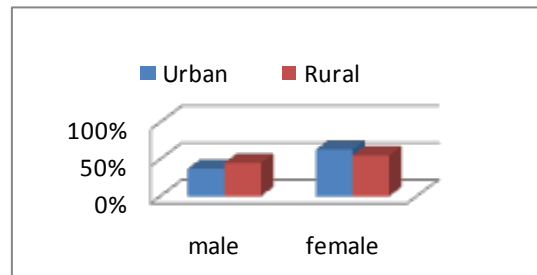
According to the family structure there can be traced another feature. Most parents deciding to emigrate come from legal families (86%), most of them having 2, 3 children going already to school.

Figure no. 8: Diagram structured according to the family type from where children with emigrant parents are part of.



A feature of these families is related to the age of inquired children. Most of them being included in the age category 12-15 years and 17-18 years mostly representing students from 4th, 6th, 8th in rural areas and 8th, 11th and 12th in urban areas. There can be a correlation between parents' leaving and the child's sex. The option to migrate abroad is more frequent among families with daughters, students in highschools (71%) than in those with boys attending the same studies (29%). Parents tend to trust more the girls, who seem to be more responsible in problems concerning the household.

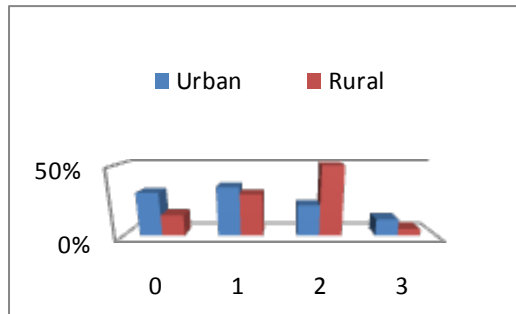
Figure no. 9: Diagram concerning the child's sex according to their social background.



Another feature of the family directly affected by emigration is the number of their children. In rural area, the option to migrate is more often encountered in families with 3 children (50%), following in decreasing order families with two children (30%), with one single child (15%) and those with 4 children (5%), and in urban area unlike the rural area,

the option to migrate appears more often in families with 2 children (35%), following the families with one single (31%), 3 children (22%) and those with 4 children (12%).

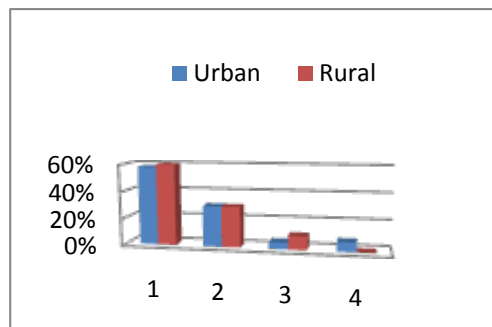
Figure no. 10: Diagram structured according to the number of brothers of the respective child.



As long as the correlation with children's classification, most of them are first born of the family (59% of all children participating at the study), something that can be correlated with an increase of responsibility among them.

There comes in decreasing order the values in percentages from the second child born in the family up to the fourth born within the same family.

Figure no. 11: Diagram concerning the classification of children involved according to their place in the family.



Regarding the job parents have in the emigration countries, men usually work in the following fields: navigation, construction, electricity and carpentry, and mothers usually work as: maid, baby-sitter, salesman. At the measurement time, a considerable number of those left abroad for a short period of time (0 – 3 months and 3 – 6 months) did not have a job, something that can be associated with the absence of the positive

effects, that could be noticed within their families.

If the left parent has the mission to find a job and to financially support the family, the remaining at home parent is not at work, dealing with children raise and education.

4. Conclusions

Migration is a complex phenomenon with a multitude of effects. The phenomenon has important consequences in society economically, socially, culturally and politically.

In European Union, legal migration could represent a favourable factor for economic growth, when correctly managed and oriented towards deficient sectors. Yet, member states perceive differently this phenomenon, according to the specific context. Moreover, the public perceives migration in a negative way, especially that from certain countries. The policies concerning development should include corresponding measurements to efficiently manage the migration phenomenon. This appears in the conditions of an aging of population from European Union, with important consequences on the labour market but also upon the health and retirement systems. The connection between demographic changes and policies concerning migration is and will continue to be an important issue of European Union in the near future.

The economies and the member states societies will go on needing migrant workers. That is why, it is necessary a common approach of the dynamics of management migration and harmonizing policies concerning migration of the member states.

If until 2007 the prior preoccupations oriented upon legislative and institutional harmonization in order to achieve community acquis, after EU accession. Out of this perspective we completely share the perspective expressed by the National strategy concerning Immigration within 2007-2010 according to which: "migration is a process that must be managed and not a problem that has to be solved"

At present Romania has a good system of strategies, policies, measures plan to administrate the migration phenomenon, but the greatest challenge appears when they

have to be transposed in practice. In this direction, there must be ensured a modern, competitive management, ensuring the best utilization of human resources and materials used with this purpose.

Legislatively, Romania completely transposes the community acquis in the migration field. There must be taken into account that have present migration policies changes at European level with the tendency towards a greater opening to attract labour force from certain countries. These political changes attract new directions of the requests that must be nationally transposed. Romanian will have to continue the permanent alignment to European policies and legislation within migration, that at present knows a stronger dynamics.

In Romania, there is a complex, strong framework, but also fragmented, leading to deficiencies in communication between institutions responsible with migration or even between departments from the same institutions, that have different competencies within migration field. This way, there appears the necessity of a better intra and inter- institution cooperation, coordination and information to manage the migration process. The integrated informational system is of great utility, a system where all institutions should participate with information and should be accessible to all involved institutions and departments.

Often institutional changes through reorganizations, foundations and dissolutions of institutions and directions within institutions leading to a major fluctuation of the employed, so that in most cases, it is lost the possibility to occupy certain positions with consequences upon the continuity of the respective activity.

In the actual European context related to migration and to problems that Romanian workers have to face, Romania should express its position more loudly and advocate for changing the perspective upon work migration and mobility: they represent two interdependent concepts, that should not depict distinct realities like mobility of citizens from the older member states versus migration of the citizens from the new member states.

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Decision-Making through Costs and Relevant Information

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Abstract

Costing management represents an information and a management tool used in order to improve enterprise performance.

This provides information on cost, profit, but can also be a technique to "maximize profitability" (management tool).

The information produced by costing management extends from the productive level to the commercial level, allowing managers to evaluate strategic business alternatives, in order to choose the optimal variant of development. That expending supposes complying with some procedural techniques.

Key words: management accounting, direct costs, indirect costs.

J.E.L. classification: M41

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The information produced by costing management extends from the productive level to the commercial level, allowing managers to evaluate strategic business alternatives, in order to choose the optimal variant of development. That expending supposes complying with some procedural techniques.

Business expenses are all expenses incurred by a unit that is specialized in trade activity and may relate to "wholesale", "retail", catering, foreign trade, etc.

Classification of trade costs can be made according to different criteria:

- Economic nature;
- The activities that generates them.

Classification by economic nature is the foundation of organization and leading of financial accounting in all fields.

By the activities that generate them, trade costs can be classified:

- Direct costs, identified per unit and group of products;
- Indirect costs, identified per unit;
- Double indirect costs, identified per company (general and administrative expenses).

There are cases of companies (SMEs) in which the management and administration function is not separated from commercial function, for which it uses to monitor and control trade spending, account 925 "business expenses" that grow in accounts Grade II operational.

Customize adaptation of management accounts to trade activity; starting from the general framework can be depicted as in Table 1.

Organization of management accounting in a commercial activity: study of a subsidiary).

A. The general framework of the wholesale business in case of X branch

In order to conduct business, specializing in wholesale units must have commodity stocks.

Inventories of goods, in accounting, are fulfilling a dual role:

- are the primary heritage element;
- are factor for calculating the cost of procurement of goods sold.

In terms of the reporting period, is met:

- initial stock of goods (from the beginning of the period);
- final stock of goods (from the end of the reporting period).

Table 1. Management accounts in trade activity

Account	General framework	Correspondence	Account symbol	Adaptation to the commercial activity groups and accounts
90	Internal settlements	↔	90	Internal settlements
901	Internal settlements regarding expenses	↔	901	
902	Internal settlements regarding production	↔	902	
903	Internal settlements regarding price differences	↔	903	
92	Calculation accounts	↔	92	Calculation accounts
921	Main activity costs	↔	-	
922	Auxiliary activity costs	↔	-	
923	Indirect costs	↔	923	Indirect expenses of operating units
924	General administrative expenses	↔	924	General administrative expenses
925	Sales expenses	↔	925	Commercial expenses
93	Production costs	↔	93	Revenue from trading activities
931	Obtained production costs	↔	931	Revenue from trading activities
933	Cost of production in progress	↔	-	

Source: personal processed data

To determine the cost of supply of goods sold, will add to the cost of purchasing the initial stock, the value of goods acquired during the acquisition cost, after which they will deduct the final stock of goods valued at acquisition cost.

In wholesale, is used the purchase price (invoice price of the units producing goods to wholesale trade establishments) and the selling price (charged by commercial establishments, wholesale sale of goods by retail trade enterprises, i.e. price buy + trade margins).

Steps on the movement of wholesale goods in the case studied are shown in Figure 1.

According to the steps shown in Figure 1., the goods movement in a society realizes through 2 storages.

The steps of the goods movement are:

1. expedition of the goods by the supplier to the branch, based on the invoice and other documents accompanying the goods;
2. the goods transportation, conducted by either the manufacturer or the customer or a third person;
3. goods reception, in order to register them in accounting

4. goods transfer to the second storage.

The organization of management accounting so that they could pursue economic and financial analytical results on each deposit in hand, will be properly spelled by Analytics accounts management:

902 Internal Settlement of commercial activities

903 Settlement on the results of internal Commercial

925 business expenses

931 Revenue from trading activities

In this case, the records will take stock of goods through the flash inventory in management accounting, in purchase price, with the help of account 9471 "Goods", which will be detailed in the analytics for the two warehouses and two categories of goods (parts and agricultural machinery).

From the above, it is necessary a developed variant of management accounts, which aims to: highlight the analytical inventory, costing and results calculation by cost carriers.

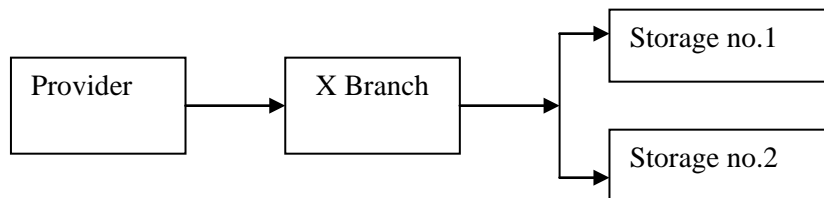
In developed variant appears group "94" - "Accounts for inventory" for evidence and analytical management of stocks, group "97" - "incorporation differences" for defining the differences not captured, and group "98" - "analytical results" for calculating and recording the analytical results.

B. Operations of the reporting period

The economical and financial operations were carried through the two accounting circuits (financial and management). Putting data from financial accounting to management accounting was done through logging and conversion array of economic

and financial operations using the "log record" (for each accounting) which may be single or double, the operations being logged in the two circuits simultaneously. To reduce the workload, the "Double-Journal" was used.

Figure 1. Steps on the movement of wholesale goods



Source: processed data from specialty books

Table 2. Log record

No.	Operations	Financial accounting			Management accounting		
		Accounts		Value	Accounts		Value
		Debit	Credit		Debit	Credit	
0	1	2	3	4	5	6	7
1	Taking stock of the initial financial accounting to management accounting	607	371	189180	9471 9471/D1 9471/D2	901	189180 125566 63614
2	Record goods storage no.1	% 607 4426	401	2963645 2390036 573609	9471/D1	901	2390036
3	Record goods storage no/2 received by transfer from storage no.1	%607 4426	401	415431 335025 80406	9471/D2	901	335025
4	Sales recording	4111	% 707 4427	3164676 2552158 612518	931 931/D1 931/D2	902 902/D1 902/D2	2552158 2141992 410166
4.1.	Sales storage 1: 2141992						
4.2.	Sales storage 2: 410266 VAT 19%: 484910 Discharge of sold goods	607	371	2397999	925 925/D1 925/D2	9471 9471/D1 9471/D2	2397999 2038308 359690
5	Register:	641	421	135147	%	901	180678
5.1.	Expenses with salaries and contributions						
	* CAS	6451	4311	26692	925		127298
	* CASS	6453	4313	9460	925/D1		103226
	* CFS	6452	4371	3379	925/D2		24072
	* Other social security expenses	6458	4381	7014	924		53380
5.2.	Other expenses:						
	* Expenses with raw materials	% 6022 4426	401	94356 76094 18262	925 925/D1 925/D2	901	76094 58074 18020

	* Energy and water expenses	% 605 4426	401	<u>17733</u> 14301 3432	924 901	14301	
	* Equipment maintaining expenses	% 611 4426	401	<u>13567</u> 10941 2626	925 925/D1 925/D2	<u>10941</u> 8491 2450	
	* Rent	% 612 4426	401	<u>8294</u> 6689 1605	924	901 6689	
	* Publicity and protocol expenses	623	401	<u>5263</u>	924	901 5263	
	* travel expenses	625	542	<u>9405</u>	924	901 9405	
	* Postage and telecommunications expenses	% 626 4426	401	<u>20514</u> 16544 3970	924	901 16544	
	* Banking services expenses	627	5121	<u>9279</u>	924	901 9279	
	* Other third party services	% 628 4426	401	<u>748</u> 603 145	925/D1	901 603	
	* Taxes	635	5121	<u>8688</u>	924	901 8688	
	* Amortization expenses	6811	% 2812 2813 2814	<u>9233</u> 1822 5524 1886	% 925/D1 925/D2 924	901 9233 6416 1777 1040	
MANAGEMENT ACCOUNTING OPERATIONS							
6	Record settlement in management accounting				902	925	2626777
6.1.	Commercial reimbursement	x	x	x	902/D1 902/D2	925/D1 925/D2	2219703 407074
6.2.	Allocation of administrative expenses on both deposits, according to direct labor	x	x	x	902	924	177608 144025 33583
Administrative costs distribution:							
<ul style="list-style-type: none"> $R D_{ct924} = 177608$ distribution base distribution coefficient $K = \frac{R D_{ct924}}{\sum \text{salaries expenses}} = 181,38\%$ <div style="display: flex; align-items: center; justify-content: center;"> <div style="margin-right: 20px;"> <ul style="list-style-type: none"> Administrative expenses allocated on deposits: </div> <div style="text-align: center;"> <p>Storage. 1: 79405</p> <p>Storage 2: 18517</p> </div> </div> <p>D1: 79405 x 181,38% = 144025</p> <p>D2: 18517 x 181,38% = <u>33582</u></p> <p style="text-align: center;">177608</p>							
6.3.	Determination of price and registration	x	x	x	903/D1 903/D2	902/D1 902/D2	163573 31157
7	Resuming the final stocks of financial accounting management accounting as stocks SD _{9471/D1} =477293 SD _{9471/D2} =38949 SD _{CT9471} =516242	371	607	516242	901	9471 9471/D1 9471/D2	516242 477293 38949

8	Closing results accounts	121	%	2746731	901	%	2746731
			602	76094		931	2552158
			605	14301		931/D1	2141992
			607	2397999		931/D2	410166
			611	10941		903	194730
			612	6689		903/D1	163573
			623	5263		903/D2	31157
			625	9405			
			626	16544			
			627	9279			
			628	603			
			635	8688			
			6451	135147			
			6452	3379			
			6453	9460			
			6458	7014			
			6811	9233			
	%	707	121	2.552.158			
RESULTS:							
				TOTAL		D1	D2
				REVENUES	2552158	2141992	410166
				EXPENSES	2746731	2305565	441323
				RESULT ±	-194730	-163573	-31157

Source: personal processed data

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Influence of the Cost Structure in order to Manage the Relation Risk-Return

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Abstract

In practice and in economic theory is increasingly accepted the belief that the masters of costs have the biggest opportunities to win the global competition for supremacy. In essence, the progress of any kind should determine the achievement of economic goods with the lowest costs. The basic concept of direct-costing method is the foundation product cost calculation using only variable costs. Attribution of indirect variable costs be made generally without difficulty because the variable costs are, by definition, normally related to the production and sale.

Key words: direct-costing, costs management, variable costs, management accounting.

J.E.L. classification: M41

In practice and in economic theory is increasingly accepted the belief that the masters of costs have the biggest opportunities to win the global competition for supremacy. In essence, the progress of any kind should determine the achievement of economic goods with the lowest costs.

Costing method include a set of processes which "provides quantification of the correlation between costs and production that occasioned them.

Direct-costing method is a step in the evolution of calculation, and in accounting, a management tool.

The basic concept of direct-costing method is the foundation product cost calculation using only variable costs. Therefore, the French authors refer to this method as a *variable cost approach*. French general accounting plan, in 1982 uses the

name: *proportional costs method*, and some authors identifies direct-costing with the *marginal cost calculation method*.

Fixed costs are constant, the distribution per products is considered at the end of the period and it is affecting business results. These two categories of costs give decision makers a clearer picture of how the production process is running.

Attribution of indirect variable costs is made generally without difficulty because the variable costs are, by definition, normally related to the production and sale.

The category of variable costs for varying physical volume of goods or dissolution, are, in addition to direct costs (materials, labor, steam, electricity for technological purposes, expenses of selling variable nature etc..), and indirect costs variables (heating fuels, contributions to social security, etc..), where variable costs cannot occur only under conditions of productive activity.

In view of direct-costing method, the concept of variability of production costs covers all costs, regardless of their mode of employment (directly or indirectly) on products. A feature of variable costs is the ease and accuracy of their distribution per unit of product and their permanent control by each leader upon his level of responsibility. In contrast, total fixed costs have a relatively constant compared to the change in volume of production and distribution of products and places them on costs cannot be performed using conventional methods of distribution.

The basic problem of the direct-costing method is the proper segregation of the variable costs to ensure a fair fixed production cost calculations.

Elimination of fixed cost calculation is based on the recital as expenses in the period are not the products. For this reason, they

cannot be included in cost of products, affecting the outcome of the activity.

Costing in the design of direct-costing method based on the elements of the production output, the volume of production sold in a period of time. Subtracting from the value of sales variable costs for the products sold, obtain coverage or gross margin contribution (limit gross, gross profit) to cover the fixed costs of the period.

The study was made on a company that has the activity profile marketing and maintenance of IT equipment.

The company sells products and services on a contract basis and / or order so used

direct-costing method of calculation. The object is the calculation of the order / contract.

Cost control is calculated after its completion, regardless of the length of time it runs, through the ratio of production costs by the number of products / services sold.

During month X, the company received three orders: Product1, Product 2 and Product3, for which are used some codification: C1 for product 1, C2 for product 2 and C3 for product 3.

Operating expenses incurred for the production of products are (table 1):

Table 1. Operating expenses

No.	Expenses	Total	Variable			Fixed
			C1	C2	C3	
1	Supply expenses	8794.48	3838.84	3392.80	1562.84	
2	Auxiliary materials expenses	1413.49	600.50	514.39	298.60	
3	Fuel expenses	943.09	349.05	259.04	250.00	85.00
4	Spares expenses	141.53				141.53
5	Non-storable materials expenses	640.00	154.30	210.00	90.00	185.70
6	Expenses on energy and water	2957.00	915.00	360.00	375.00	1307.00
8	Staff remuneration expenses	7652.93	2773.66	2510.80	769.47	1599.00
9	Salary related expenses	3654.26	1324.42	2523.33	367.41	1130.93
10	Maintenance and repair expenses	2685.00				2685.00
11	Banking and similar services expenses	395.09				395.09
12	Other operating expenses	1449.30	215.00	234.85	85.00	914.45
13	Operating expenses for depreciation	1298.54				1298.54
TOTAL		32024.71	10170.77	8680.79	3798.32	9374.83

Source: personal processed data

During the reporting period were obtained:

of the C1 product: 9 pieces from a unitary variable costs 1130.09 lei-

the product C2: 22 pieces to a unit variable cost 377.43 lei

product of C3: 25 pieces to a unit variable cost 151.93 lei.

During the same period were sold :

of the C1 product: 9 pieces for sale at a unit price of 1500.00 lei

the product C2: 23 pieces for sale at a unit price of 600.00 lei

product of C3: 25 pieces for sale at a unit price of 300.00 lei.

At the end there is no production unfinished / unsold.

According to direct-costing method can be determined specific indicators, each product being judged by its contribution to non-distributed costs (cost structure, fixed). This treatment allows reasoning on the opportunity of suppressing or developing sales of a product.

Table 2. Indicators calculated through direct-costing method

PRODUCT	Observations	C1	C2	C3	Total
Produced Quantity (q)		9.00	23.00	25.00	
Variable cost per product ($cvu=cv/q$)		1130.09	377.43	151.93	
Variable cost per product (BI analysis)		934.36	394.10	207.07	
Sold quantity (qv)		9.00	23.00	25.00	
Variable costs per sold product		10170.81	8680.89	3798.25	22649.95
Variable costs per sold production	(according to BI analysis)	8409.24	9064.30	5176.75	22650.29
Unit sale price		1500.00	600.00	300.00	
Sales value		13500.00	13800.00	7500.00	
Gross margin per unit ($mu=pv-cu$)		369.91	222.57	148.07	
Gross margin ($mu=pv-cu$)		565.64	205.90	92.93	
Share of total gross margin in total gross margin production	100.00%	27.40%	42.13%	30.47%	
Share of total gross margin in total gross margin production	(100% according to BI analysis)	41.90%	38.98%	19.12%	
r = margin rate of variable costs =		0.25	0.37	0.49	
r= margin rate of variable costs (according to BI analysis)		0.38	0.34	0.31	
r' = rate of variable costs =		0.75	0.63	0.51	
r'= rate of variable costs (according to BI analysis)		0.62	0.66	0.69	
Prove $r+r'=1$		1.00	1.00	1.00	

CA=total sales figure=	34800.00
CV=total cost of sold items=	22649.95
M=total gross margin=CA-CV=	12150.05
r =margin rate of variable costs=	0.35
r' =rate of variable costs=	0.65
Prove: $r+r'=1$	1
CF=fixed costs	9374.83
R=result=M-CF=	2775.22

Source: personal processed data

Calculation scheme used is:

Table 3. Calculation scheme

No.	Indicators	Calculation	Value
1	Sales figure	X	34800.00
2	Variable costs	X	22649.95
3	Rate of variable costs	1-2	12150.05
4	Fixed costs	X	9374.83
5	Result	3-4	2775.22

Source: personal processed data

The data presented shows that all the margins on variable costs of the products studied are positive and therefore, all products contribute to cover fixed costs.

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Structural Adjustment of Romanian Foreign Trade after EU Accession

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Abstract

As the diversification the structure of economies has boosted economic relations between the countries which had a decisive influence on the economy and structure of branches, which had constantly adapted to market requirements and resource supply options. Therefore, Romania's foreign trade, one of the most important structures of the Romanian economy has suffered a series of changes designed to improve its competitiveness through an inter and intra-industry restructuring. Once Romania joined the European Union have been produced a series of changes in the structure of foreign trade. However, Romania remains a net importer this failure resulted in restructuring the economy, which further led to record a deficit in balance of payments current.

Key words: foreign trade, FDI, exports, imports, trade deficit.

J.E.L. classification:F13, F14, P33, Q56

1. Introduction

After completing the period of transition from centralized economy to a market economy, and after accession to the European Union, Romania faces a new and difficult challenges of adapting the existing to European economic structures and legislation. It has to cope with changes both in economic and trade policies and external shocks due to economic crises and the effects of globalization. The accession of the European Union has meant for Romania a pressure on the state sector and the private sector, the exporters to adapt to unique market requirements. Recently have shown significant changes in our country's trade

structure, due mainly of macroeconomic, which required all commercial operating continuously adapt to changes in the commercial sphere.

2. The trade policy

Starting with integration into the European Union have been produced important changes in trade policy and practice of Romania. Thus, Romania has had to align all its policies, including trade policy to the European Union [1]. The main changes were:

- The adoption by Romania of the Common Customs Tariff;
- Liberalization of trade in the European Union;
- Romania's transformation from GSP beneficiary countries of the donor of preferences;
- Cancellation of the free trade regime between Romania and Moldova;
- Romania's participation in preferential trade agreements and EU non-preferential.

The importance of trade policy derives from the role of international trade as the main tool of connection of the national economy and international economic environment [2]. Thus, foreign trade plays a major role in providing the economy with raw materials, efficient use of labor-intensive capacity production, technology transfer, building a national competitiveness.

3. The dynamics of foreign trade of Romania after EU accession

Romania's foreign trade since the transition period was characterized by an orientation of its main markets of the European Union on the one hand, and on the other hand by a widening balance of payments deficit. Currently, although the majority of exports were directed mainly on European Union markets are observed according to the studies of the Ministry of Economy, Trade and Business has a tendency to shift exports to third countries, they account for 28,5% holding in total trade in January 2011 to 27,8% in 2010. This trend can be explained by the one of the objectives of the National Export Strategy, provides greater export orientation towards non-EU countries.

It should also be taken into account foreign direct investment, which is an essential component in the external trade performance, contributing significantly to finance current account deficits, which it has an important role in supporting a sustainable economic expansion, especially if they are directed to tradable goods sector. Investment has played an important role in restructuring the Romanian economy, contributing to technology transfer and in the same time a trending effect, which is stimulating a domestic competition.

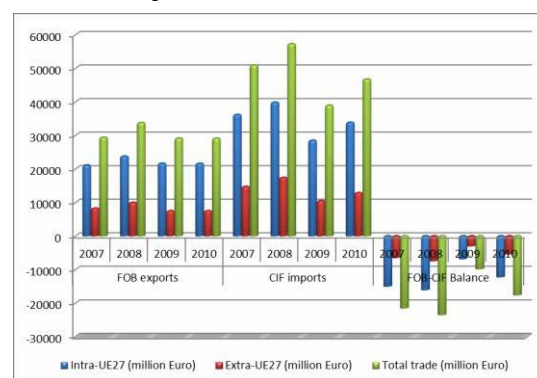
Since 2003, direct foreign investment registered an upward trend, Romania attracted in 2008 investments worth 9496 billion euro, placing Romania into an attractive destination in this regard. In 2009 they recorded a sudden drop by about 50% leading to an uncertain economic situation in our country.

As I said above, this period is characterized by an intensification of trade relations, therefore the developments in international trade is recorded upward trend. During this period, trade policy has been to restructure the geographical diversification of trade and industry by industry sector for goods and services. Thus, while trade flows have been directed by the highest proportion in the EU markets, there is an increase, although small-scale non-EU trade flows to markets. This trend is a result of trade policy liberalization of trade in goods and services

markets of the European Union.

However, Romania is a net importing country, the share of imports is still much higher volume of exports, this having a negative impact on the current account balance. Liberalization policies have favored the inflow of foreign trade goods, raw materials from abroad, while the export value although it had an upward trend, it was not sufficient [3].

Fig.1 Exports (FOB), imports (CIF) and the balance of FOB/CIF foreign trade operation 2007-2010



Source: National Statistical Institute – data processed by international trade bulletin (2007-2010)

As we see in the picture above, the balance of exports/imports is negative; it's reflecting the economy's ability to conduct international trade.

Among, many causes that led to this note: [4]

- Disparity of markets at the start transition period that;
- Correlation of trade liberalization policies of our country's foreign economic restructuring measures, including raising the quality of products;
- Low tech;
- The use of excessive interest on loans to entrepreneurs, especially for export production;
- Lack of a coherent industrial policy, based on resources;
- Investment policy to attract direct train insufficient.

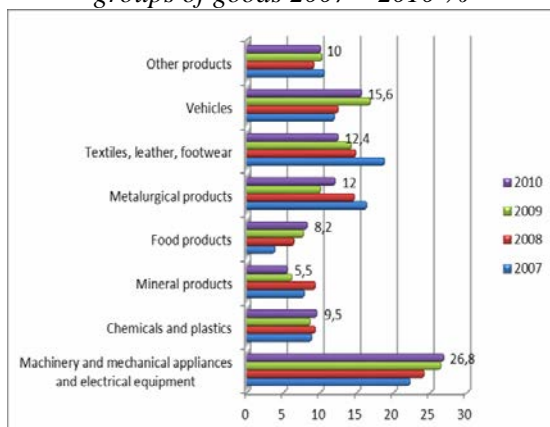
Although Romania has registered an upward trend in recent years to attract FDI, but they have not been sufficient to covers the deficit created by the imports.

International experience shows that there are countries that are net exporters and net importing countries, but the latter, the deficit has been covered by foreign loans created.

If the investment policies are correct, the income derived there from, covering the trade deficit. If these loans are geared towards consumption, as Romania case, the created deficit deepens and it became difficult to fill. Although exports increased, for example in Romania has exported goods worth 37,3 billion euro, 8,2 billion more than in 2009. According to Eurostat, Romania recorded in 2010 a trade deficit of 9,5 billion, it fell to 400 million euro the previous year. National Commission estimated that the deficit forecast by Romania, in 2008 and 2009, to reach 10,2% of GDP, followed in 2010 to record a decrease to up to 9,7% of GDP.

If we analyze the data 2007 - 2010, noted that the first two years, there has been a growth in exports by 13%, and since 2009, amid the global crisis, there was a substantial reduction of their.

Fig.2 Structure of exports FOB by main groups of goods 2007 – 2010 %



Source: National Statistical Institute – data processed by international trade bulletin

A comparative analysis of the structure of exports to production stages indicates an expansion in the share of exports of capital goods and materials along with a reduction in the intermediate goods and consumer goods.

According to the National Export Strategy 2010-2014, over the 60% of the value of increased exports resulting from a larger volume of exports, materialized in the export of machinery and electrical machinery, grain, automobiles, tractors, petroleum products, pharmaceuticals, seeds, fruits, boilers, turbines, engines, equipment and mechanical devices, and on the other hand, the remaining 40% representing the contribution of higher external prices (iron products, steel, petroleum, rubber and articles there of rubber, furniture and lighting).

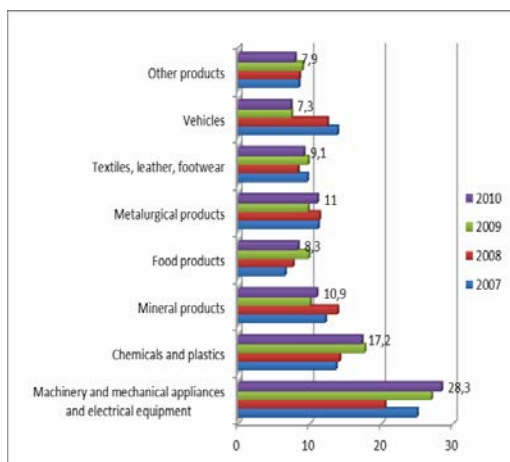
The largest share in Romania's exports were manufactured goods, 94,8% in 2008, registering an increase of 11,7 percent over the previous year. Increases in exports were registered for radio equipment, television and communications, information technology and office equipment, tools, medical equipment, rubber and plastic products, transport vehicles, machinery and equipment [5].

Lately there has been a growing trend in the share of IT&C services in Romanian exports. IT&C industry share in GDP remains relatively low in comparison with other European countries (in which the range of growth was between 5% and 10%) and had a negative growth after 2005. According to the studies conducted by Eurostat, the exports of the IT&C sector, in 2009, increased by 10% over the previous year.

By category of service, according to National Export Strategy 2010-2014, the period from 2002 to 2008 was characterized by a remarkable growth in services, while increasing tourism and travel services.

As for exports, the EU market remained the main supplier of imported products, they totaled in 2010 a rate of 72,8% of total imports. The main groups of imported goods remain machinery and mechanical devices, followed by chemicals and plastics.

Fig.3 Structure of imports CIF by main groups of goods 2007 – 2010 %



Source: National Statistical Institute – data processed by international trade bulletin

According to the dates published by the Romanian Trade Promotion Center and Foreign Investment, the main structural changes occurred in the evolution of the combined nomenclature section of a growth trend in 2010 compared to the 2009, in the automobile industry products (including electrical, electronic) + 7,7%, this percentage increase was 73,6 million, chemical products and plastic products (+7,5%). A downward trend in food products have been -45,7 million euro (-15,8%), wood and paper products industry (including furniture) (-11,7%), textile and leather products industry (-4,8%) and articles of stone, plaster, cement, glass and ceramics (-18.8%) [6].

According to the Ministry of Economy, Trade and Business, the import volume in 2010 was 46,71 billion euro, an increase of only 19,9% compared to 2009, this mainly being due to continuing investment in productive activity reduction of consumption in Romania.

4. Geographical distribution of foreign trade

Romania's foreign trade is conducted in most European Union countries in 2010 with a share of 72,7% to 72,8% in exports and imports. According to the reports made by the Ministry of Economy, Trade and Business exist an increasing trend in exports

to third countries which are less affected by the crisis (38,7% increase in exports, well above the average of values in European Union 24,4%). Among countries with significant increases include: Japan – 74,73% increase in exports (car parts, bearings, electrical products, glassware, wine, etc.), South Korea – 49,37% increase (energy industrial equipment, maritime and river ships, fertilizers and animal feed), China – 45,15% increase (car accessories, fertilizers, power equipment, tires and rubber products, wines), Canada - 3-fold increase in exports (32,1%) (electrical machinery, boilers and nuclear equipment, components and parts for airplanes), USA – increasing by over 61% (auto parts, fertilizers), Mexico – increasing by over 51% (tires, carpets, various steel products, optical instruments, car accessories), Russian Federation – 62,12% increase (car parts, refrigerators and furniture), Ukraine exports growth of 53% (mineral products, machinery and electrical equipment, automobiles and auto parts), Turkey increase of 76,8% (mineral products, chemical products, metal products, machinery and electrical appliances, automobiles and auto parts etc.)[7].

More than 50% increase in exports was registered by Armenia (510,91%), Azerbaijan(112,59%), Kazakhstan (66,86%), South Africa (99,49%), Libya (50,11%), Republic Vietnam(74,82%), Brazil (61,61%) According to the dates from the National Bank of Romania, in 2010, top 10 countries of destination for Romanian exports were: Germany (with a share of total exports of Romania to 18,2%), Italy (15,2%), France (September 2%), Hungary (5,7%), Turkey(5,2%), United Kingdom (3,6%), Bulgaria (3,5%), Spain (3,4%), Netherlands (2,9%) and Poland (2,6%), cumulative weight of these countries being 69,5% in total of export. On import the first 10 countries of Romania (countries of origin for imports) have a share of 69,4% of total of imports realized in 2010, namely: Germany 17,0% Italy 11,2%, Hungary 7,6% France 6,2% Russian Federation 5,8%, China 5,7%, Austria 4,5%, Poland 4,1%, Netherlands 3,9% and Turkey 3,4%. Romania's trade deficit on the Europe was 320.9 million euro. According to studies conducted by National Bank of participating countries to achieve the deficit were: -119.0 million euro Russian

Federation, Kazakhstan -81,2 million euro, Hungary -76,1 million euro, Austria -65,5 million euro, Poland and Germany -51,6 million euro, -46,7 million. Asia-Oceania, the trade balance was -210,3 million euro (with the highest levels of trade deficit on relationships: China -136,2 million euro, India -22.6).

Fig. 4 Geographical orientation of exports in 2010

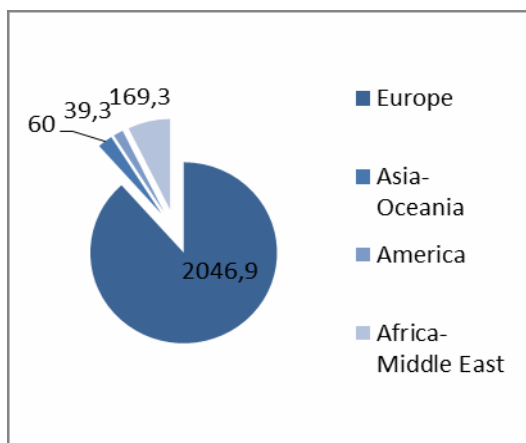
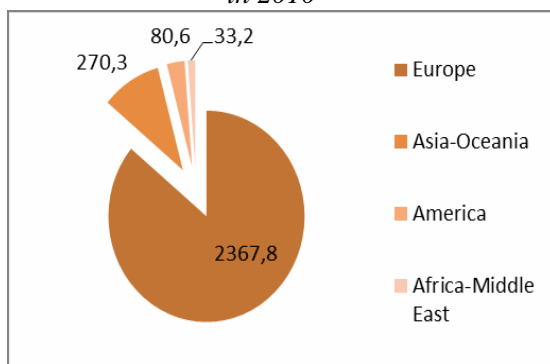


Fig. 5 Geographical orientation of imports in 2010



Source: Romanian Center for Promotion of Foreign Trade and Investment – data processed by Romania International Trade

The main exporters to the EU market were Automobile-Dacia, Nokia Romania, Honeywell Technologies, and third country markets, ArcelorMittal Galati, Rompetrol, Nokia Romania, Renault Industrie.

5. Conclusions

Romania's foreign trade, despite its correlation with GDP, largely depends on economic activity, only the structure of imports is affected by industrial production. However, considering the situation of foreign trade since joining the European Union so far have shown a significant change in the business, primarily due to macroeconomic and secondly, opening up EU markets for Romania.

The negative balance between the exports and the imports, reflect a high level of inefficiency in economic activity, the deficit gradually altering the balance of the trade. These negative aspects are related to lack a solid investment policy could cover the deficit created.

Although significantly reoriented, Romania's foreign trade continues to be unstable, poorly restructured, and less competitive.

FDI is a major determinant of improvement in foreign trade. Although Romania has registered an upward trend in recent years in attracting FDI, it should work harder to attract investors, by policies of reducing taxes and bureaucracy, improve infrastructure, the national law is not sufficient for an improvement in foreign trade activities.

6. Acknowledgement

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Business Ethics from the Perspective of the Students in Business and Economics – Identifying the Factors of Variation

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Abstract

The paper attempts to explore the theme of business ethics from the perspective of the students in business and economics as future business practitioners.

The ethical business principles are considered to be formed before an individual enters into the work market and as a consequence it is assumed that the educational system can be responsible for this situation. Still, it is unrealistic to expect that students with the same ethical course exposure will adhere to the same ethical conduct. The purpose of this paper is to measure the ethical standards of a group of students and to identify the factors that determine the variation in their responses.

Key words: business ethics, ethic courses, student's ethics

J.E.L. classification: M29

1. Introduction

The notion of ethics is related to the notion of moral or morality and it is based on the idea of custom as normal behavior [5]. But an ethical issue, rather than requiring the appliance of a norm, is asking for a judgment of values and implies for the decision maker to take responsibility for it, this being the difference between an ordinary issue and an ethical one [4].

Business ethics is commonly defined by a set of principles, standards and moral values specifically designed for the business environment [4]. One major conflict with ethics that appears in this field is represented by the natural desire of the companies to assure their survival, to grow and/or to obtain big profits. Another conflict is generated by the behavior that the companies encourage in their employees in order to achieve their

goals. Even if this second situation refers to individuals that take decisions within an organizational context and can be treated as work ethic or more precisely ethical work [6], it will be treated in this paper as part of business ethics as the companies are considered to determine the organizational setting of their employees.

2. The practical approach

The paper is based on a quantitative study that involved the use of a questionnaire. Information regarding the ethic courses completed by the students in secondary school or at university was requested. Also, the questionnaire included items regarding the gender of the subjects (previous researches have concluded that there are gender differences in the process of ethical decision making) [2] and their job experience (as this aspect was considered to have a potential influence over their ethical approach).

In order to measure the ethical standards of the students, six items were developed – 4 related directly with the organization interests and 2 related with the ethical work (the interests of the company were mediated by a supervisor). The items included in the questionnaire were measured using a five point Likert scale on which the students marked their degree of approval with the following situations: lying to clients, compromising their own values, supporting an unethical behavior from the part of the company, supporting an unethical behavior from the part of other employees, accepting to be lied by a supervisor and accepting a supervisor to ask them to cover an unethical conduct of a colleague (all of these in order to protect the company's interests). The Cronbach Alpha coefficient calculated for the six items was 0,614. Even if it is generally considered that a scale is reliable from a

value of 0,7 and that the results get better as the Cronbach Alpha coefficient tends to reach a higher value, some particular aspects should be taken into account such as the number and the nature of the items included. A large number of items, as well as a high similarity between the items, can artificially increase the value of the coefficient. A value greater than 0,9 may indicate some duplicate items and not a better scale. For such reasons a value between 0,7 and 0,8 can be considered to express a good internal consistency for a scale of ten items or more [3]. Values of the Cronbach Alpha coefficient between 0,6 and 0,7 are reported frequently by the researchers in their papers.

The sample was represented by 218 students of which 52.6% were women and 47.4 % were men. 97.2% of the students included were aged between 18 and 30 and 82.9% of the sample was represented by students in the third academic year. Most of the students were Spanish (82.6%), followed by Americans (7.8%) and other nationalities (9.6%).

3. The hypotheses

The first set of hypotheses is based on the assumption that the educational system is influencing the students' ethical perceptions. The general hypothesis is:

H1: the ethic standards of the students who took previous ethic courses will differ from the ethic standards of the students who didn't take previous ethic courses.

More than that, it is assumed that the independent ethic courses will have a greater impact than the ethic courses integrated within other disciplines (H1a). Also the ethic courses taken during the university period are expected to determine a higher score on the ethics scale (as they are supposed to be fresher into their memory) compared with the ethic courses taken during the secondary school (H1b).

The second hypothesis is based on the concept of "ethic of care" extracted from the literature review, a concept according to which the ethical conduct is sensitive to gender differences, the women being more ethical than the men due to their natural "care orientation" [1, 2]. The hypothesis is:

H2: the ethic standards of the male students will differ from the ethic standards of the female students (with the women obtaining higher scores on the ethics scale than the men)

The final hypothesis is based on the fact that job experience is usually affecting the perceptions of the students. As they had to respond to the ethic items in a virtual context of a company, it is expected that they will even project their own experience on that situation even will consider a theoretical case (if they don't have experience). The third hypothesis is:

H3: the ethic standards of the students who don't have a relevant job experience will differ from the ethic standards of the students with a relevant work experience.

4. The results

Testing the hypothesis implies the use of the parametric tests. Therefore, the first step was to test whether the distribution of the dependent variable (the scale that measured the ethic standards) is normal. The Kolmogorov-Smirnov test was applied and the result was a Kolmogorov-Smirnov coefficient of 0,945 with a sig value of 0,333. Thus the null hypothesis couldn't be rejected, so it was concluded that the distribution is normal.

In order to test the first set of hypothesis the ANOVA analysis was applied. The variable representing the independent ethic courses had four levels (depending on when the students took those courses):

- none (no independent ethic course taken until now)
- in secondary school
- in university
- in secondary school and in university

The test of homogeneity of variances was performed and the Levene statistics was 0,799 with a sig value of 0,495. Consequently the null hypothesis couldn't be rejected and it was accepted that the groups had approximately equal variances on the dependent variable, so the ANOVA analysis could be performed.

The ANOVA results showed an F value of 4,974 with sig = 0,002 confirming the fact that there is a significant difference between the groups regarding their ethical standards.

The Bonferoni Post Hoc test showed that there is a significant difference between the students who didn't take any previous independent ethic course and the students who took ethic courses both in secondary school and in university, with the latter group displaying higher scores on the ethics scale. The test also showed a significant difference between the students who took ethic courses in secondary school and the ones who took ethic courses both in secondary school and in university. Again, the second group obtained a higher score. There were no significant differences between the students who took ethic courses in secondary school only and the ones who took ethic courses in university only, so this assumption from the first set of hypotheses couldn't be validated (H1b). Also, it could not be tested whether the independent ethic courses had a greater impact than the integrated ethic courses (H1a) because all of the students included in the sample took integrated ethic courses.

In order to test the main hypothesis (from the first set of hypothesis) the T test for independent samples was applied. The value resulted was $t = -2,269$ with 216 df (degrees of freedom) and $\text{sig} = 0,009$, which suggest that H1 can be validated with a probability of 95%.

The T test for independent samples was applied again, this time for identifying whether there are gender differences. The group statistics displayed an average score on the ethics scale of 2,3314 with a standard deviation of 0,616 for men and an average score of 2,6879 with a standard deviation of 0,517 for women. The Levene test ($F = 2,362$ with $\text{sig} = 0,126$) indicated that the variances can be assumed to be equal, while the value of the T test ($t = -4,604$, $\text{df} = 213$ and $\text{sig} = 0,000$) has validated the second hypothesis (H2).

H3 stated that there will be differences in the ethic scores between the ones with no relevant working experience and the ones with relevant working experience. The cut point was decided at 1. The decision was made based on the data. Those with less than 1 year (without relevant experience) and those with 1 year or more (with relevant experience) are categories that have generated two approximately equal groups, and these categories also make sense from a conceptual point of view. The T test

confirmed the hypothesis ($t = 2,352$ with 216 df and $\text{sig} = 0,020$). With a probability of 95% it can be argued that the ethic standards of the students that don't have a relevant job experience differ from the ethic standards of the students with a relevant work experience.

The group with less than 1 year experience had a mean of 2,593 and a standard deviation of 0,606, while the group with one year experience or more had a mean of 2,400 with a standard deviation of 0,544. It can be concluded that the students with job experience tend to have lower ethical standards than the students without job experiences.

The analysis was continued by testing the influence of gender over the results of the T test regarding the job experience. The data base was split in two groups based on gender. The resulting groups were verified from the point of view of the cases included in each category and they proved to be valid (in the male group, there were 60 cases with less than 1 year experience and 42 with 1 year or more than 1; in the female group, there were 76 cases with less than 1 year experience and 37 cases with more than 1). The T test was performed again. For the male group we obtained $t = 0,244$ with 100 df and $\text{sig} = 0,154$, so it can be concluded that the H3 hypothesis can't be validated for this group. For the female group the results were: $t = 3,130$ with 111 df and $\text{sig} = 0,002$, hence the H3 hypothesis can be validated for this group.

5. Conclusions

From the 5 hypothesis, 2 were validated (H1 and H2), 1 was invalidated (H1b), 1 couldn't be tested (H1a) and 1 was partially validated (H3 was validated for the entire group and for the female subgroup, but not for the male subgroup).

The factors of variation of the ethical business standards of the students identified in this study were: gender, previous ethic course exposure and job experience.

The results showed that the students who took previous ethic courses have higher ethical standards than the ones who hadn't taken ethic courses before. This is an expected result, but what has to be taken into account is the fact that only the independent ethic courses were included in the analysis.

As mentioned before, all of the students took integrated ethic courses (an ethics chapter included in various books on different subjects). This result raises the importance of including ethics as a subject on its own in secondary school as well as in universities (the results also showed that students who have studied ethics both in secondary school and in universities have obtained a higher score on the ethics scale).

The gender influence over the ethic standards of the students is in line with the findings of other researchers. Still, the theme of the "care orientation" and the role played by gender in ethical decisions is a more complex one and the purpose of this study was not to enter into this field. As a consequence the variation of the ethical standards between the male and the female groups should be treated in the limits imposed by the purpose of this study.

Interesting is the result regarding the variable "job experience" as a factor of variation of the students' ethic standards. Apparently, the students with a relevant job experience have scored a lower point on the ethic scale than the students with no relevant job experience. From this result, it can be speculated that the ethical standards are more important from a theoretical point of view than from a practical one. It can also be speculated that there is a possibility to consider that the students lose part of their ethical principles as they enter into the work market or as they gain more experience. But only a future study designed for this specific purpose can validate or invalidate these assumptions.

The results of this study have to be taken into account bearing in mind its limitations. The sample, even if it was represented by students, included some outliers on descriptive variables like age (38, 40 or 51) and job experience (20 or 35 years of experience), that weren't excluded from the analysis. The subjects also were of various nationalities (82.6% Spanish and 17.4 foreigners) while some researches consider that the nationality and the culture can influence the ethical standards of the students. In these conditions it is hard to say what kind of population could represent this sample.

Another limit is related with the number of factors of variation included in this analysis. Other factors besides gender, previous ethic course exposure and job experience can also have an impact on the ethical business standards of the students.

Still, the study has explored the relationship between the ethical business standards of a group of students and some of the factors that influence them, and can be considered a point of departure for future research in this field.

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The Labor Force International Migration and its Causes

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Abstract

The social, economic and political evolution, which took place in the last decades and is still taking place, has created the premises of a significant changing, as far as the migration is concerned, imposing the necessity of a special attention to be given to these problems, which are more and more approached inside the political dialogue and international cooperation.

Key words: economy, migration, labor force, international

J.E.L. classification: F22, F16

An etymologic definition of the term of "migration" is more than necessary. The term comes from the Latin "migratio, -onis", and, according to DEX, it represents a massive displacement of tribes and populations, from one territory to another, caused by economic, social, political and natural factors. [1]

Migration is a complex phenomenon, consisting in the displacement of one person from one territory to another, followed by a changing of domicile and/or by employment in a form of activity, in the area of arrival. [2]

This way, the migration represents a displacement carried on with the view of changing the living and labor place, this changing being caused by social, political, economic or natural factors. Under these circumstances, this movement becomes not only a reaction against external pressures or an escape from them, but, also, a positive value itself and an affirmation of liberty.[3]

The population's migration is the main form its geographic (spatial) mobility, consisting in a definitive changing of

domicile from one well-defined administrative unit to another.

It is, also, called *residential migration*, as the person involved in such a movement changes his/her residential status. [4] Consequently, population's migration does not mean trips, temporary movements or different types of "to and from." That is why, it is important to have a correct definition of the geographical or administrative/territorial units and of the types of the population's movements.

The new theories [5] state that all the significant forces governing the international migration have the same direction: because the economic discrepancy between the rich and the poor countries remains considerable, and the number of the working-able adults, from the industrialized countries is diminishing, the migration will, inevitably, grow. Pritchett, cited by Timothy J. Hatton, considers that "inside the global economy, there are irresistible forces which generate higher and higher pressures in the direction of a greater circulation of the labor forces, from the poor countries towards the richer ones".

The migration measurement [6] can be done by means of calculating the *migratory balance* – the difference between the number of immigrations and that of emigrations. A positive migratory balance (the number of immigrants is greater than that of emigrants) means that the respective administrative-territorial unit exercise a certain attraction for other countries' populations. The greater this balance, the higher is the attraction force and the plus of population. A negative migratory balance (when the number of emigrants is greater) indicates a lack of attractiveness, in the respective area. The greater the migratory balance, the higher the lack of attractiveness.

In the 20th century, the international migration, together with the mobility of capitals, technologies and information, became one of the essential factors of globalization. Migration has always been part of the social changing, at a global level, such as: colonization, industrialization or world wars. The last 40 years have brought a doubling of the emigrants' number, at world-wide level, although the percentage of emigrants, in the global population, has remained constant. At present, there are 175 million emigrants, in the world, in other words, 3.5 % of the global population. One of the most important forms of the international migration is *the labor force migration*. The acknowledged objective of this form of territorial mobility is that of determining a social mobility, by means of changing the social status of the migrating person, a very important object of study for the sociologists.

Following the '90s crash of the socialist system, the East-European countries joined, again, to the world's economy. Migration is very important for the countries from this region, since they are involved as origin/destination countries in one of the world's most important migratory pattern. As it becomes a life strategy [7], the circulatory migration of the labor force was analyzed by sociologists, under the present circumstances of being one of the most dynamic forms of social mobility.

The labor force circulation [8] is defined as a movement of the working-able population (input/output flows, net stock), inside the international space, inter-countries.

From the perspective of the European population aging, the labor force emigration becomes more and more important. While the economic factor continues to motivate migration, the migration will more and more depend and be structures by demographic evolution. The aging process of the West-European population creates a lack of labor force, which will be solved by the active East-European population, from the less developed countries. Emigration of the active population from these countries brings about a lack of labor force which, by way of reciprocity, will have to be solved with emigrants from less developed countries, most probably from Asia.

The migration problem is much more ample, since the official statistics presents a certain number of emigrants, which, in fact, seems to be much greater. Departure of one or of both parents to work abroad has become, very quickly a social phenomenon, being considered as a viable alternative for solving the financial problems of those families which have a modest economic condition.

The International Organization for Migration – IOM has confirmed that, at present, the amplexness of this phenomenon is not enough known, and, that there are no certain statistic data to reflect the proportions of migration, all over the world, and to permit a correct evaluation leading to adequate policies. The social consequences of migration are as important as its influence upon economy.

The most recent reserach [9] of IOM presents the following demographic profile of the emigrant:

- Mainly of male gender;
- Between 15 and 44 years;
- Urban residence;
- High school or vocational school graduate;
- Performs non-manual works;

These statistic references indicate the amplexness of this phenomenon, as well as, the inherent difficulties in rigorously measuring and analyzing the different aspects of the migration phenomenon. Nevertheless, a complex analysis of the family condition from the perspective of the internal displacements and of the social status dynamic is necessary.

The International Convention regarding the "Protection of the rights of all the migrant workers and of their families' members" [10] contains, among others, the following items:

- Defines the concept of "migrant worker", in a larger sense, including, at the same time, the trans-border workers, the navigating staff and the professionals; the civil, political, economic, social and cultural rights presented in this convention are applicable to all the migrant workers (with or without valid documents) and to their families' members;

- Pronounces distinctly, in a larger sense, the principle of equal treatment between the migrant workers and the workers

of the hostess country, regarding their remuneration, working conditions and access to medical and emergency assistance;

- Provides more extensive rights for migrants, regarding the transfer of money (earnings and savings) from one country to another;

Causes of labor force international migration

The main causes of an increased mobility of the active population are of *economic* nature. They can be structured as follows:

- The significant *economic discrepancy* [11] between the origin countries and the countries of the migrating flow destination; the best way of directly measuring this discrepancy is to consider the pay/hour for the same activity; in many cases we speak about need of survival, in others, about the need to correlate the low level of incomes and the high level of individual aspirations; as it is well-known, these two aspects never correlate with each other;

- Competition and prices liberalization*, characteristic for the domestic market of goods and services, have generated, in a very short time, a comparable level of prices, and, consequently, a life cost high level as compared with wages level; maybe not by chance, a positive correlation between the real estate market (rent and houses prices) and the migration; their very high level frightens and leads to the decision of leaving the country; the present lowering of these prices could contribute to the decision of coming back;

- The existence of a *high demand for cheap and/or qualified labor force*, in the developed EU countries, as well as, in USA and Canada; in order to correctly assess the number of those who return in their countries, it is important to be known whether the economic crises and its demands for efficiency has significantly lowered the labor force demand and, if yes, in what domains;

- The existence of *poor offer on the labor domestic market* is on the last place; we are not speaking about a lack of working places, but about the fact that they are badly paid (a typical example for this situation is that referring to medical doctors and nurses; more

that a half of the positions are vacant, but the nurses continue to leave the country; the explanation is that, in other countries, there is a great demand, the wages are more attractive, even if the work performed is under the professional training level). The economy, as well as, the society low capacity of generating working opportunities and an encouraging remuneration, stimulates the exodus of qualified and highly qualified labor force, as well as, the exodus of intelligence and insufficient labor force in the countries the migrants come from. [12] In some countries, the emigration of young workers has determined a certain concern regarding the intelligence exodus and insufficient labor force. Some reports show, indeed, that, in some countries, the Baltic states, for example, the emigration has contributed to the decreasing of the labor force.

- Nevertheless, in many countries, the labor force decreasing has been aggravated by *factors, others than the emigration*, such as: a strong economic growing, a relatively weak participation on the labor force market, especially of young and aged people, as well as, a low domestic mobility. Additionally, the labor force decreasing influences the major part of the specialized economy sectors (for example, constructions, hotels and reconstruction sectors) and those of professions (medical assistance, for example). At the same time, the differences regarding the variations of competences between the emigrants and the labor force from their origin country seem to be, relatively, moderate, suggesting that, generally speaking, the intelligence exodus is possible to be a phenomenon with a limited character.

- An essential cause [13] may be found in *over-population processes*, marked by a rupture between the number of population and resources; the effect is a lowering of incomes and impossibility of satisfying consume. Over-population can be determined by a surplus of births dominating the mortality ratio, a situation specific, mainly, to the less developed countries. Such a situation has characterized, in the 19th century, the Western Europe, when the lowering of mortality compensated the weakening of fertility.

•In some other countries, *the intensive animal breeding* has favored labor force dismissal, which, afterwards entered under the migration incidence;

•In some other situations, *the development of communication ways* has favored the spreading of industries, a phenomenon which asks for labor force and stimulates a part of the population to enter into the migration flow. The sea transport, and, in a smaller extent, the railway transport have favored the international migration;

•At the same time, the migratory movements can be determined by *historic, religious and political* reasons, which can be considered as being accidental and current causes;

•The increasing of the international migration level can be, also, caused by *legislative system* [14] transformations, namely by persons' free circulation;

•*Disasters and diseases* can be, also, considered accidents causing massive and sudden immigrations and emigrations;

•*Psychological* type causes have in view the fascination of some places, relief or landscapes. This way, the places chosen by a group from a certain population, can become attraction poles for their countrymen. The following examples are classical: Barcelonette – a colony in Mexico, colony-quarters in USA and in Western Europe;

•*Ecologic causes* determine the so-called *ecologic migration*. This kind of migration happens when populations move from regions affected by environmental and entropic transformations, towards another places. Mexico-City, Milan and Athens are extremely polluted cities and can be discomfort and emigration centers for their population;

People migrate from various reasons. They take into consideration various *factors*, such as: distance, travel costs, travel duration, type of transport, climate and cultural barriers.

•*The push factors* [15] represent reasons for leaving a place and emigrate due to certain difficulties: war, starvation, floods, etc. they can be economic, political, cultural and environmental factors.

•*The pull factors* represent reasons to emigrate (to settle in a certain place) due to some opportunities offered by the respective location: working places, a better climate,

liberty, etc. they can be economic, political, cultural and environmental factors.

Many push and pull factors can influence the population to migrate, sometimes, simultaneously:

1. Environmental factors
2. Political factors
3. Economic factors
4. Cultural factors

•*Utility of location* – the opportunities existent in a certain location, based on the respective region social or economic conditions, are used for comparing the living level in different places. One individual's ideas about the location utility can reflect or not the real conditions existent in the location.

•*Intervention opportunities* – the opportunities offered by neighboring regions are, usually, considered more attractive than better opportunities from locations at greater distances. If the factors are equal, the migrants tend to settle in a location close to their origin location.

•*Shortening of distance* – the longer the distance to a certain location, the lower the understanding of the respective location specific. There is a high probability that people settle closer, in a place about which they know more things, than in a place located at a greater distance and about which they do not have much information.

Those who study the causes of migration realize that the **migration recipe** [16] represents one of the motive forces of the migratory phenomenon. The "*friends and relatives*" effect, reflected at the destination, proves to be a variable of a maximum importance. The fact that a migrant has friend and relatives, at destination, can diminish the costs and uncertainty associated to migration in a far unfamiliar location. This way, the existence [17], the arrival place, of a group of relatives, for example, can contribute to the lowering of migrant's integration costs.

Of course, there are several forces governing the emigration life cycle, others that travel costs and differences between source and destination wages. One of them is the **population age structure** [18]: migration is a progressive decision, focused on future and extremely important for young adults, who having no persons to care of, can confront with lower prices.

Education is often regarded as other fundamental force acting upon the migration. Observers sustain that, sometimes, *illiteracy* can be an obstacle for migration, as it limits and restricts the potential migrants' access to information flow. Moreover than that, illiteracy can block the migrants' access to working places for which they could otherwise have been eligible.

Vasile Valentina and Zaman Gheorghe, [19] in their volume "Labor force migration and Romania's durable development" present the following main causes of migration from one country to another:

- Economic recession, unemployment, low incomes, lack of opportunities and career perspectives or very few one;
- Poor, unsatisfactory social conditions, politically, inclusively;
- Instable, non-friendly and unpredictable business environment;
- Problems in connection with marriages and family unification;
- Aspects in connection with penal problems, environment and climate;

Six factors, [20] acting at combined levels (individual, family, husbandry, community, origin region and destination) are responsible for the cumulative character of international migration:

- Distribution of the husbandry incomes at the community level (or the relative deprivation);
- Land distribution and the agrarian way of organization, the origin community level;
- Culture of migration (origin community);
- Regional distribution of the human capital (origin region);
- Social assessment (destination region);
- Migrants' networks and institutions;

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The Impact of Mergers on Firm Performance

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Abstract

Mergers are transactions of great importance, not only for the organizations involved, but for many stakeholders. Success or failure of such enterprises may have huge consequences for the shareholders of an organization, creditors, employees, competitors and communities. Empirical evidence indicates a high rate of failure of mergers in terms of value creation for shareholders. This study examines the impact of the merger on the performance of companies in Romania. Performance in this analysis is defined as debt rate and the biggest influence on the performance on merged firms is the share of current assets to total assets.

Key words: mergers, performance, borrowing rate, current assets to total assets.

J.E.L. classification: C12, M41.

1. Introduction

Financial and economic crisis covered the entire world and its consequences are difficult to assess. One thing is certain-the fear of tomorrow, with all its consequences. In this framework of uncertainty and unknown, the only salvation for companies to strengthen a certain position on the market and gain advantages in terms of the transaction tax is to restructure the company by merger.

Many writers and business analysts have argued that mergers are doomed to failure and the merger success is somehow in contradiction with the reality of business world. Of the total of merging companies 80% of them do not create value.

In fact, most mergers are proving a difficult process, with unknown risk that ultimately translate into a loss of sales, and especially with the loss of valuable people in

the organization. A fair and disciplined approach to the merger increase the chances of success.

2. Conceptual framework

In attempt to define performance we track several points of view.

Friedlander and Pickle (1968) include the following criteria to assess performance: profitability, employee satisfaction, the value of the company.

Duncan (1973) assimilates performance with the following objectives: integration and adaptation.

Klein (1976) define performance as a: adding value, return on capital employed, growth of fixed assets, term debt relative to cash flow capacity.

However the best approach of performance is through the definition: performance is the achievement of organizational objectives.

Performance depend on the reference: objective or purpose, it is multidimensional because the goals are multiple.

A performance is not good or bad in itself. The same performance can be assessed as a good performance when the target is small or poor performance when the target is ambitious.

An enterprise that is performant is the enterprise which creates value for shareholders, satisfy customers, take into account the opinion of employees and respect the natural environment. Thus the shareholders is satisfied because the company has achieved the desired return, enterprise customers are confident in the future and quality of products and services, employees are proud of the company where they work, and the company enjoys the company policy on environmental protection.

Analysis of performance by analyzing financial statements include profitability analysis, solvency analysis, liquidity

analysis, management analysis of intermediate balances, earnings per share analysis and analysis of explanatory notes to the financial statements.

3. Empirical study

This paper aims to study the link between a number of variables that characterize the financial performance - defined as debt rate - of companies that have merged (rotational speed of current assets, proportion of current assets to total assets, income rate and company size), with the ultimate aim of generating a statistical regression model to analyze if there is a link between independent variables and the rate of debt and to determine which factor has the greatest influence on the performance of firms that have merged.

H_0 : There is no significant relation between the performance of firms that have merged and the rotational speed of current assets, proportion of current assets to total assets, income rate and company size.

H_1 : There is significant relation between the performance of firms that have merged and the rotation speed of current assets, proportion of current assets to total assets, income rate and company size.

H_{11} : The biggest influence of the rate of debt has rotational speed of current assets (Nac);

H_{12} : The biggest influence of the rate of debt has proportion of current assets to total assets (Sac);

H_{13} : The biggest influence of the rate of debt has the income rate (Rv);

H_{14} : The biggest influence of the rate of debt has the company size (D).

3.1 Description of variables in the regression model involved

The study was conducted in Romania, using data collected for the period 2007 – 2009 and the source of information is represented by the Trade Register Office attached to Iasi Tribunal. The nature and characteristics of variables used in the model are summarized in Figure 1.

Figure 1. Variables used in the econometric model

Variables	Economic expression	Statistical expression
Ri	Debt rate $Ri = \frac{Debt}{Assets}$	Dependent variable Resultative variable Quantitative dimension Numerically expressed as a percentage
Nac	Rotational speed of current assets $Nac = \frac{CA}{Ac} * 100$ CA = turnover Ac = current assets	Independent variable Predictor factor Quantitative dimension Numerically expressed as a percentage
Sac	Proportion of current assets to total assets $Sac = \frac{Ac}{A} * 100$ Ac = current assets A = total assets	Independent variable Predictor factor Quantitative dimension Numerically expressed as a percentage
Rv	Income rate $Rv = \frac{Vt}{Cht} * 100$ Vt = total income Cht = total costs	Independent variable Predictor factor Quantitative dimension Numerically expressed as a percentage
D	Size company Represents the number of employees of the company	Independent variable Predictor factor Quantitative dimension Numerically expressed as a percentage

Source: SPSS tools

In the methodological approach was used multiple regression model using SPSS 17.0 tools.

The equation of the regression model is expressed as:

$$Ri = \alpha + \beta_1 * Nac + \beta_2 * Sac + \beta_3 * Rv + \beta_4 * D + \xi$$

where:

- α, β are regression coefficient;
- ξ is random variable error;
- Ri is the dependent variable;
- Nac, Sac, Rv, D are independent variables.

3.2. Methodological approach and the interpretation of the results

Correlations figure displays Pearson correlation coefficients (Pearson Correlation), the significance (Sig.) for each correlation coefficient and number of cases studied (N).

Figure 2. Partial correlation matrix

Correlations						
		Ri	Nac	Sac	D	Rv
Pearson Correlation	Ri	1,000	-,173	,999	,241	-,169
	Nac	-,173	1,000	-,182	,153	-,105
	Sac	,999	-,182	1,000	,241	-,152
	D	,241	,153	,241	1,000	,082
	Rv	-,169	-,105	-,152	,082	1,000
Sig. (1-tailed)	Ri	.	,176	,000	,096	,182
	Nac	,176	.	,164	,206	,287
	Sac	,000	,164	.	,096	,207
	D	,096	,206	,096	.	,331
	Rv	,182	,287	,207	,331	.
N	Ri	31	31	31	31	31
	Nac	31	31	31	31	31
	Sac	31	31	31	31	31
	D	31	31	31	31	31
	Rv	31	31	31	31	31

Source: SPSS tools

In the figure is presented the relationship between each independent variables with dependent variable $R\hat{i}$ – debt rate.

Is noted that the diagonal coefficient of correlation is equal to 1, because each variable is perfectly correlated with itself.

It appears that the most significant relationship is between the rate debt ($R\hat{i}$) and proportion of current assets to total assets (Sac).

Between the dependent variable – $R\hat{i}$ – and the independent variable – Sac - there is a strong direct relationship, the correlation coefficient is equal to 0,999 with a value Sig. less then 0,05.

Figure Variable Entered/Removed provides an overview of the results of the variables elimination step.

Figure 3. Variables entered into the model and variables eliminated step with step

Variables Entered/Removed ^a			
Model	Variables Entered	Variables Removed	Method
1	Rv, D, Nac, Sac	.	Enter
2		D	Backward (criterion: Probability of F-to-remove >= ,100).
3		Nac	Backward (criterion: Probability of F-to-remove >= ,100).

a. All requested variables entered.
b. Dependent Variable: Ri

Source: SPSS tools

Thus are eliminated variables, one by one, in order of weakest influence on $R\hat{i}$, the variable D, variable Nac and the variable Rv.

Model Summary figure presents for each regression model the coefficient of correlation (R), the coefficient of determination (R^2) and the standard error. R value increases as more variables are introduced into the model. The inclusion of irrelevant variables also leads to increased standard error.

The study found the correlation between model variables through the value of coefficient of determination $R^2 = 0,99$ (for all independent variables) shows that 99% of the variance in performance of the merged firms may be explained by the influence of independent variables (Nac, Sac, D, Rv).

The difference is attributed to conjunctural factors. Sig. is less than the acceptable upper limit 0,05 showing that linear model is validated by the value of sig. This means that the risk of being wrong that is a strong correlation between the variables is less than 5%.

Sig. value less than 0,05 suggest that the linear model is most appropriate to express correlation between variables. This step of analysis is shown in the figure below:

Figure 4. Model Summary

Model Summary ^d				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,999 ^a	,999	,998	56,76692
2	,999 ^b	,999	,999	55,74062
3	,999 ^c	,999	,999	55,51501

a. Predictors: (Constant), Rv, D, Nac, Sac
b. Predictors: (Constant), Rv, Nac, Sac
c. Predictors: (Constant), Rv, Sac
d. Dependent Variable: Ri

Source: SPSS tools

R value, adjusted R² value and standard error indicates that the best predictor (independent variable which best estimates the dependent variable) is variable Sac – the proportion of current assets to total assets.

The same conclusion can be drawn considering the results of below figure:

Figure 5. Anova

ANOVA ^d						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62936898,080	4	15734224,520	4882,639	,000 ^a
	Residual	83784,569	26	3222,483		
	Total	63020682,649	30			
2	Regression	62936793,199	3	20978931,066	6752,114	,000 ^b
	Residual	83889,450	27	3107,017		
	Total	63020682,649	30			
3	Regression	62934388,978	2	31467194,489	10210,267	,000 ^c
	Residual	86293,671	28	3081,917		
	Total	63020682,649	30			

a. Predictors: (Constant), Rv, D, Nac, Sac
b. Predictors: (Constant), Rv, Nac, Sac
c. Predictors: (Constant), Rv, Sac
d. Dependent Variable: Ri

Source: SPSS tools

If statistical significance F value is low (Sig. is less than 0,05) the independent variables explain the dependent variable variation. The lowest value Sig. corresponds to the model explaining the variation of R_i according to Sac - the proportion of current assets to total assets.

In the figure of regression coefficients, in the first part, appears regression coefficients, standard errors, the t – test statistics for each factor, and the amount Sig. and statistics of collinearity, tolerance and the variance inflation factor (VIF).

Collinearity express a strong correlation between independent variables. So tolerance statistics is calculated, considering only the independent variables, dependent variable is excluded from the model.

The tolerance of each variable X_i is calculated by the formula:

Tolerance = 1- R_i², where R_i² is squared multiple correlation coefficient of the variable X_i, with all independent variable.

VIF is the reciprocal of the tolerance.

Tolerance can range from 0 to 1. As the tolerance is less, closer to 0 the independent variable X_i is more explained by a linear combination of other independent variables. Therefore, this variable explain the dependent variable can be regarded as having too little accuracy.

Figure 6. Regression coefficients

Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
		1 (Constant)	41,868	27,667				1,513	,142	-15,003
	Nac	,044	,055	,006	,800	,431	-,069	,157	,900	1,111
	Sac	1,240	,010	,997	128,83	,000	1,220	1,259	,853	1,172
	D	1,209	6,704	,001	,180	,858	-12,570	14,989	,880	1,136
	Rv	-,358	,161	-,016	-2,220	,035	-,690	-,027	,935	1,069

a. Dependent Variable: Ri

Source: SPSS tools

The equation of the regression model, based on the data presented above is as follows:

$$R_i = -41,868 + 0,44 * Nac + 1,240 * Sac + 1,209 * D - 0,358 * Rv$$

The regression coefficients are: $\alpha = -41,868$, $\beta_1 = +0,44$, $\beta_2 = + 1,240$; $\beta_3 = +1,209$; $\beta_4 = 0,358$.

The model reflects the influence of rotational speed of current assets, proportion of current assets to total assets, income rate and company size on performance of the merged companies (debt rate):

- *If we maintain constant:* the proportion of current assets to total assets, income rate and company size, a percentage increase of the rotation of current assets lead to an increase performance of firms that have merged in an average of 0,44%;
- *If we maintain constant:* the rotation of current assets, income rate and company size, a percentage increase of the proportion of current assets to total assets lead to an increase performance of

firms that have merged in an average of 1,240%;

- *If we maintain constant:* the proportion of current assets to total assets, rotation of current assets and company size, a percentage increase of the income rate lead to a decrease performance of firms that have merged in an average of 0,358%;
- *If we maintain constant:* the proportion of current assets to total assets, rotation of current assets and income rate, a percentage increase of company size lead to an increase performance of firms that have merged in an average of 0,358%.

Collinearity diagnostic requires analysis of the results in the figure 7.

Eigenvalue gives an indication of the number of links that exist between independent variables. When several eigenvalues are close to 0, the variables are strongly interrelated.

The correlation indices are calculated as the ratio of the square root of the largest eigenvalue and value eigenvalue of each size.

An index above 15 indicates that there is a potential problem to collinearity, and a value greater than 30 indicates serious problems of collinearity. These situations are not encountered in this analysis, hence there is a strong correlation between independent variables.

Figure 7. Collinearity diagnostic

Collinearity Diagnostics ^a								
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	Nac	Sac	D	Rv
1	1	3,321	1,000	,01	,02	,01	,02	,02
	2	,996	1,826	,00	,02	,75	,00	,01
	3	,404	2,866	,00	,55	,01	,00	,28
	4	,181	4,280	,00	,26	,22	,71	,34
	5	,098	5,825	,98	,14	,01	,27	,36

a. Dependent Variable: Ri

Source: SPSS tools

Excluded variables figure provides information about variables that are excluded at each step

Figure 8. Excluded variables

Excluded Variables ^a								
Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics			
					Tolerance	VIF	Minimum Tolerance	
2	D	,001 ^a	,180	,858	,035	,880	1,136	,853
3	D	,003 ^b	,374	,711	,072	,928	1,078	,912
	Nac	,006 ^b	,880	,387	,167	,949	1,054	,937

a. Predictors in the Model: (Constant), Rv, Nac, Sac
b. Predictors in the Model: (Constant), Rv, Sac
c. Dependent Variable: Ri

Source: SPSS tools

The Beta in coefficient is the regression coefficient that would arise if in the next step would preserve the excluded variables in the model.

T-test statistics and the value of Sig. are used to test the null hypothesis as regards their regression coefficients, that is the assumption that between the independent variables and the dependent variable there is a significant connection.

So it appears Sig. values very big (compared with 0,05), which allows as to reject the null hypothesis, the absence of a relevant links between dependent variable – Ri – and independent variables – Nac, Sac, Rv, D.

Compliance with the assumption required to regression analysis (errors are normally distributed, variance of errors are constant, the errors are independent of each other) can be checked using P-p plot and the histogram.

Figure 8. Hisogram

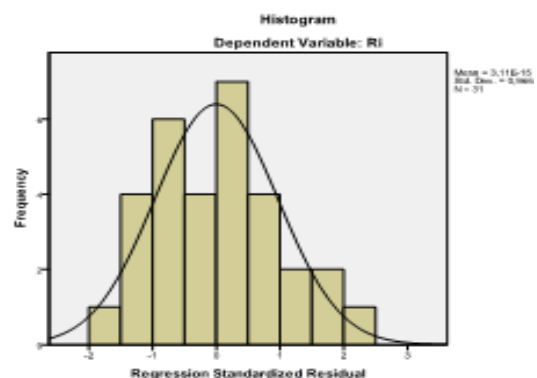
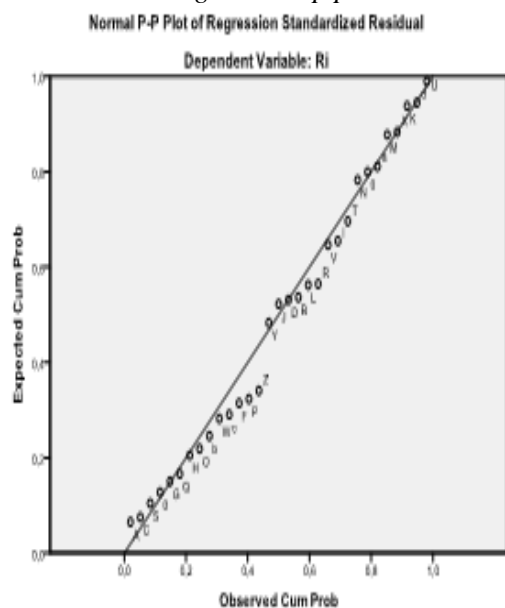


Figure 9. P-p plot



Source: SPSS tools

4. Conclusion

In the regression analysis it is found that there is a significant relationship between the dependent variable and independent variables which leads to invalidation of the null hypothesis H_0 : *There is no significant relation between the performnace of firms that have merged and the rotational speed of current assets, proportion of current assets to total assets, income rate and company size.*

The performance of the firms that merged (performance defined as debt rate) was influenced most by the proportion of current assets to total assets.

Because the relationship between R_i and Sac is direct appears that an increased performance is determined by the high proportion of current assets to total assets.

So the valid hypothesis is H_1 : *There is significant relation between the performnace of firms that have merged and the rotation speed of current assets, proportion of current assets to total assets, income rate and company size with H_{12} : The biggest influence of the rate of debt has proportion of current assets to total assets (Sac).*

5. Acknowledgement

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Is there a Need for Public Expenditures during Economic Crises?

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Abstract

The aim of this paper is to discuss the need for using public expenditures during economic crises. Firstly it presents an epistemological approach to the concept of public expenditure and underlines the resurgence of the Keynesian paradigm in the current crisis, whereas governments with an important share in the global economy have attempted through fiscal budgetary stimuli to avoid an economic decline. Secondly, the paper analyzes the evolution of public expenditures in Romania in the last years, according to which unproductive spending prevailed, in detriment of productive investments. The paper advocates the need for capital investments which can foster economic growth.

Key words: public expenditures multiplier, the welfare state, Classical School of Economics, Keynesianism, economic crisis

J.E.L. classification: H53, I38, B12, E12, G01

1. Epistemological approach to the concept of public expenditure

The opinion of classics Adam Smith, David Ricardo, J.B. Say, J.S. Mill and other economists on society has its roots on the ideas of economic liberalism, summarized in the phrase "laissez faire, laissez passer, le monde va de lui meme", that means non-government intervention in the economic activity. The invisible hand allows the harmonization of private interests with the general interest of society. Politically, this doctrine was established on the principle that the economic activity was excluded from the scope of the state, which entails a limitation of interventions financed by the state.

Thus, classics oppose to state intervention in the market mechanism in providing restrictions on imports and incentives for exports, against any governmental laws aimed to protect local industry against competition and against government spending for unproductive purposes. Smith, but also followers of liberal doctrine think that the socio-economic system cannot function only in the case of creating a public institutional apparatus. In other words, intervention is permissible, but with limitations on the field of public intervention on private initiative. Smith does not preclude state intervention in any way, but only if advocates actions "aimed at promoting the general welfare", if increases happiness and the prosperity of the community.

From classics works we can identify the character of finality, embedded, of consuming values of public expenses, which affects the size of gross domestic product and leads to a reduction in national wealth, thus having a negative impact on capital reproduction and prosperity of the nation. State activity was considered to be counterproductive, serving only for consuming resources in order to implement measures publicly funded from public resources. The fact that the budget must be balanced had a deeper meaning than equality of income and expenditure, thus becoming a means of constraining state actions, achieved by limiting public spending.

In his book "An Inquiry into the Nature and Causes of the Wealth of Nations", Adam Smith specifies which expenditures were made by liberal state: public defense expenditures, expenses for the administration of justice, public works spending and for public institutions and another type of expenses were intended to support the state rank.

Public defense expenditure was treated as a first duty of the state to protect the members of the society from violence and

damage of other persons and societies and was more expensive as the society became more civilized. Adam Smith noted that in modern war, higher defense spending advantages wealthy and civilized nations compared with the poor and barbarous, which were favored in ancient times. He stresses the role of undisputed standing armies, well disciplined, the country's defense against barbarian invasions from the neighbors [1, p.159]. A second category of expenditure is the expenditure for the administration of justice, for protection against unjust of other society members. Such costs, as those for public defense, impose a general contribution of members, although Adam Smith criticized this, saying that "expenditures for the administration of justice could be done very fairly through specific contributions of one or another or both categories, as they are required in different occasions, as fees paid to courts" [1, p. 235]. A third state responsibility concerned public works and public institutions which bring more benefit to society, given that individuals cannot maintain them, because profits would not cover. Adam Smith noted that the expenditures incurred by the state were not absolutely necessary covered from public revenues, but on the account of some special revenues, as fees for vehicles passing over a road, bridge or waterway. Also, for facilitation of certain trade branches, special institutions were needed, which in turn required special and extraordinary expenses from the executive power.

State was also spending for education, instruction, especially a religious one.

Classics, but also neo-classics believe that fiscal policies designed to increase public expenditures are inefficient in the context of the well-known phenomenon of "crowding out", because by increasing public expenditures, public goods are replaced with private ones, resulting a low level of private expenditure on health, education, transport and other goods and services.

The social and economic philosophy of *laissez-faire*, that all citizens share a single political ideal, namely the welfare of the whole nation was replaced during the economic crisis of overproduction in the years 1929-1933 by the interventionist doctrine. Keynes ideas had a radical impact on both modern economic and political

theory, as well as on many governments' fiscal policies, proposing the solution of government intervention to prevent and correct imbalances that had arisen.

The state must fill weaknesses in private sector investment, because "market alone is not able to show entrepreneurs what it is the right level of investment (the one corresponding to full use of labor)" [2, p.141].

Social democratic governments emphasizing the protection offered by state to social disadvantaged groups favor the intervention through public spending and thus achieve a higher redistribution between members of society. It prevails the idea that the role devolving upon the welfare state contributes to a largely redistribution of the product created.

In the General Theory, Keynes opposes to state socialism, to moving production tools in public ownership, stating that "a fairly comprehensive socialization of investment will prove the only way to ensure a high occupancy close to full employment" [3, p.380].

He supports state intervention in the economy taking into account the stabilizing role of public spending and investment multiplier. To stimulate investment, Keynes talks about the possibility of public action by the central bank, the level of interest rate on the market, but also directly, through grants, purchases of goods and services by governments etc. Thus, in times of economic downturn, the central bank takes measures to reduce interest rates, which will support loans, will increase consumption, will increase aggregate demand, the employment of workers and thus will ensure the economic recovery.

Keynes included public spending in the equations of general equilibrium. Thus, public expenditure, both for public consumption and public investment, was equivalent to the aggregate consumption demand, as a variable which makes the offer. The premises of these interpretations offered to public spending are reflected in the fundamental psychological laws made by Keynes namely: marginal propensity to consume, marginal propensity to save, investment law and the propensity to liquid values [4].

Expenditures' dependence to revenues was first studied by Engel, who found different elasticities of consumption relative to income. Keynes defines the functional relationship between community income and the amount that can be expected from a consumer to spend as propensity to consume, measured in units of salary, to eliminate variations in the purchasing power of income expressed in monetary units. Keynes calls the national income which does not cover the individual consumption as „savings”, representing the excess of income over consumption expenditure.

As income increases, saving size is bigger and more important in the years of prosperity and for the richest regions, in contrast to periods of war or depression and poor regions. Keynes provides a list of mobiles, which means that individuals save for: caution, foresight, thirst for prosperity, independence, business spirit, pride and avarice and their intensity varies according to economic society institutions and organizations that we consider, according to habits formed under the influence of racial belonging, the degree of instruction, conventions, religious beliefs and moral principles etc. Thus, for an individual saving becomes a security issue against risks such as illness, death, accidents, while at higher levels, such a decision is taken to “increase economic freedom of action” [5, p.115]. Also, propensity to save must be considered taking into account the different social classes and periods of development.

Another fundamental psychological law is the propensity to invest or the marginal efficiency of capital, a concept defined by Keynes as the ratio between „the future return of an additional unit of capital and the cost of producing that unit” [3, p.159].

The third law is the fundamental psychological law of propensity to liquid values. According to Keynes, liquidity preference is a psychological term that explains the behavior of individuals to keep assets in cash or bank, to the detriment of investment in shares.

Public expenditure multiplier expresses the income and production growth resulting from an increase in total public expenditure without adjusting tax amount, which conducts to an increase or to a budget deficit, financed via borrowing [6, p.345].

Keynes's ideas were supported and developed by Hansen, Samuelson, Schultz and others. Samuelson reconsidered keynesian and classical ideas, arguing that economic theory must combine with the free market mechanisms of state regulation in a single facility. Therefore, according to his opinion, the economy is not governed strictly by the ratio of market supply and demand, but also contains elements of public control. Samuelson says: “As the country's main economic entity, state, through its public expenditures, has an important role in determining patterns of consumption, investment and profits in the economy” [7, p.368].

The argument that fiscal policies contribute to economic growth has gained support with the introduction of the new theories of growth. Unlike the neoclassical growth model formulated by Solow (1956), which does not describe the channels through which public expenditure can influence long-term growth, economists Romer (1986) and Lucas (1988) suggest a possible long-term effect of public spending on growth.

Keynesian school of thought supports the idea that public expenditure is a component of budgetary and fiscal policy that can be used as a tool in order to influence economic growth. Some empirical studies, such as that made by Ansari et al. (1997) support this viewpoint, basing on an analysis for Ghana, Kenya and South Africa.

Wagner Act (1890) suggests, on the other hand, a reverse causal relationship between public expenditure and economic growth than the one presented by Keynes. Under that law, in the process of economic development, public expenditures tend to rise in order to expand the relative national income. This idea is supported by three assumptions: public function replace private activity, the results that economic development has on expanding cultural and welfare expenditures and the last refers to the fact that public intervention may be necessary to finance natural monopolies. In other words, increased public expenditure is seen as a result of economic development and not vice versa.

Both cases on the direction of causality between public expenditure and economic growth have been tested empirically in a study [8] for Malaysia, a developing country, using data series for 1970 to 2004. Both

hypotheses were supported for all categories of expenses analyzed: the education, health, defense, development, agriculture and administration.

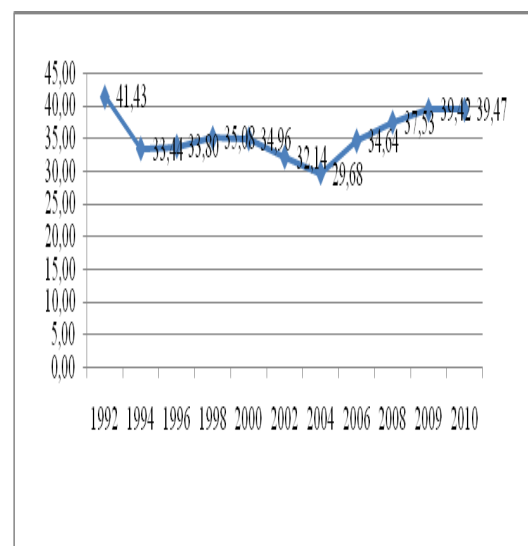
Also, Iniguez-Montiel [9] examines the relationship between public expenditure and national income for Mexico, for a period of 50 years (from 1950 to 1999), using empirical approaches to test Wagner and Keynes law. The data confirmed a causal relationship between GDP and public expenditure (the Wagner Act), in other words, increased public spending or the size of the Mexican public sector has been identified as being positively correlated with the country's national income, while public expenditure was not a good fiscal policy tool to encourage or lead to national economic growth for the period under review (the Keynes's law).

In addition to these opinions and analyses based on the fundamentals of Keynesian doctrine also gained importance the neoliberal doctrine, known as the model of "supply-side economics", having as foreground the contemporary "monetarism". Under this doctrine, public expenditures are considered less effective, even unacceptable to support balanced economic growth. Also, monetarists view that "instead of differentiated government actions, self-regulating mechanisms that impede the action of the market, compliance with rules is preferable to monetary developments" [10, p.54].

2. Analysis of the Romanian economic structure of public expenditures during the current economic crisis

In Romania, concentrated at the general government, public budgetary expenditures in the period 1992-2010 have recorded substantial increases in nominal size, of 808.3 times, while gross domestic product increased for 848.5 times. Increases in public spending were generated by inflationary scale phenomena, but also by the interventionist side of the state in the economy (mainly financing social security and economic affaires) due to the transition to market economy.

Graph 1. Evolution of public expenditures as % of GDP in Romania during 1992-2010



Source: Developed by author, based on data available on the Ministry of Public Finance and National Institute of Statistics websites

In Romania, the share of total consolidated public expenditure of GDP was over 30%, with an increasing trend during 1994-1998, followed by a decrease between 2000 and 2004, followed by an upward trend, from 34.64 % in 2006 to 39.47% in 2010.

The intervention of public authorities, through budgetary and fiscal stimulus, aimed at redressing the Romanian economy has become a necessity since October 2008, as the negative effects of the economic crisis deepened.

Table 1. Evolution of public expenditures (selected ones from the economic classification) in Romania during 2006-2010 (million RON)

Indicator	2006	2007	2008	2009	2010
Staff expenditures	21,057	25,588.9	43,344.5	46,710.7	42,806.5
Interests	2,489.7	2,739.7	3,893.3	6,061.8	7,274
Capital expenditures	12,717	14,410.4	23,203.4	23,175.3	19,368.9
Social-assistance transfers	30,901.7	38,326.7	53,592.4	63,962.1	68,601.9
Goods and services	22,744.8	25,835.1	33,225.5	28,835	29,801.2

Source: Ministry of Public Finance, Executions of consolidated budgets between 2006 and 2010

Public expenditures have had an excessive dynamic, being above the level of available public resources and were oriented to unproductive activities in a rather high percentage (89%), increasing by 73.56% compared to 2006. As international financial institutions have warned at the end of 2008, Romania spends a lot on unproductive expenditures, such as budgetary employees' wages and pensions, and this must decline, in favor of investments which foster production, contributing to the country's economic recovery.

Social assistance transfers have doubled between 2006 and 2009, reaching 63,962.1 million RON in 2009, which represented 12.7% of GDP. In this period of recession, state social security budget expenditures increased as a result of social measures taken by the Romanian Government, consisting in: increasing the guaranteed minimum social pension to 350 RON (from October 1, 2009); increasing allowances for the children to 100 RON; extend the period of eligibility for unemployment benefit for a period equal to the institutional framework necessary to graduation, courses and retraining; indexing pensions by 3% from April 1, 2009 and 2% from 1 October 2009, even if this is not a measure strictly activated in the current crisis, but it better protects pensioners in the short term by maintaining their purchasing power, but at the same time, it contributes to long-term fiscal sustainability of the pension system etc. In 2010, compared with 2009, these expenditures also increased with 14.50%.

Expenditures on social assistance are justified during the economic crisis, given the double increase of the unemployment rate, from 4%, its value in October, 2008, to 7.8%, in December 2009, 8.2% in March, 2010 and then decreasing to 6.87% in December, 2010.

As in the pre-crisis period, it is found a link between unemployment insurance costs and business cycle. According to Ministry of Public Finance statistics, in 2009, year marked by the economic crisis, public expenditures for unemployment insurance doubled (reaching 2.7242 billion RON), compared with 2008 (1.3 billion RON), while

in 2010, expenditures exceeded the amount for 2009, recording 3.8 billion RON. In 2009 there were adopted Government decisions to support up to 50% of the services cost for organized training for a total of more than 20% of unemployed persons. The aim of these measures was to reduce the effects of financial and economic crisis on vulnerable social categories.

In the context of the crisis, in order to reduce the increasing number of unemployed and to restore those lost jobs, was adopted an Ordinance in February 2010, to reduce spending for the next period for all social budgets, following a decision of exemption for a period of 6 months the payment of social contributions for employers which employ for at least 1 year unemployed persons, being unemployed for at least 3 months. According to Government press releases, the total number of employees, as a result of GEO 13/2010, on December 2010 was 6,072 and the number of employers who have benefited of GEO 13/2010 was 3,625.

Solutions in order to stimulate job creation, to recognize the value of work must be found, because employment is the real way to economic improvement. In the category of active measures of employment programs we may include: job-matching services, information and counselling services, organizing vocational training courses, benefits granting to unemployed who take up employment before the end of the period of entitlement to the unemployment benefit, persons taking up employment through employer's subsidization etc.

Spending on pensions has also recorded increases from year to year, creating a budget deficit of €1.5 billion in 2009. In 2009, the Romanian state has spent 48 billion RON, representing 9.5% of GDP and 31% of the state revenues. For 2010, public pension costs were 42 billion RON, 8.33% of GDP. The Romanian Government decided in 2010 to reform the public pension system, which involves a review of a number of special pensions, except judges, according to the decision of the Constitutional Court, as well as raising the retirement age to 65 years for women and men, to eliminate all discrimination in the system, to reduce pensions set at a high level and also to

contribute to the unification of public pension system.

Another change in public expenditures concerned goods and services, which registered a decrease of 12.6% in 2009 compared to 2008, following the recovery measures approved by the Ordinance Emergency 34/2009 and an increase with 3.35% in 2010 compared with 2009.

Staff expenditures increased by 2.4% in 2009 (46,710.7 million RON in 2009, 9.2% of GDP) compared to 2008, mainly due to salary increases approved in the second half of 2008. In 2010, staff expenditures recorded, compared with 2009, a decrease of 9.75% in the general government budget, as wages were reduced by 25%.

In addition to these changes in public expenditures, the most important was contracting a stand-by arrangement with the IMF, European Commission, World Bank and other international financial institutions as a preventive measure in the current crisis and with an estimate for 2009 of economic decrease. This external loan generated an increase in the interests paid, with 55.69% in 2009 compared to 2008 and only with 19.98% in 2010 compared with 2009.

Although during the crisis, according to economic theory it is important to spend on investments, the Ministry of Finance statistics shows even a decrease in these expenses in 2009 compared with 2008 (with 13.3%), while the projection for 2009 was 7% of GDP and the execution shows 4.9% of GDP. In the category of investments in 2009 were included the first house program, which has increased the ceiling for government guarantees to 75,000 € for housing associations which are associated for housing (till February 2011, the total amount of government guarantees granted being 1,457.8 millions €); the national program of cars renewal (till December 2010 were allocated 722 millions RON for this program); state aid schemes to ensure sustainable economic development (the total budget for minimis schemes for 2008-2010 was €200.000).

3. Conclusions

If during '29-'33s, the philosophy of laissez-faire was replaced by the Keynesian doctrine, and '70s have placed the welfare state in a crisis of legitimacy, starting from 2008 we can talk of a resurgence of the Keynesian paradigm, according to which government intervention is seen as a way to stimulate the economic recovery.

I believe that the interventionist role of the state is important in the current context of the economic crisis as long as the economic and social measures it implements can lead to the recovery of the country, if small businesses are supported by state aid schemes and tax incentives, given their potential of creating new jobs, if through public expenditure are helped economic sectors hardly hit by the crisis etc.

For the next period are necessary reductions of unproductive expenditures, such as staff costs and increases of intellectual and economic investments in strategic areas, which can represent an exit from the economic crisis.

4. Acknowledgement

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Changes in Social Protection Policies for Unemployed Promoted in Romania in the Context of the Economic Crisis

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Abstract

The aim of this paper is to address the changes in social protection policies for the unemployed, which were promoted in Romania in the context of the global crisis. Firstly, it presents a brief literature review on the role of implementing unemployment policies in times of recession, according to which unemployment insurance works as a built-in stabilizer for the economy. Secondly, the paper analyzes the evolution of the unemployment indicators (unemployment rate, public expenditures on unemployment insurance etc.) for Romania in the recent years. Also, it presents the active and pasive measures implemented by the Romanian Government as a response to the negative effects of the economic crisis. The study shows that there must be found solutions to stimulate job creation and to recognize the value of work.

Key words: unemployment insurance, economic crisis, public expenditures, social protection

J.E.L. Classification: J65, E32, H50, H55

1. Literature review on the role of implementing unemployment policies in times of economic recession

Robert Shimer, an Economics professor at the University of Chicago said that “even in a depressed economy, more generous unemployment benefits tend to raise the unemployment rate. Benefits are obviously good for the unemployed, but there are some clear tradeoffs.”

According to Orszag [1, p.1], unemployment insurance is a particularly effective stimulus which helps to break the

negative cycle of increasing unemployment, because by partially compensating for lost income, it lessens the reduction in spending that unemployment can cause.

Stiglitz [2, p. B01] said that “if we give money to people who have lost their jobs in this recession, it would be quickly spent”, based on the idea that unemployed spend much of any additional income that they receive during unemployment.

There are studies which quantify the contribution of unemployment insurance to reducing the negative effects of the economic recession. Auerbach and Feenberg [3] in a study on the USA data show that the unemployment insurance system is at least eight times more efficient than the tax system to offset the impact of a recession, as offers about 25% of the total impact of automatic stabilizers, taking into account that unemployment insurance are 1.5-3% of the total size of the federal revenues.

Another study conducted in Canada, by Stokes [4], demonstrated the stabilizing impact of unemployment insurance program on GDP, as it increased employment during the 1981-1982 and 1990-1991 recessions and reduced it during the boom of the second half of the 1980's. These countercyclical effects also contributed to a rise in participation rates, thereby reducing the stabilizing impact on the unemployment rate. The unemployment insurance program's impact on other economic indicators was similar to that on employment and GDP. The average reductions in the GDP gaps in the 1980's were approximately 8, 11, and 4 per cent for the 1981-1985, 1987-1990, and 1991-1993 periods. In the 1978-1980 periods, the unemployment insurance program increased the GDP gap by almost 2 percentage points [4, p.37].

Boeri [5] using series data for 1980-2002, for USA, shows that the introduction of unemployment benefits is associated with

about 1-2 percentage point increases in the yearly rate of job destruction and with a 2.5-3 percentage point increases in job turnover. This implies a positive effect on job creation as well, but this effect was not found to be statistically significant when estimated separately.

Peter A. Diamond, Dale T. Mortensen and Christopher A. Pissarides were awarded the 2010 Nobel Prize in Economics for their analysis of markets with search frictions, where buyers and sellers have difficulty finding each other. They found the answer to why it takes so long for people to find jobs, even in good economic times, and why so many people can be unemployed even when many jobs are available. Since people are not identical and neither are jobs, it takes time for unemployed workers to be matched with the proper job.

A graphical representation of the relationship between unemployment and the job vacancy rate is the Beveridge curve, which explains the inefficiency of labor markets due to mismatches between available jobs, the unemployed and an immobile labor force. The equilibrium on labor market between the job vacancy rate (the number of unfilled jobs expressed as a proportion of the labor force) and the unemployment rate is set at higher or lower levels on the Beveridge curve, depending on the status of the business cycle. For example, during recessionary periods (corresponding to a position on the lower side of the 45 degree line), the number of vacancies decreases, the unemployment rate increases, so the equilibrium in the labor market moves downward along the curve, while during expansionary periods (above the 45 degree line), the number of vacancies increases due to expansion of production capacities of firms and thus, the unemployment rate is at a lower level.

According to an article written by economists in the Research Department of the Federal Reserve Bank of Cleveland [6], a structural change might move the economy to equilibrium on a different Beveridge curve. An example might be fundamental technological change which creates a gap between the skills needed for open vacancies and the skill set of the unemployed. In this case, for the same level of job openings, equilibrium unemployment will be higher,

illustrated by the Beveridge curve shifting up and to the right.

Another article written by Nickell et al. [7] explains the movements in the Beveridge curves for some OECD countries, from the 1960s to the 1990s, by changes in labor market institutions which are important for search and matching efficiency. The variables considered were the benefit system, the system wage determination, employment protection, labor taxes and barriers to labor mobility [7, p.9]. The unemployment benefit system through the level of benefits, the duration of entitlement, the coverage of the system influence the equilibrium unemployment.

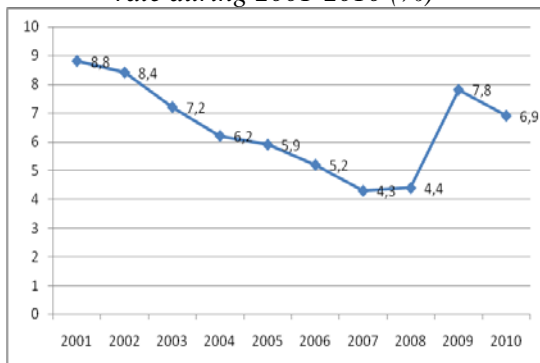
Mortensen [8, p.510] presents two possible offsetting incentive effects. The first effect dominates if the worker is near the end of the benefit period and also operates in the case of an unqualified unemployed worker. According to this effect, an increase in the benefit rate stimulates the demand for leisure as a consequence if and only if income and leisure are complements in household production. Secondly, the same increase in the benefit rate or in the maximum benefit period induces an increase in the indirect utility of being laid off in the future as well as the indirect utility of remaining unemployed during a current spell in the case of a qualified worker.

2. Analysis of Romanian unemployment indicators

According to National Agency for Employment Statistics, the number of registered unemployed registered a decline with 53.24%, from December 2001 (826,932 unemployed) to December 2007 (386,667 unemployed), as a result of improved economic situation of Romania. As the financial crisis has deepened since the end of 2008, the number of unemployed doubled, reaching 709,383 persons at the end of December 2009. Also, in 2010, the number of unemployed increased from 740,982 persons in January 2010 to 765,000 persons in March 2010, followed by a decline to 645,500 people registered in October 2010, due to Government measures.

The unemployment rate, an indicator calculated by comparing the total number of unemployed to active civilian population on 1 January, was correlated with business cycle developments. Thus, from 2001 to 2008, gross domestic product evolution has been a positive one, the absolute amounts increased from 116.7 billion RON to 503.9 billion RON, while for the unemployment rate has been a downward trend, its values decreasing significantly from 8.8% in 2001 to 4.3% in 2007.

Figure 1. Evolution of the unemployment rate during 2001-2010 (%)



Note: 2001-2010: data for December
Source: National Agency for Employment.

As the economic crisis has deepened since the end of 2008, businesses have been severely affected by lack of credit, and this was felt on the employment and on the evolution of gross domestic product. The registered unemployment rate in late December 2008, at the national level was 4.4%, 0.3 pp higher compared with December 2007 and doubled till the end of 2009, reaching 7.8%, while gross domestic product decreased to 491.3 billion RON. During 2010, as the number of unemployed has increased, the unemployment rate exceeded 8%. In these circumstances, additional expenses to pay state unemployment benefits were needed. As a result of measures approved by the Government, the unemployment rate fell in 2010, reaching 6.9% at the end of December.

During recessions, when unemployment rate is rising, unemployment insurance expenditures increase and revenues decrease, while during boom periods, when unemployment is falling, expenditures decrease and revenues will rise as employment rises.

Table 1. Evolution of public expenditures and revenues of the unemployment insurance budget (2004-2010)

Year	Expenditures	Revenues
2004	1,658.29	1,903.51
2005	1,535.10	2,186.06
2006	1,570.80	2,271.00
2007	1,407.90	2,472.10
2008	1,355	1,963.50
2009	2,724.20	1,482.70
2010	3,821.8	1,320.1

Source: According to data provided by Ministry of Public Finance for 2004-2010

Between 2004 and 2008, expenditures for unemployment insurance decreased from year to year, being below the state revenues from unemployment insurance contributions. Their share in gross domestic product registered a downward trend from 0.69% in 2004, to 0.24% in 2008. In 2009 and 2010, following an increase in the number of unemployed and higher rates of unemployment, due to the economic crisis, unemployment benefit payment costs have doubled compared with 2008, reaching almost 0.74% of gross domestic product.

3. Analysis of the Program for Employment measures during the economic and financial crisis (2008-2010)

In the category of active measures of the Program for Employment were included: job-matching services, information and counselling services, employment through organizing vocational training courses, benefits granting to the unemployed who take up employment before the end of the period of entitlement to the unemployment benefit, incentives for employers for the employment of certain categories of disadvantaged persons in the labor market etc.

The number of employees through the implementation of the Program for Employment in 2010 was 377,772 persons, compared with 304,588 persons in 2009.

In the pre-crisis and also in the crisis period, the active measure with the biggest share in the total employed was job-matching

services. In 2008, its share represented 77.63% of total employment measures. Even in 2010, this measure represented 80.78% of the total employed.

A second measure is information and counselling services, which accounted in 2008 for 16.04% of total employed, with 3.64 points higher than in 2007. Regions with the highest share in total were in 2008 North-West (23.15%), Central (18.58%), Northeast (17.43%) and Bucharest-Ilfov region with the lowest value, respectively 0.55%. In 2010, information and counselling services have held a share of 17.15% of total persons employed, compared with 17.62% during the same period in 2009.

Employment through professional training is an active measure which held in 2008, at national level, 4.74% of total measures. In 2010, at national level, the percentage was 4.45% of total employed, compared with 5% as it was in 2009.

Among the program's active employment measures which had a lower share in total measures were included those to stimulate the employers for the employment of certain categories of disadvantaged persons in the labor market. A first measure implemented in 2008 which can contribute directly and quickly to provide jobs in rural areas and in those most affected by unemployment was to subsidize employers on labor costs in temporary employment programs for development of local communities. This measure has contributed to employment at a rate of 8.55% in all measures compared with 10.45% in 2007. In 2010, this measure represented 3.66%, compared with 7.22 in 2009.

Another measure applied in 2010 was the creation of jobs through the employment of unemployed over 45 years old single providers for the monoparental family, a measure which represented 3.77% of total employment program, compared with 1.56% in 2009.

Jobs subsidies through employment of the unemployed who are 3 years away from reaching the statutory retirement conditions were measures applied during the crisis and the result consisted in employment of 350 persons (0.08% of the program) in 2008 and 207 persons in 2010 (0.05% of the program, compared with 0.02% in 2009).

Subsidizing labor costs in temporary employment programs for the development of local communities was a measure applied in 2010, with a low proportion of 3.66%, compared with 7.22% in 2009.

Subsidizing jobs through employment of graduates of educational institutions represented 2.6% of the program in 2008. In 2010, 1.47% graduates of educational institutions were employed in the program by providing this type of grant, compared with 1.18% in 2009. Graduates employed through this measure in 2008, as in 2009 and 2010, were mostly university graduates, followed by upper secondary or post secondary education and the schools of arts and crafts.

Subsidized employment through the employment of people with disabilities represented a type of of subsidy with a share of 0.07% in 2008, compared to 0.06% in 2007 and 0.06% in 2010, compared with 0.03% in 2009.

Stimulation of job-matching is another measure that supports people seeking employment. In 2010, of 3,410 persons employed by the mobility bonuses, a percentage of 45.66% were employed in a more remote town situated 50 km from their permanent residence and 54.34% have changed their residence due to employment.

The Program for Employment included advice and assistance services for starting a new business, with a share of 0.13% of total employment measures, in 2010, compared with 0.29% in 2009.

In 2010, has already been applied a measure of employment through solidarity contracts, under Law no.116/2002, a lower share of 0.22% of total employment measures, compared with 0.23% in 2009.

As the financial crisis entered in a phase marked by serious problems since October, 2008, the Romanian government priorities were job creation and helping those who have been hurt by the economic downturn.

In 2009 there were adopted Government decisions to support up to 50% of the services cost for organized training for a total of more than 20% of unemployed persons. The aim of these measures was to reduce the effects of financial and economic crisis on vulnerable social categories.

Also, in the context of the crisis, in order to reduce the increasing number of unemployed and to restore those lost jobs,

was adopted an Government Ordinance (no.13/2010) in February 2010, to reduce spending for all social budgets, following a decision of exemption for a period of 6 months the payment of social contributions for employers which employ for at least 1 year unemployed persons, being unemployed for at least 3 months. The total number of employed, at the end of December 2010, was 6,072 persons.

4. Conclusions

The macroeconomic literature shows that the unemployment insurance program alone provides significant relief to the newly unemployed and that it accounts for a large and important countercyclical force to prevent job losses.

We have to take into account the fact that business cycles are a normal feature of our economy and that the private sector, alone, cannot provide exactly the right supply of jobs all through thick and thin market conditions. It is also important to mention that the performance of an unemployment insurance program depends not only on unemployment insurance structure, but also on specific factors of a particular country.

In times of recession, public authority intervention through fiscal-budgetary measures is a necessary one, in order to help reducing the unemployment rate and create new jobs.

By providing protection against unemployment, unemployment insurance program increases the security among employees and provides financial compensation to those who have lost their jobs.

5. Acknowledgement

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The Tourist Services Market in Romania

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Abstract

Tourism is an important branch of the global economy and also an important employer.

In the last decade we have witnessed a diminishing demand for domestic tourist services due, on the one hand, to the low quality of the services comparing to the ones offered by other countries and on the other hand to the prohibitive prices. The present paper attempts to present the situation of the Romanian tourist services in terms of supply and demand and also in comparison to the foreign market competition.

Key words: tourist market, promotion, tourist services

J.E.L Classification: L83

1. A SWOT analysis of the Romanian tourism

Following a SWOT analysis of the present situation we have come to the conclusion that the difficulties that the domestic tourism is confronted with are caused by the decrease of the population's purchasing power on the background of the diversification and accessibility of foreign offers.

Romania is a beautiful country, represented by the extraordinary natural sceneries: mountains, lakes, (e.g. the Cobilita Lake in the Calimani Mountains, which is a reservoir lake, the Iezer Lake in the Rodna Mountains, a glacial lake, The Saint Ann Lake in the Ciuc Mountains which is a volcanic lake, etc.), rivers, forests (Romania occupies the thirteenth place in Europe in the ranking of forested surfaces, outnumbering Germany and The Czech Republic by 0.33 hectares per capita.). As we can notice, there is a diversity of sceneries to be exploited by the Romanian tourism but we do not value

and take maximum advantage of this as other countries do of their natural beauties.

From the cultural point of view tourism is also quite diverse; one can visit historical museums, cultural establishments, byzantine monasteries, castles, traditional peasant houses (The Romanian Athenaeum, The Arch of Triumph, The National Theatre, The Botanical Garden, The National History Museum, The "Grigore Antipa" National Museum of Natural History, The Village Museum, the "Romulus Cioflec" Memorial House, The "Danube Delta" Ecotourist Centre, The Bran Castle, etc.).

The people's hospitality, their traditions impress thousands of tourists every year, the fresh year, the traditional food specialties, the Romanian folklore, the traditional dances as well as the winter sports, the ATV, scooter and carriage rides, fishing, mountain climbing are all attractive for adventure seekers. In order to facilitate the tourists' access to their destinations motorways and airports with accessible prices have been built and buses have been introduced for less accessible routes.

In the case of all countries we can find weak points as well, for the tourist services. For example the lack of communication between tourist agencies and hotel representatives may lead to unpleasant situations such as bookings which are not made in due time, or bookings that do not correspond to the tourist's requirements. Acid rains, snows, land slides have sometimes damaged the European roads on Romania's territory. The lack of road signs has made many tourists choose railway transport which is often subject to delays.

If people were more united, historical monuments and also the environment could be better preserved. The lack of skilled staff is also a big problem that hotels are confronted with as the low quality of services is often generated by this very reason. Sometimes the accommodation standards of a

Romanian three stars hotel can hardly reach the standard of a one star hotel from other countries.

That is why, due to its strengths which oppose the weaknesses, the Romanian tourism has become very expensive thanks to its superbe destinations but with a very low quality of services.

We believe that there is a series of opportunities which could support the future development of the domestic tourism. Resorts should benefit from investments and county roads should be renewed in order to facilitate tourists' access to the extraordinary destinations waiting for them. Certain less known but really impressive parts of the country should be advertised as they are worth visiting, tourist information centres can be opened so that visiting opportunities can be advertised for each region of the country and even for the whole country. A wider range of Romanian products, a differentiated offer for age and preference categories as well as a better quality-price ratio would offer an advantage to our country in comparison to other countries.

Those in charge with the Romanian tourism should not forget about the qualitative criteria of the hotel services such as: perfect cleanliness (in the parking place, in front of the hotel and inside it, etc), food adapted to the clients' preferences (Swedish bufet or a la carte, etc), entertainment facilities (swimming pool, jacuzzi, garden, sauna, billiards), the purpose of all these being to create customer loyalty.

The threats that the Romanian tourism is confronted with are generated by the effects of the economic crisis which have become more and more present; both supply and demand have started to fall since the summer of 2008 and the tendency accentuated in 2009. The diminishing purchasing power is not only an effect of the crisis but also of other phenomena such as strong viruses, fires, tornadoes which have led to the closing of certain tourist areas. This meant a decrease by 4% of the tourist industry at a global level, the Tourist World Organization estimated. Poor offers are also another weakness and so are the high prices comparing to the low quality and services, a situation which does not characterize other countries.

2. Romania's tourist opportunities

Romania offers different types of tourism, for everyone's needs. The most widely practised is the tourism for resting and relaxation which offers wonderful resorts for unforgettable holidays on the seaside of the Black Sea and on the Prahova Valley, in Maramures, Ocna Sugatag, Sovata, for practising winter sports as well as the tourism for health purposes which benefits from special resorts that offer spa treatment, etc. Week-end tourism offers a lot of entertainment as tourists want to visit many tourist objectives in a short time. "Sustainable tourism was conceived in order to better manage all the resources so that the economic, social and aesthetic needs should be satisfied while maintaining cultural integrity, essential ecological processes, biologic diversity, life preserving systems". (The Tourism World Organization) The ecological tourism is that type of tourism which is practised in protected, wild areas. The educational tourism has started to develop as well, for example due to the people who wish to learn how to ski. Sport tourism supports the people's participation in certain world sport events with offers at reasonable prices. The packages include the ticket for the sports event (e.g. the Football World Cup), the flight, the accommodation, etc.

The number of locations increased from 2007 to 2009 by 401 accomodation establishments of different types: hotels, motels, etc and so did the accomodation capacity, from 283701 places in 2008 to 303486 in 2009, according to the Tourist Statistical Abstract 2010.

Establishments of tourists reception with functions of tourists accommodation and the tourists accommodation capacity, by type of establishments			
Number of establishments			
	2007	2008	2009
Total	4694	4841	5095
Hotels	1081	1111	1170
Motels	150	153	146
Tourist inns	6	5	5
Hostels	79	81	97
Tourist villas	708	718	747
Bungalows	266	264	265
Tourist chalets	108	116	123
Holiday villages	3	3	4
Camping sites	62	59	55
School and pre – school camps	115	111	111
Tourist halting places	30	31	30
Tourist boarding houses	736	783	878
Agro –tourist boarding houses	1292	1348	1412
Houselet – type units	49	50	46
Ship accommodation places	9	7	6
Source: National Institute of Statistics: Romanian Tourism – Statistical Abstract 2010			

According to the tour operator agencies the number of foreign tourists having visited Romania in 2008 was of 148663 and in 2009 of 172260 which means a significant increase while the number of Romanian tourists having spent their holidays abroad was of

712031 in 2008 and of only 334001 in 2009 which means a decrease by almost a half.

Number of tourists taking part in the tourist actions organized by travel agencies						
	Incoming activity		Activity of domestic tourism		Outgoing activity	
	2008	2009	2008	2009	2008	2009
Tour operator agencies Total number of tourists	148663	172260	416541	129990	712031	334001
Agencies with sale activity Total number of tourists	8526	6210	21103	98076	27744	129174
Source: National Institute of Statistics: Romanian Tourism – Statistical Abstract 2010						

From the statistic analyses we notice that in 2009 the outgoing activity of the agencies is 2,57 bigger than the intern tourism, beware of the 2008 when the value of this activities were 70% superior from the national tourism results.

Since 2007 until the present the most widely used transport by foreign tourists has been the road transport, followed by the air transport and the railway one; the same means of transport are preferred by the Romanians who visit other countries according to the Statistical Abstract 2010.

The purpose of the European tourist integration is the development of tourism paralleled by environment protection, the increase of service quality, customs control improvement, etc.

Rural areas are progressively turned into tourist destinations with the purpose to attract tourists. From TWO research it becomes obvious that rural tourism is developing much faster than international tourism.

The process of integration should develop based on certain market laws such as the tourist service promotion and its development according to the market needs,

the professional specialization of tourism workers or the use of differentiated offers in order to satisfy the tourists' needs.

Internet advertising strategies

Romanian tourist agencies have noticed that the majority of people search information on the tourist offers on the internet, that is why tourist agencies advertise their offers on the internet. Some agencies have web sites in Romanian, others in Romanian and English (www.eturism.ro, www.infotravelromania.ro, www.infoturism.ro, www.romaniatour.ro, www.romaniatravel.ro), by domains: seaside, mountains, international offers, low cost offers, last minute offers, early booking offers, etc.

Advertising tourist offers on the internet has many advantages as one can check the newly introduced offers anytime and anywhere, as well as their complexity, the details regarding the price, the facilities and bonuses offered, etc.

3. Conclusion

We recommend the use of recession tourism which is an appropriate choice in the context of the global economic crisis as it is characterized by low cost – and therefore very successful – prices.

The Romanian tourism has come to be unattractive for both Romanian and foreign tourists because of the high prices and the low quality that characterize it; tourists have discovered that they can benefit from excellent services at similar prices in countries such as Turkey, Greece, Austria, Germany, etc.

Due to a relatively large share of the population with low incomes in the past few years has declined the domestic tourism, so if charges would be a little more low and the conditions more quality, Romanian tourist would prefer a domestic location than an international one.

In this respect, we encourage recession tourism, which is due to the global economic crisis and is defined by low prices offered to customers.

We believe that a recovery of the Romanian tourism should be based on the modernization of the tourist products, of resorts and tourist routes, both the well known and the less known ones so that Romania could become a favourite destination due to tourist services at European standards. Domestic tourism has also been characterized by a decline in the recent years because of a significant percentage of population with low incomes but if domestic prices were slightly lower Romanian tourists would prefer domestic destinations rather than foreign ones.

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Accounting and Fiscal Treatment of Price Discounts

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Abstract

The trade and financial discounts are offered the clients by the suppliers, under the form of a percentage on the selling price, being described in detail in the contracts concluded between the parties. According to the provisions of OMFP no. 3055/2009, these discounts influence the turnover. They must be listed separately in the profit and loss account. If the value of the fungible supplies which are in the administration after the methods FIFO, CMP and LIFO have been applied differ significantly at the date of the balance sheet from the value determined on the basis of the latest market value known before the date of the balance sheet, then the value of this difference must be shown in the explanatory notes, on the total amount and on categories.

Key words: sales promotion, trade discounts, financial discounts, income from discounts, expenses regarding discounts.

J.E.L. classification: E 62, H 32, M 41.

1. Introduction

No one has doubts today regarding the necessity to promote the products as a basic condition which decisively contributes to speeding up sales and consequently increasing profit. One of the methods used in order to promote products is offering discounts, a method meant to repay the client's loyalty, paying the debt before due date, buying a large amount of goods, all of these contributing substantially to increasing the turnover.

2. Accounting regulations regarding discount purchases and sales

In the selling-buying relations, there may occur discounts offered by the seller to the buyer. In this respect, OMFP no.3055/2009 for approving of the Accounting Regulations as per the European directives stipulates the following differences (p.51, par.4) [1]:

'a) reductions are accepted for defects of quality and are applied on the selling price; b) abatements are accepted in the case of sales being higher than the established volume or if the buyer has a preferential status; and c) rebates – price reductions calculated on the whole of the transactions made with the same party during a limited period of time (p. 51, par. 5).'

Apart from these, the clients may be offered financial discounts, which are "under the form of settlement discounts offered for paying the debts before the normal maturity date (p.51, par. 6)''

Both the trade and financial discounts are offered the clients by the suppliers, under the form of a percentage on the selling price, being described in detail in the contracts concluded between the parties, where certain conditions that must be fulfilled are stipulated (the quantity provided, invoicing date, delivery date, payment date).

As for the discount accounts, there are mentioned the following differences in OMFP no.3055/2009 [1]:

-The trade discounts received or offered after the invoicing, irrespective of the period they cover, are shown separately in accounting (account 609 'Received trade discounts', and account 709 'Offered trade discounts' respectively), on the basis of the accounts of the parties (p. 51, par. 4);

-The financial discounts, received by the buyer from the supplier, represent income of the period, irrespective of the period they

cover (account 767 'Income from received discounts') For the supplier, these offered discounts represent expenses of the period, irrespective of the period they cover (account 667 'Income from received discounts') p. 51 (6).

Example no. 1 (Trade discounts offered before invoicing under the form of an abatement)

The limited liability company 'Alfa' purchases 50 m³ of fir timber for an acquisition price of 500 lei/m³ from the 'Beta' LLC. As per the provisions stipulated in the contract, when an acquisition exceeds the quantity of 30 m³, the supplier will offer the buyer a discount of 10%.

Note: As per the provisions of art. 137 par. 3, letter a) in the Fiscal Code, *'the abatements are not included into the taxation system of the added value tax if they are offered by the supplier directly for the benefit of the client at the moment of the delivery and do not actually represent payment of a service or of a delivery'*. [2]

In accounting, the following are recorded:

For the buyer:

- the value of the raw materials that are bought 50 m³ x 500 lei/m³ = 25.000 lei
- the discount offered 25.000x10%=2.500
- the net value

Buying the raw materials:

	%	=	401		<u>27.900</u>
				'Suppliers'	22.500

'Raw materials'					5.400
4426					
'VAT input tax'					

For the seller:

Income resulted from selling the finished products

	%	=	%		<u>27.900</u>
				'Clients'	22.500

'Income resulted from selling the finished products'					5.400
4427					
'VAT output tax'					

Example no. 2 (Trade discounts offered after invoicing under the form of rebates)

The limited liability company 'Gama' bought from 'Beta' LLC in February, fiscal year N, raw materials on several occasions amounting to 5.000 lei, total selling price, VAT 24%. In the contract concluded between the seller and the buyer, a discount under the form of rebates of 5% is stipulated, provided that the total value exceeds 4.000 lei. Accordingly, the discount amounts to 250 lei (5.000 x 5%)

In accounting, the following are recorded:

For the buyer, receiving the discount					
	401	=	%		310
				'Suppliers'	250

'Received trade discounts'					60
4426					
'VAT input tax'					

For the buyer, offering the discount

	%	=	4111		310
				'Clients'	250

'Offered trade discounts'					60
4427					
'VAT output tax'					

Note: According to the provisions of OMFP nr.1752/2005, the discounts offered in subsequent invoices decrease the turnover directly, and according to the provisions of OMFP nr.3055/2009, they have the same effect on the turnover, with the observation that these discounts will be shown separately in the profit and loss account.

Another note: The accounting treatment of these trade discounts contradicts the **matching principle** as the discount invoices are offered for sales recorded in previous fiscal years, because for the seller there will occur a decrease of the turnover in the current fiscal year for discounts that apply to previous fiscal years, whereas for the buyer there will occur a decrease of the expenses in the fiscal year in which the discount invoice is received, even if the acquired assets did not affect the profit and loss account in the previous fiscal years.

Example no. 3 (Financial reductions under the form of discounts)

The joint stock company 'Gama' sells to 'Minerva' LLC finished products amounting to 50.000 lei, total selling price, VAT 24%, with a settlement date of 2 months, according to the contract. As the debt was paid before the date stipulated in the contract, the seller offers the buyer a reduction (discount) of 3% for which there will be drawn up a discount invoice.

In accounting, the following are recorded:

1)For the seller:

a)The selling invoice for the finished products amounting to 50.000 lei, VAT 24%

4111	=	%	<u>62.000</u>
'Clients'	701		50.000
		'Income resulted from selling the finished products'	
	4427		12.000
		'VAT output tax'	

b) The invoice for the reduction offered under the form of a discount for the payment before the due date, which levels the taxation basis of VAT, amounting to 1.500 lei (50.000 x 3%)

%	=	4111	<u>1.860</u>
667		'Clients'	1.500
		'Expenses regarding the discounts offered'	
	4427		360
		'VAT output tax'	

2)For the buyer

a)The invoice for the purchase of raw materials

%	=	401	62.000
301		'Suppliers'	50.000
		'Raw materials'	
	4426		12.000
		'VAT input tax'	

b)The invoice for the reduction received, which levels the taxation basis of VAT, amounting to 1.500 lei (50.000 x 3%)

401	=	%	1.860
'Suppliers'	767		1.500
		'Income from discounts received'	
	4426		360
		'VAT input tax'	

Example no.4 (Trade and financial reductions)

The limited liability company MINERVA, having merchandise trade as its main object of activity, recorded in administration an amount of 50 chairs evaluated at a unit cost of 30 lei/piece on February 1st 2011.

In February, the following were recorded:

a)buying 100 chairs at a unit cost of 36 lei/piece, discount 10%, VAT 24%, according to the invoice on February 5th .

The total cost of the acquisition is first calculated considering the 10% discount offered, which levels the acquisition cost in the sense that it reduces it.

Total acquisition cost = 100 buc x 36 lei/buc = 3.600 lei

Adjusted acquisition cost = 3.600 – 360 = 3.240 lei

%	=	401	4.017,6
371		'Suppliers'	3.240

'Merchandise'

4426 777,6

'VAT input tax'

b)buying 150 chairs evaluated at a unit cost of 45 lei/piece, VAT 24%, according to the invoice on February 7th 2011 .

%	=	401	8.370
371		'Suppliers'	6.750

'Merchandise'

4426 1.620

'VAT input tax'

c)Selling 175 chairs at a unit selling price of 60 lei/piece, VAT 24%, with an abatement of 5% and a settlement discount of 2%, according to the invoice on February 11th 2011.

Table nr.1. - Preliminary calculations

No	Explanations	Value (lei)
1	Total selling price 175 pieces x 60lei/ piece	10.500,00
2	Abatement value 5% (rd1 x 5%)	525,00
3	Net trade value (rd1-r2)	9.975,00
4	Discount value 2% (rd3 x 2%)	199,50
5	Net financial value (rd3 – rd4)	9.775,50
6	VAT 24% (rd5 x 24%)	2.346,12
7	Net value to be charged (rd.5+ rd.6)	12.121,62

This complex operation is detailed as follows:

c1) The income that is to be charged from the client, amounting to the net trade value of 9.975 lei, VAT 24%.

4111	= %	12.369
'Clients'	707	9.975
	'Income from selling the merchandise'	
4427		2.394
	'VAT output tax'	

c2) The discount offered by the client, amounting to 199,50 lei (9.975 x 2%), TVA 24%.

%	=	4111	247,38
667		'Clients'	199,50
		'Expenses regarding the discounts offered'	
4427			47,88
		'VAT output tax'	

Under these circumstances, the debt to the client amounts to 12.121,62 lei (12.369 – 247,38), as can be seen from the above-mentioned preliminary calculations.

c3) Writing off the sold merchandise, using the LIFO method (see the page in the Merchandise Ledger)

Cost of sold merchandise

150 pieces x 45 lei/piece	=	6.750 lei
25 pieces x 32,4 lei/piece	=	810 lei
Total 175 :		7.560 lei
607	=	371 7.560
'Expenses with the merchandise'		'Merchandise'

d) Receiving a discount of 20% for the acquisition made on February 7th, amounting to 1.350 lei (6.750 x 20%)

401	= %	1.674
'Suppliers'	609	1.350
	'Received trade discounts'	
4426		324
	'VAT input tax'	

e) Buying 75 chairs at a unit cost of 60 lei/piece, VAT 24%, according to the invoice on February 23rd 2011, with a settlement

discount of 5%, amounting to 225 lei (4.500 x 5%)

%	=	401	5.580
371		'Suppliers'	4.500
		'Merchandise'	
4426			1.080
		'VAT input tax'	
401	= %		279
'Suppliers'	767		225
		'Income from discounts received'	
4426			54
		'VAT input tax'	

f) selling 150 chairs at a selling unit cost of 75 lei/piece, according to the invoice on February 27th 2011 .

f1) Due income at a total selling price of 11.250 lei, TVA 24%

4111	= %	13.950
'Clients'	707	11.250
		'Income from selling the merchandise'
4427		2.700
		'VAT output tax'

f2) Writing off at production cost by applying the LIFO method

75 pieces x 60 lei/piece	=	4.500 lei
75 pieces x 32,4 lei/ piece	=	2.430 lei
TOTAL		6.930 lei

607	=	371	6.930
'Expenses with the merchandise'		'Merchandise'	

g) Offering a rebate of 10% to the client for the sale made on February 27th 2011, amounting to 1.125 lei (11.250 x 10%)

%	=	4111	1.395
709		'Clients'	1.125
		'Trade discounts offered to clients'	
4427			270
		'VAT output tax'	

In the profit and loss account the information is centralized as follows:

Table nr.2. Profit and loss account

No	Explanations	Value (lei)
1	Operating income	
2	Net turnover	20.100
3	Income from selling the merchandise (account 707)	21.225

4	Offered trade discounts (account 709)	1.125
5	Financial income	
6	Income from received discounts (account 767)	225
7	Operating expenses	
8	Expenses with the merchandise (account 607)	14.490
9	Received trade discounts (account 609)	1.350
10	TOTAL OPERATING EXPENSES	13.140
11	Financial expenses	
12	Expenses with the offered discounts (account 667)	1.995

The trade margin is calculated like this:

Trade margin = Net turnover – Total operating expenses

$$20.100 - 13.140 = 6.960$$

If the value shown in the balance sheet, resulted after the application of the FIFO, CMP and LIFO methods differ significantly at the date

If the value shown in the balance sheet, resulted after the application of the FIFO, CMP and LIFO methods differ significantly at the date of the balance sheet from the value determined on the basis of the latest market value known before the date of the balance sheet, then the value of this difference must be shown in the explanatory notes, on the total amount and on categories of fungible assets.

If the discounts are offered or received at the beginning of the fiscal year, for the transactions made in the previous year regarding compliance with the matching principle (OMFP nr.3055/2009, art.42), the trade reductions will be shown like this:

- in the income accounts and debts for which the invoice was not drawn up (418 'Clients – invoices to draw up');
- in the expenses or goods accounts, the debts for which the invoice was not received (408 'Suppliers –invoices not received).

In all cases, all the operations regarding these accounts are performed taking into account the papers that certify goods and service delivery (for example waybills, work report etc).

'If the discount value differs from the initial estimation, the difference will be registered in the expenses afferent to the previous year (if the invoice is received by the time the financial reporting is delivered) or in the expenses afferent to the current year, the result reported, function of the accounting policy of every company.' (Terçu A., 2010).[3]

When the invoice is issued or received, account 418 " Clients- invoices to draw up" will close by the account 4111 'Clients', whereas account 408 'Suppliers – invoices not received' will close by account 401 'Suppliers'.

3. Conclusions

The trade and financial discounts offered or received according to the provisions of the contracts concluded between the buyer and the seller affect expenses, income, the VAT taxation basis and consequently the corporate tax.

In order to apply a correct accounting treatment, when registering these discounts, one must take into account the provisions of OMFP nr.3055/2009, which, apart from the accounts already in use, also introduced account 609 'Received trade discounts' and 709 'Offered trade discounts'.

This way, accounting complies with the fiscal interest of the enterprise.

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Analysing the Dynamics of the Romanian Tourist Destinations

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Abstract

The tourism and travel industry represents, worldwide, the most dynamic sector of activity and, at the same time, the most important workplace generator, as well as a source of recovering the national economies. Tourism is a complex activity because it generates the circulation of massive sums of money, thus contributing to the development of various economic activities which are favourable to the environment protection and to the globalization process emphasis.

Tourism itself cannot be considered as a "good" or "bad" action, nor as a "positive" or "negative" one, but its very diverse consequences can be evaluated in this manner. In the process of sustainable development of tourism, it is necessary that an increased attention be paid to the quality of the touristic products, which should simultaneously offer "the taste of perfection" and "the perfection of taste".

Key words: touristic destination, sustainable development, touristic potential.

J.E.L. classification: M21

1. Introduction

According to the unanimous acceptance, the tourism economic potential is impressing and the benefits which can be generated by a sustainable development cannot miss from any elementary calculation of a marketing planning which can minimize them, considering that tourism, a very strong

instrument of development, possesses a natural synergy with the sustainable development concept.

Any research related to the tourism from a certain territory has to take into consideration the phenomenon of the markets' interdependencies. This phenomenon presupposes that no touristic market can be judged independently, without establishing connections with the other markets. The touristic research is under a permanent pressure, on the one hand because of the competition, on the other because of some circumstantial factors, with an economical character, but also extra-economical (inflation phenomena, of economic, political and geostrategic circumstance).

The economical, social, political context from Romania after 1990 has not contributed to the development of the Romanian touristic sector. Moreover, according to the conclusions of the specialists, the effects of the transition to the market economy have determined a decline in tourism, together with other sectors of the economy. Thus, the international tourism demand has registered a decreasing trend because of multiple causes, such as: the low-quality level of the offered touristic services, the lack of diversity in the touristic programs, the reduced possibilities of recreation, etc.

2. Categories of the touristic destinations

Presently, the Romanian tourism is in a period of analysis and profound changes, which is motivated by the preoccupation of

being competitive on the unique European market.

With the intention of increasing the quality of the tourism activity, the policies as well as the strategic objectives which will be adopted have to aim at the following:

- The continuous achievement of a touristic product of superior quality, which corresponds to the modern tourism objectives;

- The improvement in the activity of the tourism personnel and in the quality of the touristic services;

- The diversification of the leisure offer;

- Encouraging the Romanian and foreign investments in the tourism activity;

- Elaborating more aggressive marketing policies which would aim at creating a positive image of the country outside the borders of Romania;

- Promoting a competitive Romanian tourism, comparative with the countries which have a developed tourism (Spain, France, Switzerland, etc.).

Romania occupies the 76th position out of 124, in the first world classification of tourism and travels, with a mark of 3.91 from a total of 7, between Azerbaijan and El Salvador, according to a classification made by World Economic Forum, which measures the tourism development potential in various countries. The touristic potential of a territory is constituted by the ensemble of the natural, economic and cultural-historical elements, which present certain possibilities of touristic capitalization and give tourism a certain functionality. Romania possesses (objective) elements that have a meaning for tourism, as well as a variety of means which can facilitate the specific activities for this field. Their dispersal in the territory is different, being on the one hand, objective agglomerations which have conditioned intensifications of means and resources which would emphasise them, and on the other hand, broad spaces in which all of these are dissipated.

The touristic potential of Romania is composed of a variety of forms of relief, springs with mineral and thermal water, lakes used for recreation, swimming and sport fishing, a valuable hunting fund amassed in coniferous and broadleaf forests, diverse landscapes from the mountain peaks of over 2000 metres to the plains, to the seaside and

the Danube Delta. The grouping of elements with touristic potential, the infrastructure and the development on the Romanian territory is the result of the connections established between man and nature along time, as a consequence of the historic and natural evolution, which has led to the separation of touristic provinces (regions, areas, centres, localities, etc.) each one reflecting a certain degree of complexity, as a touristic potential, infrastructure, as well as a way of performing the tourism activities. Consequently, the contour of touristic axes that go across various provinces, areas, centres, localities and objectives has been produced.

In this sense, there has been an individualization of the following regions: Maramures, Bucovina, Brasov, Banat, Apuseni, Buzău-Vrancea in The Carpathians and Subcarpathians de Curbură, Argeş-Prahova, North Oltenia etc. within which there are areas, centres, and secondary touristic axes comprised in a certain touristic system.

Romania possesses a great variety of natural resources which form a large part of the "basic" touristic product. These include the Black Sea beaches, the Danube and the rivers, the Carpathians and other mountain chains and the Danube Delta Biosphere Reservation. There are 16 national parks and 13 natural reservations which cover 7% of the country's surface. In Romania there is a vast biodiversity with many species of flora and fauna which are unique in Europe. Romania possesses the richest variety of large mammal species in Europe and it is a major passageway for the migration of birds. Their total surface is of 1,652,403 hectares. The tourist attractions can vary from hunting and trekking in the mountains to recreational walks and winter sports.

The Romanian structures of tourism aim at the following:

- Seaside tourism;
- The Danube Delta;
- Mountain resorts;
- Spa resorts;
- The capital and the county capital cities.

The structures of tourism from the seaside benefit from the shortest season, open, in average per year, for less than three months. The touristic season in the Danube Delta also functions for less than six months a year. As

a tourist destination, Romania's strong points aim at the following structures: geography and environment, culture and cultural heritage, infrastructure, transport and communication.

The geography and the environment are the strong points in the natural tourism potential through: the Danube Delta biodiversity (the Biosphere reservation which belongs to the UNESCO world heritage); the diversity of the national parks and of the protected natural areas (7% of the surface of the country) with forests, lakes and unpolluted rivers; the seaside and beaches of the Black Sea; the Carpathian Mountains; the Danube River; a large number of caves; the flora and fauna diversity (large number of unique species or with the highest density in Europe, especially large carnivores); 35% of the mineral water springs in Europe and of mofettes which offer a wide array of spa treatments; temperate-continental climate; good natural conditions for tourism activities (ski, mountain trekking, equitation, cycling, water sports, etc.).

The assets in culture and cultural heritage are represented by: the diversity of the heritage objectives-convents, archaeological sites, fortified constructions, including seven objectives/areas which are included in the UNESCO world heritage; medieval citadels; rural settlements where the traditional lifestyle can be experimented; museums with various themes; impressive artistic programmes-classical as well as modern; a wide variety of festivals, traditions, folklore; legends-Dracula, etc.

From the perspective of the tourism potential in the mountains, the most imposing areas are the following: Bucegi-Postăvaru, Piatra Mare, Parâng, Cindrelul, Șureanu, Retezat – Țarcu –Muntele Mic, Semenic-Aninei,Bihor-Vlădeasa-Muntele Mare, Rodna,etc., the touristic resorts and complexes that offer great possibilities of valorisation for the winter sports, mountain trekking, cave tourism, mountain-climbing, hunting, and sport fishing, spa treatment, religious, cultural tourism, ecotourism, etc.

The spa-tourism potential is famous on the international market because of the natural treatment factors, such as: mineral waters, mud and therapeutic gases, saline bioclimate, ionised-air bioclimate, phytotherapy (herbalism), partially exploited in the

national spa resorts (approx. 24) and the regional and local (or localities) spa resorts which are not certificated (approx. 36). In addition to these favouring elements, we mention the professionalism of the medics, as well as the variety of traditional Romanian spa treatments and medicines.

The touristic potential of the Black sea littoral constituted of the famous tourist resorts includes a wide array of elements, such as: the mineral waters from Mangalia, Venus, Neptun, Eforie; the sapropelic mud from Techirghiol and the peat mud from Mangalia; the chlorine-sodium filled water of Techirghiol lake; the marine bioclimate and other natural and cultural-historical tourist attractions, dissipated on approx. 70 kilometres between Capul Midia and Vama Veche.

The Danube Delta tourism potential is represented by its ecologic value, by the landscapes, fauna (ornithological and piscicultural),cruises and expeditions organised in special surroundings with cultural and economical traditions specific to the local Russian, Ukrainian and Romanian communities.

The tourism potential of the Danube River and the adjacent region impresses because of the attraction area preferred for tourism: the Danube gorge and the Iron Gates, Danube's lakes, etc.

Romania's fauna and flora potential, rich in scientifically interesting species, but also for hunting, with ecosystems unique in Europe, represents important premises for the development of the Romanian tourism.

The Romanian tourism industry is distinguishable for its speleological, hiking and climbing potential as well as for the extreme sports possibilities offered mostly by the mountainous area.

The modernization, revival and development of the Romanian tourism are influenced by the climate of Romania which favours tourism during the entire year because of the comforting thermal regime, the snowfall which allows the development of winter sports, the therapeutic value of the bioclimate being a mountain incentive.

Romania's touristic offer and programme are also favoured by the cultural-historical heritage, very representative for our county, because of the multi-millenary history of the

Romanian people, crystallized due to the following:

- The existence of more than 680 values of cultural heritage of national interest, such as 197 churches and monastery ensembles, 36 monuments and architecture ensembles, 11 castles, mansions and palaces, 70 urban architectural ensembles (civil buildings), 20 historic centres and archaeological sites, etc. A large part of the historic and art monuments are values of the UNESCO World Cultural Heritage (fortified churches, churches with exterior frescos, Dacian citadels, Sighisoara citadel, etc.)

- The Romanian ethnographic and folkloric treasure of a great originality is represented by the popular architecture, specific to the Romanian villages (from Maramures, Bucovina, Oltenia, Dobrogea, Transilvania, etc.).

- The craft industry, woodwork, the art of decorating, fairs and the traditional cultural-religious manifestations also represent the offer of a touristic product with a decisive role in choosing destinations.

- The revival and development directions of tourism aim also at the technical-economical potential of Romania, objectified through engineering works of art, bridges, dams, old stacks, salt mines and mines, old factories and railway station buildings, vineyards and studs, etc.

- Its geo-touristic position offers Romania several advantages due to the following:

- The presence of three natural components characteristic for the landscape and the social-economical structure of the country, components of great value and entirely European: the Carpathian Mountains, the Danube River and the Black Sea;

- The touristic transit function, because Romania ensures the connexion between the countries of Central, Nordic and Eastern Europe with the ones from the southern part of the continent and from the Near and Middle East;

- The European roads network with the seven road arteries and European corridors North-South (IX) and East-West (IV), between the railroad route and the Danube River (corridor VII), that establish the connections between the countries of the continent and the Black Sea basin.

In comparison with other tourist destinations, Romania has a weaker performance especially caused by the infrastructure regarding the road transport, but also as a consequence of some precarious aspects concerning the human resources and the public perception about the importance and value of tourism.

However, during 2005-2009, the number of arrivals of foreign tourists - including visitors a day - in Romania, by type of tourist destinations, has seen significant declines. (Table 1)

Table no.1 Arrivals of foreign tourists, by type of tourist destinations (Number of tourists)

Location	2005	2006	2007	2008	2009
Spa resorts	36372	36337	36252	27236	22724
Littoral	88182	61812	58191	41569	31607
Mountain resorts	11272	96605	11870	10540	81064
	2		6	3	
Danube Delta	22887	11789	20445	17438	15888
Bucharest and other county capital cities	10195	10161	11439	11007	97985
	85	07	16	33	8
Other localities and tourism itineraries	15016	15718	17344	17351	14444
	3	2	7	2	9
TOTAL	14299	13798	15509	14658	12755
	11	32	57	91	90

Source: INSSE, www.statistici.insse.ro

Analyzing Table 1 we see that foreigners prefer destination, Bucharest and other cities in the county, at a rate of 74%, followed by other towns and tourist itineraries (11.2%) Mountain Resorts (7.3%), Seaside (4 %), Spas (2.3%), the Danube delta (1.2%).

The "Bucharest and other county capital cities" and "Other localities and tourism itineraries" categories include not only the business or official visitors, but also the ones who get an accommodation on their way to other destinations and the foreign visitors who make short shopping trips, the ones who participate to events or who visit tourist attractions

By analysing the main destinations preferred by Romanians, except for Bucharest and other cities, it resulted that these were the mountain resorts (16%),

littoral (14%) and Spa resorts (13%), as shown in Table 2.

Table no. 2. Romanian tourist arrivals by type of tourist destinations (Number of tourists)

Location	2005	2006	2007	2008	2009
Spa resorts	6136 54	665734	705819	700706	6170 15
Littoral	6253 47	624690	737971	791020	7567 49
Mountain resorts	7152 30	786241	879036	893065	7498 79
Danube Delta	5407 4	42835	53322	78652	5459 1
Bucharest and other county capital cities	1736 126	196557 9	216606 1	226213 2	1904 263
Other localities and tourism itineraries	6307 54	751117	878759	933841	7830 48
Total	4375 185	483619 6	542096 8	565941 6	4865 545

Source: INSSE, www.statistici.insse.ro

The qualitative research performed on the Romanian hotel staff and on the travel organisers indicates the following main market segments for the holidays in Romania:

- *Pretentious—elitist*: hunting, holidays with friends on Prahova Valley, Breaza – “Davos of Romania” and the golfing capital; Danube Delta biosphere reservation; wine tasting (Transilvania, Moldova, Crişana, Maramureş);

- *Cultural tourism combined with ecotourism*—young professionals: Transilvania; Maramureş; Bucovina; Litoralul Mării Negre; Delta Dunării;

- *Middle-class families*: Prahova Valley; Black Sea littoral; visits in the surrounding areas in order to spend time in nature, for example with the occasion of celebrating the 1st of May;

- *Visits to see the parents* for Christmas and Easter;

- *The social category called “working class”*: Black Sea littoral; countryside vacation—either at relatives, or in guesthouses; visits in the surrounding areas in order to spend time in nature; visits to see the parents for Christmas and Easter;

- *Older couples*: visits to see their children, to the city; social programmes (i.e.: “a week of recovery—a week at the Black

Sea littoral”); visiting the monasteries (i.e.: Bucovina monastery); museums, castles;

- *Young people—in groups*: the Black Sea littoral, especially Costinesti resort and Vama Veche resort; active tourism in the Carpathian Mountains; Danube Delta; camps (Eforie Nord, Năvodari, Cetăţile din Transilvania, Rânca –în Munţii Parâng, Bucovina).

- There are major variations of the types of amusement trips, between rich people and poor people. The spa resorts clients is almost entirely internal, especially elders with low income, who go to these resorts with the help of treatment tickets offered by the social system.

- The low-income clients have the tendency not to choose a hotel accommodation, because they cannot afford the costs. They rent apartments, guesthouses or camps.

3. Conclusions

Considering that the following decades will bring about significant changes in the world demographic structure (average age, percentage of the ethnic and religious groups), the trends of the international tourism demand of tourism products/ travel arrangements will develop in all the meridians of the world. The population of the world will double in the next 50 years, the life expectancy and, implicitly, the average age of the population will grow, and the seniors (retired) will have more time and resources to travel. Therefore, the tourism products demand will be elastic and the increase in the interest for touristic programs/ holidays with possibilities of knowing the culture and history of the nations of the world will present a greater interest. Even if the interest is in novel experiences, the majority of potential tourists will want to be able to continue the healthy lifestyle when travelling and the quality of the tourism offer will influence the choice of a touristic destination.

Subsequent to this analysis, in the future it is compulsory to aim at achieving a more uniform distribution of the available accommodation capacity, at the level of the country and the regions, with the purpose of ensuring a better tourism activity.

The need of effort-coordination at a regional, as well as national level in order to accomplish grand projects in the domain of the infrastructure, especially of the transport and communication, which has to be correlated with the development process of the territory, which presupposes the coordination of all the projects with the spatial implications and solving the possible conflicts occurred in this context of profound transformations of the society. In this sense, an assessment, classification and identification model of the most appropriate and efficient ways of valuing the tourism heritage has to be established, using for this purpose a multi-criterion analysis of delimitating the touristic regions, together with a crystallization of the priority actions for each particular case. In conjunction with the touristic areas delimitation, the development of the territory and the appropriate policies in tourism, we have to find solutions regarding the protection of the environment from the tourism activities with a direct impact on the environment.

The starting point in establishing the strategy for improving the position of the destination competition is constituted by the determining elements of competition, which are mainly given by the resources (natural, cultural, of capital, of infrastructure, human), by the quality and structure of bidders, by the behaviour conditions of the demand and by the adaptation of the offer. However, all these have to be correlated with the provisions of the Declaration of Rio and with the enactment of Agenda 21, according to which the sustainable development of tourism represents the global strategic option for this century. The management and the sustainable development of tourism are applicable to all the forms of tourism, in any type of destination, including mass tourism, as well as other varied segments of tourism.

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Patterns of Human Resources in Inter-organizational Collaboration

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Abstract

Redesigning business processes from the perspective of collaborative inter-organizational networks, various modeling techniques and store information from communities of practice in data warehouses, are aimed not only to manage the knowledge of a business process, but also, to manage the knowledge created and applied (innovation) in the process. My approach to modeling derives primarily from an intention to integrate the organizational management process in order to produce an innovative result, a higher one compared with a mechanistic management system based on the amount of organizational knowledge.

Key words: inter-organizational, Business Intelligence, network, creation.

J.E.L. classification: O31.

1. Background

Research directions in the development stages of innovation and innovative processes have evolved over time, from an innovative perspective encroached within an activity carried out by an entrepreneur (as a entity that creates possible and many innovative combinations), to a vision of design innovation in processes and innovative structures larger expandable (ie, within the internal organizational environment, as a generated and stimulated response by market demand). In recent decades, innovation is explored from a design perspective on networks and systems of organizations. Inter-organizational networks have grown considerably in importance.

The first two approaches are regarded innovation as a result of a linear process, performed by the entrepreneur, or the company, applying science in a logical and

structured approach and applying causal factors in workplace.

Linear innovations ignore feedback loops (innovation process is not induced and is not necessarily result in linear chains of activity but, rather, is a recursive process). On the other hand, innovation may have unforeseen implications initially, and be adopted in industries in ways difficult to predict [16].

Von Hippel, argued that the source of innovation consists in the relationships between manufacturing companies and their suppliers or, in particular, in the relations with their customers [29].

In recent decades, field of analysis for innovative processes is designated by the network metaphor (interdependencies between organizations represented by informal ties connecting the various entities and relationships and which intersecting formal relations existing in organizations). Networks becoming more complex by the combination of various features and nodes who include resources, knowledge and various arrangements (interconnected networks). The scholars discussed the cultural context according to account the different forms of perception (in a network actors have different perceptions).

Networks contribute significantly to potentiation innovation capacities of firms by exposing them to new sources of ideas, allowing quick access to resources, and the possibility of knowledge transfer. Networks can also makes possible for companies to achieve objectives that could not pursue them individually [26].

Miles et. al. make in relation to research and structure a scenario in which innovation and economic development are dependent on "the power of collaboration". In this research agreement, collaboration is defined as a process in which two or more parties working together to achieve common benefits of collaboration [21][20][19].

The quality of collaboration depends on many inter-organizational relationships and interactions between groups of employees who interact, negotiate, and provide value to partner organizations [28].

Management policies are developed by integrating the determinants of inter-organizational dynamics: structures and mechanisms, social relations, intensity relationships in the network, level of trust and risk [11].

On the other hand, the characteristics of organizations are very important: absorption capacity, intra-organizational transfer capability, motivations.

2. Looking for systematic patterns

The ability of organizations to collaborate with other organizations is dependent on its ability to turn internal collaboration [20].

Internal collaboration is not facilitated when the functional departments in the organization are highly specialized and isolated from the rest of the organization.

Miles emphasizes that organizations which have developed a strong capacity of their employees ability to work together, are more easily able to develop external communities to collaborate in the future.

From the description of collaborative structures that are composed of firms belonging to different industries and where colabolare skills allow them to pursue a common strategy for continuous innovation, two features can be drawn: collaborative relationships are voluntary nature and also facilitates collaborative relationships generation of knowledge, and sometimes through a proper strategy, knowledge is transformed into continuous innovation.

Collaboration by creating and applying knowledge to generate a process of continuous innovation, is based on complex behavioral rules derived from several factors [21][14].

In the many factors affecting the collaborative, there are three main categories investigated more obvious: strategy, structure and management philosophy [19][14][22].

Reported in hierarchies characteristic of organizations and markets (characterized by their mechanisms and control systems), inter-organizational networks gets a touch of distinctiveness by the following

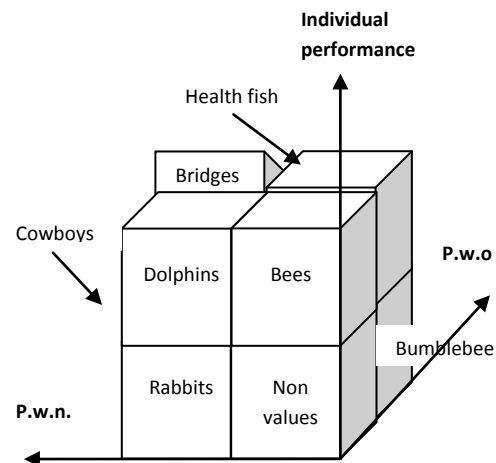
characteristics: mutual trust, cooperation, characteristics of relationships that are created, additional interdependence and an informal climate oriented toward mutual benefits [1][10][12][18][31].

Based on individual characteristics, as a center of basic constituent of collaborative network. I designed a typology of collaborative behavior of individuals by combining three dimensions:

- i. Individual Performance - delivering results through the accomplishment of their tasks;
- ii. Performance within the organization - getting results from collaboration within the company;
- iii. Performance in inter-organisational collaboration - getting results from networks and systems of organizations.

By combining these three dimensions, I set up eight blocks, eight general types of human resources who will engage in network-type systems and will form elementary nodes of the collaborative network:

Fig. 1 Typology of collaborative behavior



1. Non values - meaning employees who fails to produce results, performance, and to bring added value, even when working individually, but even when working in collaboration with colleagues in their organization or with potential colleagues from another organization.

2. Bees - designates employees who easily able to obtain individual performance and achieve their individual goals, within their organization not working efficiently or at all

and no performance gain by working with other employees, but, they get results and collaborate efficiently with new people, unknown, possible future mates in the creative community. This is the typology of the active employees and always eager to external activities, trips, which always feel the need to find places in many places outside the organization (for example, courses, workshops, exhibitions, product presentations, work communities or creative communities).

3. Rabbits - means employees who work together effectively with other people who are in continuous motion both within the company or outside, but it fails to produce results, performance, to bring value when working individually. During their activity, they are found everywhere, interacting with others, but their tasks are affected.

4. Health Fish - are employees who get good results both individually and in collaboration with their colleagues, but do not receive performance or collaborating with individuals from outside the organization. There are those who generally identify with a second family company, with an intimate setting where they spend their daily lives and are reluctant or feel uncomfortable, helpless, they are blocked when they should interact with the outside world.

5. Bumblebees - are employees who do not deal effectively with their own tasks, fail to focus on individual goals also are not sociable and do not fit into the new collectives, but getting good results from collaboration with their mates, they communicate and collaborate better with colleagues within their own organizations, which can maintain a friendly and a family environment. They are always active and they can be found in different departments or collaborating with colleagues in the office.

6. Cowboys – meaning misfits employees, dissatisfied with their own company, which not channel their efforts to achieve the objectives because of their frustrations, but still have some skills. Although it is a rare case (because normally they will not last too long in his company), however in inter-organisational community they can find an outlet and put their skills to gain performance by working with new or different people from outside of the company.

7. Bridges – meaning the employees who receive performance on all levels, whether working individually, they are capable in their employment and reach their goals, whether they interact and collaborate with all kinds of people.

8. Dolphins - is the typology of employees who get results and performance only working individually, but they have an attitude that is contrary to the collaboration. They are effective on certain areas or activities of the company (eg sales). For this reason, many companies focused on collaboration, prefer to keep these employees, but does not promote them.

3. Framework for evaluation

Communication between employees who are involved in a network of inter-organizational collaboration can be made directly or can be made by the mediators for the transmission of messages. Face to face communication provide richness.

To assess intensity of the communication and the spatial proximity and inter-organizational structures for collaboration, I made a study of 56 companies. In this study, I evaluated the modes of communication used and the intensity of communication with partners (suppliers, customers, NGOs) in collaboration network.

The respondents in this evaluation had a choice between seven different categories of mediators of their communication: e-mail, messenger, telephone, video conference, fax, face to face, group meeting, and between five different categories to rank the intensity of the communication: daily, weekly, frequency to two weeks, monthly, less than monthly and never. I have held daily and weekly communication as a communication frequency and intensity, the other categories I considered as low or zero frequency.

In setting up communication channels is important to consider the role of spatial proximity. The spatial proximity seems to facilitate face to face communication and knowledge exchange.

This study investigates how commercial and non-governmental organizations organize and structure their communications to develop and implement sustainable

building innovations from inter-organizational collaboration.

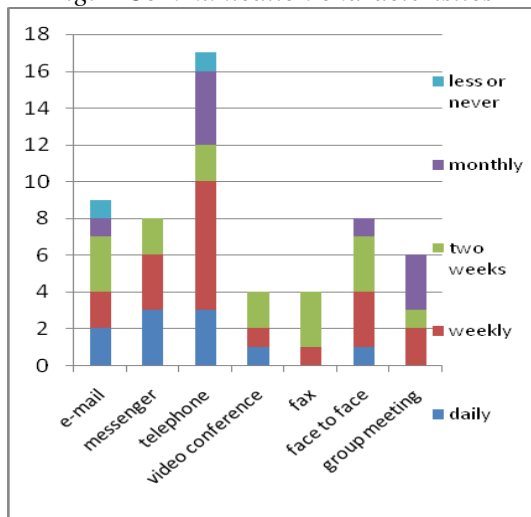
The innovation processes aimed at sustainability, are modelled as inter-organizational innovation processes. To search for answers to the research question an empirical research project studied 56 sustainable projects in Romanian companies.

1. Positive results (which have brought more, something new on every level of the value chain) of the collaboration, were obtained in those networks in which the share was based on informal structures of communication at least 70% (which favored the transmission of tacit knowledge, knowledge crucial in developing innovative value chain segments). Formal communication structures are used mainly in reporting stages and progress of collaboration, and in activities related to budget and financing activities.

As a hypothesis for future research, this mix of formal and informal communication can provide a measurable indicator of quality of communication in inter-organizational collaboration.

2. To expose mediators and communication intensity, I present the results of the study conducted on the 56 companies in the following chart:

Fig. 2 Communication characteristics



All the 56 companies used e-mail, messenger and phone as a mode of frequently communication, but messenger is not used as a mode of non-frequently communication. Considering that the people had to travel in order to communicate face to face, eight organizations used this mode of

communication (and also groups meeting) as an important facilitator of knowledge transfer and creation. From this observation, I took the third research direction:

3. ITC systems grow in importance in terms of their role in decision-making group, structured Business Intelligence Systems on collecting and processing information becomes more relevant in facilitating communication and coordination activities of individual members.

Using the external knowledge and transfer methods. Processes of negotiation in inter-organisational collaboration become more complicated in accordance with the increased participation in decision making.

Evaluation and analysis of seven inter-organizational collaboration [28] found that participants had limited systematic mechanisms able to transfer knowledge back into the organization, knowledge created through collaboration. In this study, the author has examined best practices in collaboration, but concluded that the excessive use of communication and in particular the type of informal, face to face communication, the large number of connections developed at the individual components as nodes of the network, have contributed to the inconsistent use of technology, systems and processes.

Several interviewees confirmed that the starting point for using knowledge of the results of inter-organizational collaboration is the personal effort of the employees involved, effort to plan and design implications for their organizations, knowledge gained, and more, to then identify the appropriate internal mechanisms for knowledge transfer within the organization.

Operating in an unpredictable environment and to some extent under the influence of some uncontrollable circumstances, organizations involved in inter-organizational collaboration networks are faced with the need to control a continuous process of adaptation and transformation, a process characterized by the speed of change and high frequency interference, which does not allow control of the organizational managers. [9].

In accordance with an emerging vision, identifying and managing change must be a responsibility of all stakeholders in a collaborative project, therefore it is expected

that participants be competent, adaptable, willing to assume responsibility for identifying deficiencies and implementation of collaborative solutions [23].

5. Discussions

The objectives of my research approach, have as their purpose, proposing a coherent set of actions for the management of organizations to improve their ability to obtain additional value through participation in collaborative inter-organizational structures of continuous innovation.

By identifying factors and translate them into models follow:

- to explain the emergence, development, configuration, maintenance and dissolution of collaborative networks,
- to explain the formation of inter-organisational collaboration structures that is self-organizing, and,
- to identify predictors for inter-organisational collaboration models.

In relation to the current level of research on the inter-organizational collaboration has been shown that the partners in a collaborative network have limited systematic mechanisms able to transfer knowledge back into the organization, knowledge created through collaboration.

The interconnection between internal company networks and the networks created in collaborative community is poor, excessive informal communication such as "face to face" showing inconsistent use of technology, systems and processes [28].

One of the challenges ahead is to argue and demonstrate the potential ability of a Business Intelligence System to provide the necessary levers and tools for efficient management of collaborative networks.

Companies must have the tools to enable them to receive immediate results and knowledge from the inter-organisational collaboration, their correct analysis and making appropriate decisions in the shortest time possible. Moreover, for the marketing of innovations generated at the network level, information from external environment is vital, companies must be aware at all times that are most wanted products on the market, that are most profitable customers, what new products and services should they offer to remain efficient.

In addition to competitiveness, companies must constantly be concerned with optimizing their value chains and improve business decisions, to have achieved success in trading the collaborative innovation on the market.

Evaluation of Business Intelligence System involvement in innovative collaboration could be made by:

- the ability to extract the essence of information developed in collaborative network;
- development of intuitive information, qualitative assessment of how the information collected and synthesized are offered on the network partners (eg, information that is offered to customers before and after the sale, giving customers the information needed to make smart decisions to purchase);
- the effect of the collected information processing from the collaborative network and the absorption capacity of the system developed within the organization;
- the effect of using information gathered and summarized by evaluating how they serve the network partners.

6. Acknowledgment

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Building and Maintaining Relationships with Customers through the Website

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Abstract

The website is very important in e-commerce, because it is the place where business is conducted and where company and customers meet. This paper presents the characteristics a website needs to have, in order to succeed in the online marketplace. The objective of many online companies is to maintain a long and profitable relationship with them. The website gains in this case the greatest importance.

Key words: website, e-commerce, customer, relationship.

J.E.L. classification: L21, L 81, M 31.

1. Introduction

Online customer retention is as important as customer acquisition. It is not easy to determine visitors to return on the site and to make online purchases. However, this is the only way to succeed when doing business online. It is noteworthy to mention that in creating a site, online marketers should be aware of which are the potential customers that need to be attracted to the site. To create content for your website involves a hard work, especially when running a business online through the site. It is necessary to add current and attractive information on the site, as well as having ongoing promotions and permanently new products. This is one of the conditions to keep customers happy and make them return. If a site succeeds to impress a visitor, then that visitor will have a reason not to leave the site, and may be encouraged to buy on that site, and if he is satisfied, he will recommend the site to other people he knows.

2. Website content

A good content sells a product, for which the site content must be given much importance. To become successful in online business, the website needs to be simple, easy to build and to maintain. Its major purpose is to attract traffic and to convert visitors into customers. There are several factors that are required to be taken into account when creating and designing a site for an online shop. Unfortunately some of them are ignored by those who conduct business through the Internet. To become successful in online business, the website needs to be simple, easy to build and to maintain. Its major purpose is to attract traffic and to convert visitors into customers. There are several factors that are required to be taken into account when creating and designing a site for an online shop. Unfortunately some of them are ignored by those who conduct business through the Internet. People in general are always in a hurry and that is the way they are also acting on the Internet. A company has to capture their attention on the site in a very short time, usually between 10 and 30 seconds. For this reason it is said that the website must be built for speed. The key to a fast loading web site is to use graphics that are within certain dimensions, compressed pictures and to use flash technology only if it is really needed. It is required to identify the target segments and to ensure that the site meets their needs. It is essential to know the visitors and to build the site according to their preferences. We must not ignore the fact that the site has one main purpose, namely to sell the product or service. Well-constructed sites offer credibility and gain trust among visitors. Credibility is very important, because even the most professional website designed to attract potential buyers will fail, if they do not trust that online store. The first step to

build trust and credibility is to display on the site a privacy statement and various contact possibilities. Site navigation must be simple, easy and intuitive. It was already demonstrated that one of the main reasons for online shopping are convenience and easy navigation through the site. Given that visitors do not have the patience to navigate the entire site to find what you're looking for, it is also very important to include a search function on the site.

The site should be consistent in layout and design. The colors and theme must remain the same for the entire website. It is disturbing for visitors to navigate the site and to have the feeling that as they navigate through several web pages of the same website, they are actually visiting another site. Feedback forms posted on the site and forms that allow potential customers to ask questions about products add interactivity to the site. Customization is another key element which can build confidence and increase sales. Customization facilitates the activities of cross-selling and up-selling when the customer buys online.

It was found that the following four main factors encourage visitors to return to a site: high quality content, ease of use, fast loading site, frequently updated site. [1] Among these factors, the content is probably the most important. It is important to have the right content, but also to display the right information at the right place at the right time. A great content site helps people make the right decision and also attracts visitors through search engine optimization. The site requires a user friendly and easy navigation. Neither the form nor the structure of the site should be complicated or too wide. No visitor will "get lost" in a well-structured site.

For improving website performance, the following needs to be taken into consideration: content development, adding or improving onsite search, site upgrading and redesigning, enhanced onsite merchandising features, cross-selling and up-selling, personalization or customization, adding customer-generated content and reviews and last but not least web analytics.

Online buyers are constantly searching for sites with updated content. Especially the active Internet users navigate from one site to another, from one page to another. Perhaps they are exactly the visitors that a company

wants to attract: those who want to stay online for several hours, searching for products, services and information of interest. [2]

Site content may be suitable for viral marketing when it proves to be interesting and useful. Internet users in general tell friends about it, or they send them a link. A good site makes people talk about it. But this is not easy and requires increasing the value of content. The more useful is the information and the more compelling the content, the more users will visit the website.

A study by Rosen and Purinton (2004) addressed the importance of quality of a website to a user's intention to revisit the site. Thus, sites containing coherent, understandable, an adequate design and less complex are revisited, because users are satisfied. The text posted on the site should be short and concise, avoiding long sentences. In terms of graphics, the site should be arranged clearly and not to be overloaded. [3]

The ability to keep visitors' interest to a site is determined by the attractiveness of the site, known as website stickiness. [4] To enhance the stickiness of the site, content will be updated frequently and the information will be accurate and interesting. Attractiveness is also achieved by providing very good customer service, which in turn will transform prospects into customers and make them buy.

When creating a website the specialist should be aware of the potential customers which need to be attracted to the site. The creation of a commercial site starts with the question, to which segment it is addressed. Prospects should be defined in terms of their demographics, their type, but also in terms of their motivation, the way they think and feel. Potential customers tend to resemble to existing customers. When configuring the site, specialists will take into account the consumer behavior, the knowledge gained from monitoring their behavior. In order to succeed in an online environment, a company will focus on the following five objectives:[5]

- attract visitors to the site
- retain visitors on site as long as possible, with the purpose of determining the visitor to buy a product online

- convince the visitor that the retailer is the best one
- convince visitors to revisit the site in order to obtain more information
- obtain permission to communicate with visitors

Companies must realize that the site is a strategic communication and marketing tool, because through individualization and interactivity it enables business growth and achieving high performance. A site used as a marketing tool is that site, that: [6]

- sells and brings the consumer closer to the purchase decision
- offers customer support;
- promotes technology;
- is interactive, counting opinions and satisfaction or dissatisfaction of the customers

Internet users surf the Internet to find a product, service or information. The more they get of what they want, the more will they be attracted to the site.

What retains consumers to a site is not the advanced technology. It is the content which it offers exactly what they want: useful information and great benefits. The most important thing a retailer gets from its visitors is the permission to talk to them. Whenever a company obtains an e-mail address from visitors, it should give them something in return.

Users understand the value of their contact details and they will not disclose their data easily, just for a good reason. What companies can offer in return could be a free catalog, a forum, a report on a topic of interest, a contest, a membership or subscription to a newsletter, and the list may continue. Of course, the incentives offered to visitors are extremely important. Here we mention prizes, discounts or additional services.[5]

Online retailers get only four seconds to make the first impression through the website. In such a short time, no visitor succeeds in reading the content of the site, but it is enough time to create an emotional relationship based on the reaction to color, layout, design and navigation. If during this time visitors have not been attracted, they will most likely leave the site. [7]

The goal to be achieved by the website is to deliver a clear message to Internet users.

The challenge in building a website is to take into account the needs of the clients. Although some sites are visually attractive, they have gaps in content. Other sites send a message, but it is lost among too many images on the site.

3. Relationships with customers

The website is the primary medium by which customers interact with the company, in order to meet their needs. From the commercial point of view, the website allows electronic access to products and services, anytime and anywhere. In terms of exchange of information, the website provides relevant information for clients and receives information for the benefit of the company. The information gathered may be used to improve activities and services for clients or create new products. In terms of effects, the site helps customers meet their needs by making good decisions. [8]

If users are active shoppers, they probably may not remember every online shop that they made a purchase at. But, if the consumer it is interested, he may subscribe to their newsletter. In generally, newsletters have the great advantage of keeping the company's name and products fresh in the mind of users. It is recommended not to send newsletter too often to the subscribers, because their e-mail will be overloaded in case other companies do the same. In this case they won't be interested any more. The company must send an e-mail once a month or twice, which offers valuable and updated information. In the newsletter, subscribers should be informed of special sale prices that the company might be promoting, or of a new product list.

A customer-oriented website takes into account the customers and their needs. The website will not only meet the basic needs of the customer, but also will delight customers by fully understanding and meeting the different needs that different customers have. A customer-oriented website attempts to identify customer needs, offers benefits adjusted to their specific needs and help customer to fulfill their needs.

Online shops should offer high quality products, usually at lower prices than any offline offer. The customer is in control and he is able to change the supplier and to move

to the competition, just by one click. This change is often not due to the reason of the price charged by the online retailer, but due to the lack of customer service. Many online retailers believed that their customers will use the abundance of information to find the best prices and they did not take into account other aspects of the online buying experience. Once the competition has intensified, online companies have realized they cannot succeed by relying solely on price. For this reason they have developed strategies to provide value to customers, in order to differentiate themselves from competitors. Only the online presence is not sufficient for having success. Success comes with offering good products at fair prices and especially by providing excellent online customer service.

The website is very important in e-commerce, because it is the place where business is conducted and where company and customers meet. For this reason, the site will have those characteristics and capabilities that enable firms to acquire and retain customers. E-commerce sites are easier to leave than physical stores.

Websites can be used to build communications and exchanges by providing detailed and accessible information on products or services, on the company, on the uses or processes surrounding the products or services and on user comments and advice. The website can also provide interactive question and answer or problem-solving services and an opportunity for current and past users to exchange information, views and advice. [9]

We mention the important features that make an effective website, as identified by Sexton D. [10]. The web site should therefore:

- Be easy to find
- Download quickly
- Be inviting, attention getting
- Provide comprehensive content, to cover all the areas of interest to the target customer.
- Have the right tone
- Be "sticky", fresh content and information tailored to the visitor's needs and interests.
- Be viral, to get visitors to recommend it to others.
- Be easy to navigate
- Be personal, so the visitor should feel like a member of a community.

- Support company's product or service market strategies.

The website has a personality that is required to be continuously developed and improved. It is important to create a unique, consistent site and to be easy to remember. As visitors interact with the site, they will develop a clear picture of that company.

E-commerce efficiency depends to a large extent on how well the company is able to deliver value to its customers and how it cultivates relationships with them. An online company looks to acquire best customers and to keep them coming back again and again and to maintain a long and profitable relationship with them. The website gets a high importance because it is a way to identify a company and its quality is consistent with the company's performance and professionalism.

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Customer-Company Relationship on the Internet

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Abstract

Consumers now occupy a key position in e-commerce activities carried out on the Internet. They are now provided with more control. Their behavior becomes a challenge for online companies. Understanding consumers in cyberspace is vital for communication with them and for online marketing activities. A well-organized company knows its own customers, which are the greatest asset a company owns.

Key words: Internet, client- oriented, relationship

J.E.L. classification: L21, L 81, M 31.

1. Features of online relationships

The progress in Internet technology allows firms to customize products and services for each client and to deliver personalized services, which is not possible in the offline marketplace. As online companies know more about individual consumers and track their buying habits, customer relationship management becomes easier to accomplish. Once the relationships become stronger and lasting, both business performance and the degree of customer loyalty will increase. The online space is able to provide the means necessary for an interactive dialogue with customers and raise the expectations of each of them.

Chaffey D. and Smith P. highlight the lack of customer relationship management in the fast moving online world: [1]

- customer expectations are often higher than those of the online world;
- customers` raised expectations are regularly crushed by previously successful offline companies;
- customer e-mails are left unanswered for days;

- immediate responses are expected, but more often than not, are not delivered;
- satisfying customers is simply not enough to keep them;
- surfers visit fewer sites, but spend more with them.

However, specific features of the Internet, such as loss of spatial and temporal distances between retailers and buyers, and interactive transmission of information make the Internet an ideal environment for building, maintaining and strengthening customer relationships.[2]

One of the main goals of Internet marketing should be to develop a large database with detailed information about current customers, but also about the potential ones. The database is responsible for the development of competitive products and services that will meet the needs of each client. [3]

Most companies are faced with an increasingly sophisticated customer base, requiring a higher level of services for customers, even through multiple channels. To reach customer satisfaction, companies need to maintain consistency across all channels of interaction (such as the Internet, e-mail, phone and others) and in all the departments in which a company interacts with customers (sales, service and marketing). To meet this challenge, many organizations are considering adoption of e-CRM (electronic customer relationship management). [4]

The Internet offers multiple ways for a company to learn about its customers and their needs. By using certain tools can be summarized the products that were purchased on site and what search strategy was pursued before the purchasing. Customers are able to write reviews on existing products. There is also possibility fill the online feedback form on the site about the company and its products.

Regarded as a marketing channel, the Internet has both unique features and characteristics with other marketing channels. The Internet offers the possibility to store vast amounts of information to search and disseminate information, to provide information on request, to serve as a trading environment and as a physical distribution medium for certain goods, for example software.

The following advantages of the Internet are noteworthy to mention: [5]

- is a great mean to reach a certain segment of the population;
- offers very good possibilities for segmentation of the public, avoiding to spend money to send the message to people that have no interest in it;
- allows customizing messages based on the interests of those who will be exposed;
- amount of information available to consumers can be very high;
- is a captive media, those who access the Internet focus on the monitor;
- provides a high interactivity;
- offers unlimited creative opportunities (can be combined with image, sound and motion);
- allows various forms of Internet advertising from banners to newsletters, search engines, mailing lists, pop-ups;
- allows various methods of payment that can be tailored to each client's needs
- has great perspectives for development.

As the major disadvantages we can mention the low number of Internet users in some areas, small budgets for communication or poor development of online payment systems.

The Internet offers some important features for marketing, like interaction, personalization or measurability. [6] Perhaps the most important one for the marketing activity is interactivity, which allows bidirectional communication between companies and customers. Customization involves providing personalized service to each client depending on his preferences. Measurability refers to automatically obtaining of detailed statistics on the number of visitors to a website, their profile and preferences, advertising effectiveness. The Internet is a unique opportunity compared to other media in terms of communication and

advertising, because it allows easy exchange of information.

2. Focus on customers

In the Internet age, the client has access to a considerable amount of information, at global level. The challenge lies in the fact how he can use this information. Customers are now provided with more control. Their behavior becomes a challenge for online companies, because of the increasingly high expectations. Consumers now occupy a key position in e-commerce activities carried out on the Internet. Understanding consumers in cyberspace is vital, not only to communicate with them, but also for future online marketing activities like website construction, selection of products that will be offered online and for choosing marketing tools and strategies necessary to the online business. A company that does not learn about their clients cannot communicate effectively with them and cannot develop a solid customer-company relationship based on trust.

The emergence of electronic commerce has changed many aspects of traditional business and prompted the emergence of new companies with new business models and new business opportunities. Companies are challenged to rethink the existing relationship between the organization and its customers. Although repeatedly stated that the Internet has changed the basic rules of relationships with customers, it has not changed that customer orientation leads to sustainable development and to achieving sustainable profits.

In order to create and maintain loyalty, companies have to understand that the Internet is primarily a client-centered environment. The customer should be regarded less as a target, but more as a partner.[7] Despite the fact that the online space is risky and has high level of uncertainty, customer loyalty may be stronger in the online space. Customers are looking for those companies that feel they can trust. In this situation, trust becomes more important and more powerful than price.

A well-organized company knows its own customers. A good way of viewing customers is as a core element of the company. In fact,

customers are probably the greatest asset that a company owns. Like any other asset, it must be identified, maintained and maximized the revenues from it. This requires customer knowledge. [8]

Consumer behavior in the online marketplace is not totally different from the behavior in the physical environment. The virtual space presents some disadvantages, that online store managers must know how to counteract. In general, customers need to build trust in order to make purchases.

Customers are looking for those companies that they can trust. In this situation, trust becomes more important and more powerful than price.

Consumer confidence is vital in electronic commerce, characterized by the lack of contact with store personnel and the inability to touch products that customers would like to buy.

Customers want to know much about a product and its features, they want detailed product descriptions and images of them posted on the website, and customer support. An online shopping experience begins with the website. The site must attract or reject a customer. In the dot.com era, specialists believed that a Web site is especially attractive if it has a pleasant and sophisticated design. They omitted however to take into consideration that this didn't not allow fast loading of pages.

Different studies over the years have demonstrated a general truth of the market economy: as consumers have more power, the companies become more responsive and customer satisfaction is higher. When consumers have a multitude of options and access to information about these options, and low costs for transfer to the competition, then the customer is in control. Companies that fail to focus on customers, will lose. Consumer confidence is the key to a successful online store. Currently, customers have a relatively low confidence in online shopping. Late deliveries, additional delivery costs which are not posted on the website and incorrect information about the products, unsecure payments have a negative effect on consumers' trust. For this reason, online stores should adopt necessary measures to build confidence and develop e-commerce.

Online shopping differs from shopping in traditional stores. The main difference is the uncertainty that is manifested in the ordering and acquisition process.

The most powerful online retailer, Amazon.com has developed a passion to serve the consumer. Over time, Amazon.com has developed from a "dot.com" to a multinational corporation, a leader in the online retail industry. Amazon.com is characterized by two important goals: customer satisfaction and company growth. The founder of Amazon, Jeff Bezos said repeatedly that he wants to make Amazon.com the most customer-oriented company, knowing that a good reputation has a great impact on potential customers than any advertising campaign. Amazon.com deals obsessively to make each customer contact with the company a unique personal experience. The visitors of Amazon have a unique combination of advantages: a huge variety of products, enormous choice, user-friendly site, convenience and other.

Like the offline marketplace, in order to attract customers, the company needs to offer the right products to the right client. Goods or services must meet customers' needs.

To build better relationships with customers on the Internet it is required to identify and to maintain the most valuable customers.

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Coordination between the Common Monetary Policy and the National Fiscal Policies – Principles, Methods and Difficulties

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Abstract

The European model's entry into the third integration stage – The Economic and Monetary Union – has changed the conception of the macroeconomic policies. The „one for one” principle changed into the „one for all” principle. Within the Eurozone, all the member states can share both the benefits and also the costs of a common monetary policy, which should be combined with the national fiscal policies, elaborated by each country which is member to the Eurozone. Our research proposes an analysis of the technical difficulties in achieving the common monetary policy – national fiscal policies mix within the Eurozone.

Key words: monetary policy, fiscal policy, Economic and Monetary Union

J.E.L. classification: E61, F15

1. Introduction

The basis of the Economic and Monetary Union have been settled during the Maastricht Treaty, when the strategy for launching the unique currency was settled and the institutional arrangements related to the union's operation were clearly settled. The provisions in the Maastricht Treaty represent the finality of a sinuous way in settling a monetary union, clearly specifying the detailed operation of the system, including the statutes of the Central European Bank and the terms in which the monetary union was going to be started.

The bases of the EMU operation Treaty have an interesting history. In view of the high heterogeneity of the macroeconomic conditions existing in the EU member countries, Germany –, being confident that the price stability was the relevant indicator related to a country's macroeconomic performance, proposed to settle conditions for the Eurozone acceptance to other EU member countries. According to this country's position, the acceptance to the monetary union should have been selective (based on meeting the nominal convergence criteria) and it should provide a country's impossibility to “achieve” the status of a train jumper.

On the other hand, the introduction of a unique currency was involving the necessity of a single interest charge, a unique rate of exchange compared to the third party countries and, implicitly, a unique monetary policy. Moreover, the need for a single central bank. Even though it had a complicated structure, the new European Central Bank (ECB) coexists with the national central banks. The European System of Central Banks (ESCB) includes the new specially created European Central Bank (ECB) and the central banks of all the EU member countries. As not all the EU countries joined the monetary union, a new term has been established, Eurosystem, which refers to ECB and the national central member banks. The Eurosystem implements the Eurozone's monetary policy, it coordinates the exchange operations, in accordance with the finance ministers from the member countries, it owns and manages the official foreign currency reserves of the countries which are member to the Economic

and Monetary Union, it monitors the payment systems and it is involved in cautiously supervising the crediting institutions and the financial system (Baldwin and Wyplosz, 2006).

The Treaty mentions that the main task of the Eurosystem is to provide the price stability, but the terms used for this objective are vague, as they do not provide an exact definition of the price stability. However, the Eurosystem chose to explain the price stability as an annual increase below 2% recorded by the harmonized index of consumer prices (HICP).

2. Difficulties in coordinating the macroeconomic policies within the Eurozone

The price stability, a low interest charge, sustainable public finances, the extreme balance, they all represent benefits for the Eurozone member countries. Within the Eurozone, we may define two types of coordination related to the monetary and fiscal policies: the budget policies/monetary policy coordination between all the countries included in the Eurosystem (The European Central Bank + the central banks of the Eurozone member countries) and the coordination between the national budget policies of the Eurozone member countries.

The relation between the two macroeconomic policies may be analyzed from three points of view:

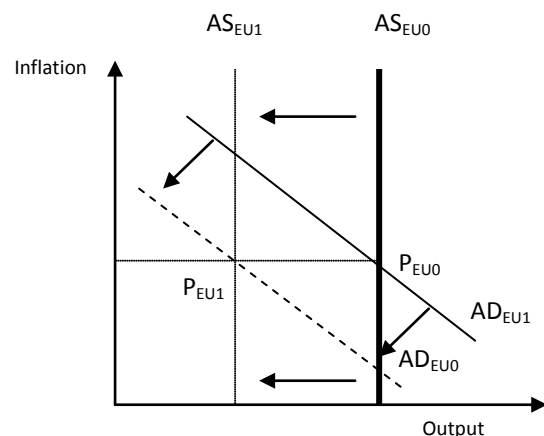
a. On a long term, the monetary policy affects the inflation rate only (nominal variables), and the fiscal policy determines the degree of indebtedness, the role and the importance of the public sector, the level and the structure of taxation (and, by means of it, the real variables).

For example, let us consider the long-term interaction between the monetary policy and the fiscal policy (in case there are two countries which are member to the Eurozone). For this analysis, we use the aggregate demand AD – the aggregate supply AS. The AS curves are vertical for both countries and they are represented at the level of the potential GDP. We are also assuming that the two countries have the curves AD and AS.

On a long term, the European Central Bank (ECB) can establish a certain level of the inflation rate for the entire area which forms the Economic and Monetary Union, without affecting the production level in neither of the countries, nor for the entire area.

In view of this target of the European Central Bank, a change in the government expenses in one of the two countries influence the relative output, the prices and the distribution of production between the public sector and the private sector, but not the level of the GDP on a long term. The occurrence of a shock upon the aggregate supply in one of the countries, as well as the increase of taxes which distorts the financial system, moves the curve AS towards the left both for that country, and also for the entire monetary union. However, the European Central Bank will react to this impulse (by increasing the interest charge), without changing the output in another country which is member to the monetary union (Von Hagen, J., Mundschenk, S., 2002). Thus, it will be able to maintain the same inflation rate without long-term consequences upon the output of another country (figure 1).

Figure 1. Common monetary policy- national fiscal policies mix on a long term



The graphical analysis shows that the European Central Bank – by means of its monetary policy – can achieve the long-term price stability, without interfering with the fiscal policy, and the national governments may choose the extent of their expenses and taxes in compliance with the national preferences. Thus, beside imposing a constraint related to the budget deficit on a

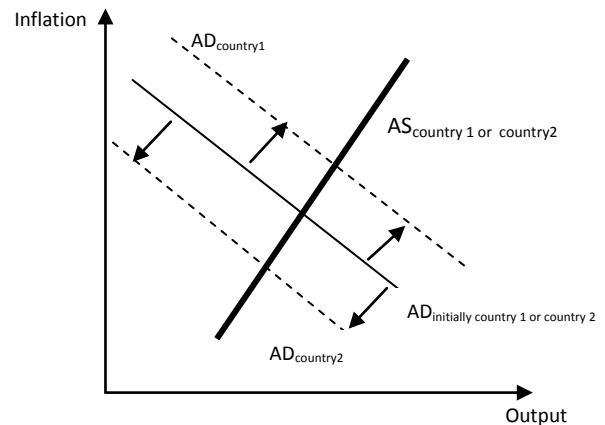
long term, the coordination between the common monetary policy and the decentralized fiscal policies of the member countries is not necessary;

b. On a short term, if the European Central Bank has the full control upon the interest charge of the monetary policy, we cannot say the same thing about other variables which provide the transmission of the monetary policy's effects – the rate of exchange or the interest charge on a long term –, which are influenced by the fiscal policy.

For example, let us consider the AD-AS model presented above. On a short term, the wages are rigid and the non-anticipated changes of the prices have effects upon the real output. The curve of the aggregate supply AS has a positive slope. The European Central Bank can determine the balance rate for the interest and the level of the aggregate demand for the entire Union.

Now, let us assume that the government of the first country wants to increase the output level by increasing the government expenses and, thus, the budget deficit. The aggregate demand will get increased in that country, as well as the aggregate demand of the entire union. Inflationary pressures will occur. ECB will increase the interest rate of monetary policy in order to settle the inflation within the target-level, thus moving the line of the aggregate demand back to the balance point. However, by increasing the interest charge, the lines of the aggregate demand for both countries will move towards the left. The aggregate demand for the entire union will remain at the same level as the initial one, but the aggregate demand is higher for the first country and lower for the second one (figure 2). Thus, we encounter a conflict between the common monetary policy, within the Union and the different fiscal policies, nationally implemented. According to the slope of the curve AS for each of the countries which are member to the Union, this interaction between policies determines the level of the aggregate demand AD for the entire Union and the way in which this aggregate demand is distributed between the two countries. The inflation rate within the Union is determined by the aggregate level of the output in balance (Von Hagen, J., Mundschenk, S., 2002).

Figure 2. The common monetary policy-national fiscal policies conflict, on a short term



The interdependences between the monetary policy and the fiscal policy are numerous on a short term (less than a year) and on a medium term (from one year up to three years). These interdependences show that the process of coordination between the monetary policy and the budget policy is necessary.

3. Solution: Policies for stimulating the aggregate supply

There is also a reform proposal with a paradigm level with reference to the importance given to the economic policies in absorbing the shocks encountered by the economy. We speak about the focusing from encouraging/restricting policies for the aggregate demand towards *policies which stimulate the aggregate supply*.

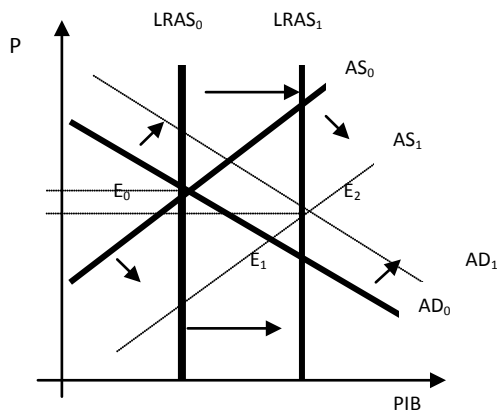
As the absence of the structural reforms is a major disturbing factor in creating an optimal policy mix, the coordination of the European economic policies should also suppose measures for the aggregate supply. We may argue this assertion with the worries encountered during the last decades of the European specialists, which have been materialized in the substantiation of the Cardiff, Luxembourg and Köln Processes, and even in the Lisbon Strategy.

It is amazing that, while the monetary and fiscal policies are sometimes conflictual in reducing the fluctuations of output and of the inflation rate, they are endlessly speculated. However, the economic theory shows that these two macroeconomic objectives can be

simultaneously reached by stimulating the aggregate supply. Even though the experience of the '70s show that using the instruments resulting in the increase of the aggregate supply does not produce miracles and that it a longer period of time is necessary so that it could show its effects, the creation of a mix including policies focusing on the supply – which improve the operability of the markets, referring to taxation, which eliminate the effects of the negative externalities, etc – would be optimal.

The main target of the policies which stimulate the aggregate supply is the increase of the potential output, by increasing the technical and allocating efficiency in distributing the resources.

Figure 3. Implementation of the policies which stimulate the aggregate supply



Economy is in balance on a short term E_0 (which meanwhile corresponds to the potential GDP at the initial moment) (figure 3). The movement of the curve AS on a short term from AS_0 to AS_1 determines the increase of the GDP and the decrease of the average price level P . Economy reaches point E_1 . The change in the aggregate supply AS on a short term also determines the movement of the line corresponding to the aggregate supply AS on a long term from $LRAS_0$ to $LRAS_1$. So, the same thing happens to the increase of the potential GDP. Thus, economy will reach the new balance point E_2 , as the aggregate demand AD will also get increased, from AD_0 to AD_1 . The level of the potential GDP will be higher,

while the average level of the prices will get decreased.

4. Conclusions and recommendations for the European model

Starting from this theoretical approach, we consider that the measures which should be taken in order to stimulate the aggregate supply in the European model are as it follows:

- diminishing the effects of the imperfect competition – by means of the common policy in the competition field;
- diminishing the commercial and protectionism barriers – by means of the common commercial policy;
- improving the efficiency of the fiscal systems by means of granting subsidies, collecting taxes, decreasing the social security contribution, etc.;
- strict settling of the property rights – by means of the *acquis communautaire*;
- cautious wage policies;
- strong budget constraints for the bad payers;
- liberalization in the field of public utilities, telecommunications, transports, etc.;
- decreasing the transaction costs.

It is praiseworthy that the European political decision makers realized that these above listed measures only do not result but in a level increase. Actually, measures should have been taken much earlier in order to accelerate the increase of the potential GDP:

- stimulating economies and investments;
- render the labor market more flexible by adopting flexible and modern labor codes;
- facilitating the access to new technologies, mobile phones and Internet;
- increase of expenses for research-development up to 3% of the GDP;
- adopting the unique European system for patenting;
- increasing the rate of employment by stimulating the initiative of the small entrepreneurs;

- professional training of the laborers by adopting the continuous learning system;
- increasing the rate of participation to labor.

As a conclusion, we may say that the success of the European model supposes an optimum mix of policies, with reference both to the aggregate demand, and also to the aggregate supply. Thus, the European dynamism, the social cohesion, the accomplishment of the unique internal market and the knowledge based society remain pure dreams.

5. Acknowledgement

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Performance Reflecting by Creating Value in Terms of Stock Type Indicators: Market Value Added and Total Shareholders Return

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Abstract

In addition to classical indicators used in financial analysis also occur modern performance measurement indicators that are considering the concept of value creation. With enterprise's modern performance measurement indicators is quite simple to express performance shareholders' point of view and quite difficult in terms of other business partners.

Key words: performance, financial analysis, value added.

J.E.L. classification: M41, M49.

1. Introduction

In determining the indicators of value creation the basis element is represented by *value added*, which presents multiple valences for performance's measure and evaluation.

Depending on their nature, *value creation indicators* can be classified as following [1]:

A) *Hybrid nature indicators* (such as accounting and financial ones):

- *economic profit*, respective *economic value added (Economic Value Added – EVA®)* - is a registered trademark of Stern Stewart cabinet);
- *Cash Flow Added – CVA*;
- *Internal Rate of Return*, which is identified with the *Cash Flow Return on Investment – CFROI*;

B) *Stock nature indicators*:

- *Market Value Added – MVA*;
- *Total Shareholders Return – TSR*.

Strengths and *weaknesses* of these indicators are presented in Table 1[1].

Table 1. The value creation indicators - strengths, weaknesses

Indicator	Strengths	Weaknesses
A. Hybrid nature indicators		
<i>Economic profit = Economic Value Added</i>	Simple indicator, increases the awareness of concept of average weighted capital cost	Limited to one year. Evolutions in time, difficult to assess.
<i>Cash Flow Added</i>	It is not limited to the results of a year.	Supposes complex calculations.
<i>Cash Flow Return On Investment</i>		
B. Stock nature indicators		
<i>Market Value Added</i>	Striking simplicity. Reflects the total value created and not the annual one.	Subject to volatility in capital markets. Difficult to apply to not-quoted companies.
<i>Total Shareholder Return</i>	In average on long term represents the shareholders returns.	Calculated on a too short period and is the subject to volatility in capital markets.

Source: Quiry, P., Le Fur, Y., *Pierre Vernimmen, Finance d'entreprise 2009*, p. 694

2. Market Value Added – MVA

Market value added measures the new created value and is determined as the difference between the current market value

of a company and invested capital (accounting value of capital and debt):

$$MVA = \text{Market value} - \text{Invested capital}$$

Invested capital (C_{ti}) is the sum of present value of initial capital (C_i) invested by shareholders and the present value of reinvested profits (P_{ri}).

- Market value of *listed* company constitutes the market capitalization (C_b) determined by multiplying the actions' stock course with the number of shares issued and outstanding. The calculation relationship of market value added indicator becomes:

$$MVA = C_b - C_{ti}$$

- If the company is not listed, the market value is estimated on the basis of the *present value of future flows* generated for owners.

Consequently, the difference between market value of the company and investors capitals is the price *surplus* that the *market* gives the company as a result of successes registered over time [2].

Market value added can have a:

- *positive value* and means creation of wealth for shareholders by increasing the amount of capital invested by them;
- *negative value* and means reduction in market capitalization value under the own value capitals of the company. In this case not only that there was not created wealth for shareholders but also a part of the existing wealth at the time of investment was destroyed.

Market value added has some *disadvantages* because:

- does not consider the opportunity cost of invested capital and nor the amounts distributed to shareholders;
- can only be calculated at enterprise level and not on division level.

The theory also attributes importance to the *added value market index* (I_{MVA}) determined as ratio of market value of the company, respective that market capitalization (C_b) and total invested capital (C_{ti}).

Calculation of *market value added* (MVA) for the two analyzed societies listed on Bucharest Stock Exchange is shown in Table 2.

Graphical representation of the evolution of market value added for the two analyzed societies listed on Bucharest Stock Exchange is suggestively shown in Figure 1 and the market value added index's evolution is given in Figure 2.

Figure 1. Evolution of market value added (MVA)

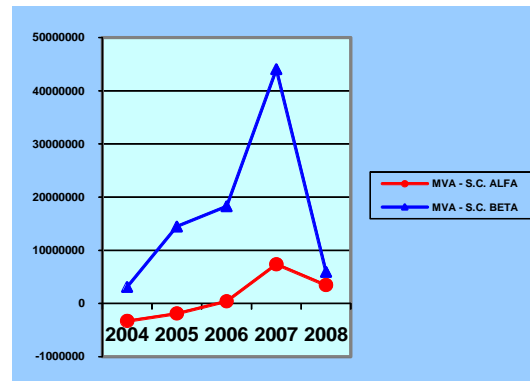
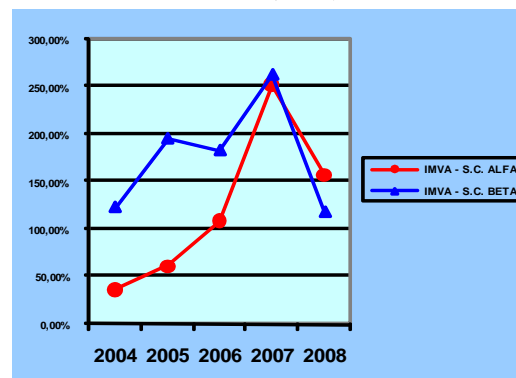


Figure 2. Evolution of market value added index (I_{MVA})



In 2004-2005 period, at *S.C. ALFA S.A.* is noticed that the *difference* between market capitalization and the present value of invested capital is *negative* reflecting the *destroyed market value added*.

After 2005 indicator's value increases and reaches its highest level of 7372918 lei in 2007; in the last year the market value added constricts reaching 3458568 lei due to lower market capitalization (amid stock market lower rate) and invested capital growth, particularly of reinvested profits.

In the case of *S.C. BETA S.A.*, the growth of market value added during 2004-2007 from 3116401 lei to 10945935 lei is the result of increased market capitalization (market value) at a higher rate than invested capital growth. In 2008 we witnessed a sharp decrease of market value added, due to

depreciation of the company's market value (market capitalization), compared to increase of invested capital.

The results obtained from research show the discrepancy between the positive and increasing market value added (2004-2007) and negative value added, which confirms that in reality there *exist value created for investors* in terms of evaluation by market of the stock performance.

3. Analysis of total shareholders return

Concept introduced by consultancy firm Boston Consulting Group, *total shareholders return* - TSR characterizes the *value created by the company to its shareholders* during a period of time and shows *what investors actually receive from their investment*.

The indicator is calculated as the ratio of *change of stock value action* (ΔCa) plus received *dividends per share* - DPS and *market value of action at the beginning of the period* (Ca_0):

$$TSR = \frac{\Delta Ca + DPS}{Ca_0} \cdot 100$$

where,

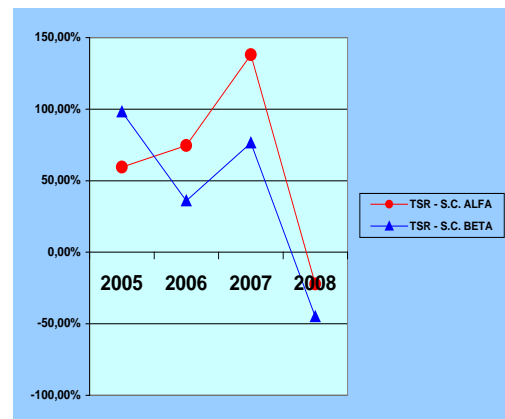
ΔCa = *change in stock value of the share* established through the difference between the share at end of the period (Ca_1) and the course of share at the beginning of the period (Ca_0), $\Delta Ca = Ca_1 - Ca_0$.

Boston Consulting Group reveals a close correlation manifested between *cash flow added* evolution - *internal indicator* of assessment for value created by the firm for its owners and dynamics of the *total return of shareholders* - commensurate *external indication* of this value [3].

Increase total shareholders return reflects the increased value created by enterprise which allows stimulation of current and potential investors.

Graphical representation of the evolution of the *shareholders total return* is presented in Figure 3.

Figure 3. The evolution of return rate obtained by shareholders (TSR)



The total return rate obtained by shareholders of ALFA company increases from 59,49% in 2005 to 74,61% in 2006 and reached maxim level of 138,12% in 2007, while in 2008 registered the negative value - 22,22%. The indicator's increase was the consequence of favourable change of stock course and the increase of dividends per share. The decrease of total return rate of shareholders from the last year was the consequence of the stock rate increase at the beginning of the period from 19 lei/share la 45 lei/share.

In the case of S.C. BETA S.A. shareholders total return rate has an oscillating trend: decreased from 98,21% in 2005 to 36% in 2006, then increased to 76,47% in 2007, while in 2008 the decreasing emphasized, the indicator reaching the minimum level -45%. Strong reduction in 2008 was due to the increase of stock rate per share at the beginning of the period from 34 lei / share to 60 lei per share. It appears that during 2006-2008 dividends per share have zero value since the company choose that the profit to be distributed to finance investment programs and decided not to pay dividends.

BETA shareholders *gain* in 2005 - 2007, materialized in *addition of value* obtained from the *holding of shares*, which 2005 is added and the gain in the form of *paid dividends*.

4. Conclusions

Improving financial performance of enterprises can be achieved by performing a complete and proper financial diagnosis analysis, in this sense analysis through value creation becomes essential.

Currently, the trend towards performance evaluation based on value creation, but subordinate to the desire for sustainable development is manifested. Value creation becomes the primary goal of a business that should take into account the requirements of all interest groups, to respect the environment, right to work and human dignity.

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Financial Equilibrium Analysis at Firm Level

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Abstract

A company's financial position is influenced by its own economic resources, the liquidity and the solvency of the company, its financial structure, its adaptability to environmental changes. The company's self-financing capacity represents the ability to increase the company's working capital needs, investments and reimburse the liabilities, finance some current management needs, to remunerate the invested capital.

Key words: Working capital, assets, liabilities, self-financing capacity, proceeds, expenses.

J.E.L. classification: D58

Company's ability to generate cash or cash equivalent results from its ability to pay employees, suppliers, creditors and remunerate its owners.

Underlying issues are information about the structure, performance and changes a firm's financial position. There are several factors that influence the financial position a company: economical, liquidity and solvency of the company, financial structure, its adaptability to environmental changes.

On this basis there is information about the structure, performance, modifications of the financial position of a firm. There is a series of factors influence a company's financial position: economic resources, liquidity and solvency of the company, financial structure, its adaptability to environmental changes. Information about these factors is helpful in:

- anticipation of future credit needs;
- distribution of future cash flows;

- anticipation of future funding opportunities;

- anticipating the company's possibility to honour commitments;

- evaluation of operating activities, financing and investment.

Financial balance can be defined by the company's ability to secure payment of the previously contracted liabilities without interruption, including current liabilities incurred in implementing the object of

activity, or tax law, in its collections, such that it can avoid the risk of bankruptcy. The word balance evokes the idea of harmony between the elements of a system; in finance it means the harmonization between resources and needs.

The balance reflects the financial stability of the company at a due time.

The balance is a summary document which shows the assets, liabilities and equity of the entity at the end of the year, and in other cases provided by law.

Each element of the asset is an "allocation" of money, being structured by their degree of liquidity (the ability to be converted into money). Thus, intangible assets (patents, licenses, studies, other trademarks and copyrights) are the less liquid; tangible assets (land, buildings, equipment, etc.) have a higher liquidity than the intangible assets and financial assets (debt participation, long-term loans) are the most liquid.

Due to relatively slow rotation of capital invested in such assets, they are called "permanent allocation" (stable). The asset include assets then (stocks, claims, cash availability) more liquid than property, called the "temporary allocations," where the recovery of the invested capital is made at the end of the exercise.

Permanent allocation should be generally covered by permanent sources. The difference between permanent sources and permanent allocation represents the "working capital" (WC) of the enterprise.

Working capital - is an indicator of long-term financial balance that compares the permanent sources of funding with the permanent needs, representing the level of stable sources used for funding the cyclical assets and is determined whether:

a. as a difference between the permanent capital and intangible net assets, using the relation:

$$WC = \text{Permanent Capital} - \text{net Assets}$$

b. as a difference between assets (stocks + debt + availability) and short term liabilities (financial obligations and liabilities on short term):

$$WC = \text{Assets} - \text{STL}$$

In practice the following situations may occur:

a. Increase of the working capital - a positive situation as an important part of working capital will fund assets.

It is not considered favourable the working capital that covers entirely the need of funding for assets, because the permanent resources, more expensive could be replaced by temporary resources.

b. Working capital decrease - negative situation because the assets are covered in a less measure from permanent resources.

The working capital requirement is an indicator of financial balance but on short-term, representing the part of the cyclical assets to be financed from stable sources, representing the assets with a liquidity term under a year that are supposed to be financed with maturities over one year.

Working capital requirement is calculated as follows:

$$WCR = \text{Currents Assets} - \text{Current Liabilities}$$

Or

$$WCR = [\text{Intangible assets} - \text{Liquidation}] - [\text{Short term liabilities} - \text{Treasurer Loans}]$$

IF:

a) WCR is positive there is a shortage of temporary sources as a result of some temporary needs over the cyclic sources that might be mobilized.

b) WCR is negative, then there is an excess of temporary sources to be financed

either from the working capital either from the treasury, as the result of more relaxed contracting-term debt payment or of an increase of the duration of rotation for stocks and receivables.

Net cash position is an indicator of current financial year that reflects the image of currency cash and short term investments arising from the current evolution of collection and payments or placing surplus cash.

Is calculated as:

- a difference between Working Capital (WC) and Working Capital Requirement (WCR):

$$NCP = WC - WCR$$

- a difference between the liquid assets (LA) and short term borrowings, including the bank creditor balance (STB):

$$NCP = LA - STB$$

Net cash increase is based on the increase in cash and short term investments of the company as a result of a short-term financial autonomy and financial balance on the one hand and of reducing short-term bank loans on the other hand.

Net cash decrease is the result of increased loan volume on short-term and decreasing cash investments, including the investments made by the company.

Self-financing capacity expresses in monetary terms the company's ability to develop its activity work through their own financial means. Therefore, "it reflects the financial potential of economic growth of the company, ie the financial source, generated by the industrial and commercial activity of the company after deducting all expenses payable to a certain maturity."

In other words, self-financing capacity is the ability of the firm to increase the company's working capital needs, investments and reimburse the liabilities, finance some current management needs, to remunerate the invested capital.

Given that this indicator measures the potential cash created by the company through its activity, to establish it are taken into account the proceeds that are collected and all expenses that are paid.

$$SFC = \text{Proceeds} - \text{payable Expenses.}$$

In order to calculate the self-financing capacity there are used two methods:

The deductive method - where,

$$\begin{aligned} \text{SFC} &= \text{Gross operating result} \\ &+ \text{Other operating income} \\ &- \text{Other operating expenses} \\ &+ \text{Financial income} \\ &- \text{Financial expenses} \\ &+ \text{Extraordinary income} \\ &- \text{Extraordinary expenses} \\ &- \text{Income tax.} \end{aligned}$$

The additive method

$$\text{SFC} = \text{Net Profit} - \text{Calculated Income} + \text{Calculated expenses}$$

or

$$\begin{aligned} \text{SFC} &= \text{Result for the year} \\ &+ \text{Amortizations and provisions (for} \\ &\quad \text{operational, financial, extraordinary)} \\ &- \text{Incomes from provisions (operating,} \\ &\quad \text{financial, extraordinary)} \\ &+ \text{Net book value of transferred assets} \\ &- \text{Income from sale of assets} \\ &- \text{Investment subsidies transferred to} \\ &\quad \text{the result of the exercise.} \end{aligned}$$

In an economy characterized by financial bottlenecks the self-financing capacity loses its informational value because is taken into account potential receipts and payments, cash flow analysis is recommended.

Not all resources representing the self-financing capacity will be used to finance the enterprise; next indicator can be calculated:

$$\text{Self-financing} = \text{SFC} - \text{distributed Dividends} - \text{manager's share} - \text{employees' participation to profit}$$

The size and variation of self-financing capacity is dependent on the direction of depreciation policy, tax policy and actions related to increasing profitability due to increased production volume, price, and diversification of products' portfolio.

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Cash Flow Analysis Using Methods of Measuring Financial Flows by Type of Activity

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Abstract

Analysis of financial balance through cash flows used to estimate future cash needs based on past situation, their knowledge would be useful to both shareholders interested in the existence of sufficient cash to pay dividends and creditors who are interested in recovering loans. Equally, knowledge of future cash flows of interest to potential investors updated cash flow method is a method of evaluation of the company.

Key words: financial balance, cash flow, treasury.

J.E.L. classification: M10,M21.

1. Introduction

Cash flow statement provides information required to analyze company's ability to generate future cash flows and cash equivalents. Cash flows derived by summing up enterprises: cash flows from operating activities, investing activities and financing activities.

Treasury economic unit occupies a central place in the economic information system, as all specific operations cycle operating, investing and financing value is expressed. Treasury is regarded as a key information and at the same time objective, because through her company secures financing activity.

Also, "Treasury entity is the bridge between the three activities delineated above and acts as a filter in flow control fundamental relationship: money-commodity-money."

Circulation merchandise trade flows provide an example of physical changes in cash flow as an intermediate stage of debt (for sale) or liabilities (the money). These key management operations, which flows

through the wick to / from cash flows undertake simultaneous and / or alternatives that balance.

Created a number of mechanisms to provide general guidance in the areas of investment that will produce the most significant results for the satisfaction of investors and ensuring growth. Accounting approach in terms of state interest (tax) and / or strict company (survival / development), it was making the problem a priority to ensure the information requirements of investors, in order to attract capital to viable and dynamic companies, from globalized world. Investment decision requires relevant and reliable information, expressed in a language generally accepted as common procedures and verified by authorized personnel.

OMFP no. 3055/2009 for the approval of accounting regulations in accordance with the IV of the Directive of European Economic Community introduced in general practice, the preparation and presentation of financial statements.

An important component of financial statements is the cash flow statement. Disclosure requirements for cash flow statement are set out in IAS 7, which states that it should provide a basis for assessing the enterprise's ability to generate cash and cash equivalents, and it needs to use those cash flows.

Judging the performance and financial position of the company based only on profit and loss account and balance sheet is not relevant because of the static information provided by these summary documents. Its primary usefulness lies in differentiating the type of picture that makes the cost-uses, payments, on the one hand and, on the other hand, income, resources, revenue.

The picture of financing allows the assessment of financial stability and long term, providing comprehensive information on changes in treasury, but does not allow an

analysis of the treasury function as a cash flow table.

Business activity is the result of numerous economic and financial transactions that affect assets of the business and expressed through the receipts and payments. Therefore, arise inflows and outflows into and from the property unit, so that changes the focus of analysis is the concept of liquid assets released or used.

Because all financial flows and make financial diagnosis is not recorded in the balance sheet or in the income statement, financial analysts have proposed the development of boards and panels fluxurazi financing cash (cash), financial flows that allow the reconstruction period.

In accounting, an important role in determining and highlighting the company's cash flow picture it has cash.

The picture of financing in general, summarizes changes in the size and composition of the financial situation and facts from operations rise environment interactions between the enterprise and its economic and social.

Under IAS 1, after considering the results account, balance sheet and changes in equity financing table analysis and cash flow is an important step in examining the documents summarizing the company's financial situation.

All financial flows through a complete diagnosis of the enterprise more dynamic and comprehensive approach, though not explicit or in balance, no account of the result. In this case, financial analysts draw pictures and paintings of financing cash flows (cash), allowing reconstruction period financial flows.

A variant of the array of financing is cash flow, required for publicly traded companies and large enterprises, according to the OMFP no. 3055/2009, which clarifies how the presentation by IAS 7, and optional for entities that apply simplified accounting regulations.

Change in net cash is what is commonly expressed by Anglo-Saxon period cash flow (cash flow), which illustrates the funds obtained by the company in last financial year on activities (operating, investing, financing), how were used and the extent to which they relied on sources other than operating.

Entering cash flows (cash) as part of annual financial statements (IAS 7), mandatory for large enterprises (OMFP no. 3055/2009) and optional for small and medium enterprises, allows a dynamic analysis of financial equilibrium, by describing the operations (operation, investment, finance) that have driven business transformation heritage.

This expresses the evolution of the company's financial position at the situation from the beginning, generating hypothetical dimension of performance, presented as the profit does not coincide with the end balance of cash at the time, only to give authenticity to good management of the company.

A picture of cash flows enables users of financial statements:

- evaluates an enterprise's ability to release cash;
- determine the liquidity needs;
- to provide maturity and the risk of future earnings;
- to compare the results of the enterprise, eliminating the effects of using different accounting methods for the same transactions and events.

The 2009 edition of IFRS highlights in particular the notion of replacing the cash flows of cash flows.

To justify the choice of cash flows, Professor Monica Petcu last paper presented three main reasons as follows:

◆ treasury dominance as an indicator of company management and analysis of bankruptcy risk. Treasury is regarded as a key indicator of current and long-term management, ensuring continuity of business operations and finance. Its content is very important information in the financial analysis, allowing short-term solvency assessment and measuring long-term financing needs;

◆ objective nature of cash flows. Unlike revolving fund whose size is strongly affected by accounting conventions, cash flows are affected by the market;

◆ adjustment panel for predictions. The enterprise budget approach, the functional structure of cash flows allow the development of cash flow projections of current business operations resulting from cyclical, while flows from investing activities and financing concerns and needs acyclic resources that depend on the medium-term

business strategy and long term.

2. The situation of cash flows

Statement of cash flows provides information about the degree to which various activities of the enterprise generates flows (surplus or deficit) of cash, these flows are structured in three categories:

- 1) Cash flows from operating activities;
- 2) Cash flows from investing activities;
- 3) Cash flows from financing activities.

Statement of cash flows (cash) and believes Treasury describes as a central variable, which is the expression of inflows and outflows of cash and equivalents, and the variation is explained by cash flows of receipts and payments made during the period. Cash receipts are affected by the + sign, and cash payments for the same activities are affected by the sign -.

While treasury business is unique, all cash flows passing through, this picture explains the contribution of each "function" on global change as the result of the summation of net cash operating cash flows ($\Delta TExp$), investments (ΔTI), financing (ΔTF):

$$\Delta TN = \Delta TExp + \Delta TI + \Delta TF$$

3. The methods for determining the financial flows

Cash flows can be determined by two methods: direct and indirect method.

The direct method deducts the payments from the proceeds of the financial year by type of activity and allows the estimation of future cash flows and total activities.

Under this method, cash flow from current activity is a key indicator of cash generation for other activities: loan repayment, maintaining operational capacity of the enterprise, pay dividends, new investments without external funding.

- the entity's accounting records;
- by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for financial institutions) and other elements in the profit and loss account:
 - changes during the period in inventories and operating receivables and payables;
 - other non-cash items;
 - other items for which the cash effects are cash flows from investing or financing.

Table no. 1 Determination of net cash flow from operating activities

The direct method
Proceeds from the sale of goods, services
+Cash receipts from royalties, fees, commissions and other income
+ Interest Proceeds
+ Other operating revenue related
-Cash payments made to suppliers of goods and service
-Cash payments made to and on behalf of employees
-VAT Payments
-Payments on interest and dividends
-Income tax payments (which do not meet the investment and financing activities)
-Other payments for operating
± Extraordinary Items
= Net cash flow from operating activities

Streams of earnings or dividends or interest payments may be included in the cash flows related to financing activities.

Extraordinary cash flows for the items to be presented separately to provide information to users on their contribution to cash flows from the economic unit.

Cash flows from investments reflects the extent that the expenditure generated resources that will produce revenues in future (buildings, equipment).

The separate disclosure of cash flow from investment activity is important because the cash flows represent the extent to which expenditures have been aimed at obtaining resources to generate future revenues and cash flows.

How to determine, according to the examples offered by IAS 7 Net cash flow for investment activity is:

Table no. 2 Determination of net cash flow from investing activities

The direct method
-Acquisition of subsidiary X(-)purchased treasury
+ Y branch assignment
- Acquisition of property
- Purchase of investment securities
+ Proceeds from sale of property
+Proceeds from sale of investment securities
+ Interest received
+ Dividends received
= Net cash flow from investing activities

Cash flows from financing activities allow estimating future demand cash flows from the financing company (receipt or repayment of loans, proceeds from issue of securities issued redemption payments, receipts or lease payments).

Financing activity is that activity which causes changes in the size and structure equity and capital impumutate of the economic entity.

Scheme cash flows from financing activities shows sources of external funding which has made the firm (capital increase through cash or loans), if the cash flows arising from ordinary activities was insufficient to cover investment operations.

With the examples presented in Annex standard IAS 7 the following table can be developed for determining net cash flow from financing activities.

Table no. 3 Determination of net cash flow from financing activities

+ cash capital increases
- cash capital repayments
+ show / borrowing (bonds, bank, etc. - excluding cash)
- Repayment of loans (bonds, bank, etc. excluding cash)
- Repayment of debt related to finance leases
- Interest and dividends paid
= Net cash flow from financing activities

A second method of determining cash flow, indirect method is based on profit / net loss, adjusted for transactions such as money, the liabilities, items of income and expense cash flows associated with investing or financing.

OMFP no. 3055/2009 makes provision that the cash flows from operating activities can be presented using the indirect method by showing the revenues and expenditures recorded in the income statement and the changes occurring during the period in inventories and receivables and payables operation.

Table no. 4 Determination of net cash flow from financing activities under the indirect method

± The result before tax and extraordinary items (Elimination of non-monetary items)
+Expenses for depreciation and provisions
-Income from provisions (Remove items not related to the operation)
± result from the sale of assets
± result from the sale of investment securities
+ Interest expense
- Interest and dividends
- Investment subsidies transferred to income
= Operating result before changes in working capital requirements
± Changes in inventories
± Change in accounts receivables from customers and other operating
± Change in accounts and other debt providers operating
± Change in prepaid expenses
± Change in deferred income
- Interest and dividends paid
- Income tax payments (which do not meet the investment and financing activities)
± Extraordinary Items
= Net cash flow from operating activities

Under the indirect method, cash flow modeling for investing activities and financing is similar to that described for the direct method.

Separate Representation cash flows reflect increases in operating capacity and cash flow required to maintain operating capacity is useful in enabling users to determine if the enterprise is investing adequately to maintain its operating capacity. An enterprise that does not invest adequately in the maintenance of its operating capacity may damage future profitability for the current liquidity and distributions to shareholders.

Introducing the segment cash flows enables users to obtain a better understanding of the relationship between cash flows of the company in general and those of its component parts, on the one hand, and the degree of availability and variability of flows treasury segments on the other hand.

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Analysis of Financial Position Based on the Balance Sheet

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Abstract

Analysis of financial position based on the balance sheet is mainly aimed at assessing the extent to which financial structure chosen by the firm, namely, financial resources, covering the needs reflected in the balance sheet financed. This is done through an analysis known as horizontal analysis balance sheet financial imbalances.

Key words: account, balance sheet, current assets, current bank loans.

J.E.L. classification: M10,M21.

1. Introduction

Achieving financial balance analysis must be preceded by processing operation of the balance sheet as a list, the balance sheet with asset and liability positions opposite each other in the form of account.

Of asset arrangement is made in ascending order of their liquidity and liability items in the balance sheet is structured in ascending order of their chargeability.

The asset will be included in the first place, the less liquid items, ie assets that form the group always needs to be financed. Then comes the assets, which have a higher degree of liquidity of the former group was funded temporary needs.

Presentation of the financial position of the company balance sheet is in compliance with specific accounting rules designed to ensure an accurate picture of it. As a result, this tool has some shortcomings arising from:

- the conventional accounting;
- distortion of the legal and economic reality;
- subjectivity of information;
- the incidence of taxation.

Financial analysts recommended that the financial statement presentation and analysis of financial and economic enterprise.

Regulations specific to the underlying financial concerns the balance sheet optics primacy of economic evaluation and financial and economic elements, as such, registration and evaluation of all assets and liabilities balance sheet (resources) available for undertaking the activity, regardless of legal status ownership of assets and the importance of compliance with the criteria of liquidity and chargeability.

According to these criteria:

- ◆ assets are structured in order of liquidity:
 - fixed assets (AI), which comprise all liquid assets of more than one year;
 - assets (AC), containing all the liquid assets of less than one year;
- ◆ resources are grouped according to which payment:
 - debts that must be paid within a period of up to one year (DTS)
 - debts that must be paid within a period longer than one year (DTML)
 - capital and reserves (C).

Preparation of financial accounts is driven by the format required by the the OMFP no. 3055/2009 which provides short-term debt delimiting the medium and long term, regardless of resources, subject to reclassification and restatement of certain elements.

The reclassification and restatement of balance sheet items to determine whether the structure of their assets (on which the company has achieved a certain performance) and liabilities (financial structure which supports the entire process).

Reclassification of balance sheet items:

- diminishing asset immobilized with fictitious assets (up costs, research and development expenses may not materialize), modifying counterpart resources;

- financial assets include cash within less than a year in short-term investment and vice versa;
- including greater liquidity of claims a year on fixed assets;
- inclusion in the claims settlement advances to the company, given the need for their settlement;
- allocation of deferred or capitalized as an asset or assets in debt in their liquidity;
- deferred income inclusion into debt with higher chargeability than one year or, where appropriate;
- inclusion in net capital investment grants of land and related assets received free of charge, taxes are included in debt related. Eliminating subsidies for investments of patents, trademarks received free of charge (considered in this approach as fictitious assets) in consideration of the intangibles, the amounts allocated from the budget to finance these elements;
- exclusion of capital subscribed and paid up capital, and in consideration of claims, settlements capital associations;
- the inclusion of provisions for risks and charges are in debt to be paid within a period up to one year or in debt to be paid within a period exceeding one year, depending on which payment;
- treatment group loans, debt that the parent or another subsidiary as capital items, was taken into account in determining the financial profitability of the group. In terms of solvency, the analysis distinguishes between capital and stable nature, which include debt and equity granted permanent manner in the short term, including short-term debt within the group and not included in the permanent resources;
- treating current accounts as equity partners, given the arguments for taking them into account when calculating the financial return, either mandating their inclusion in the permanent resources or the current resources, depending on their chargeability

Restatement of financial-economic elements:

- location and operating leases allow the company to use an asset without advance purchase value. From a legal perspective, not the owner of the property company, not an asset will be recorded in its accounting and, accordingly, fees and operating lease rates to be paid are not identified as sources of funding. Analysis of financial balance is achieved by confronting successive groups of those in the financial balance sheet liability side, comparison of several indicators that are generated for the study of classical balance, such as working capital (FR), working capital requirements (NFR) and net Treasury (TN).

2. The classic indicators for determining the financial balance

Working capital surplus resulting from the comparison is greater than the permanent resources necessary to finance the company permanently. This surplus of resources released by the permanent financing of the property cycle may be used and run for reannoirea current assets. Therefore, the revolving fund is a financial safety margin that allows the company to bear, without difficulty, various short-term risks.

Indicator revolving fund may have several forms, such distinction is made between gross working capital, net working capital, fund its working capital and foreign working capital.

Gross Working Capital Fund (FR_B) or total working capital likely review all assets to be converted into cash within a period of less than one year (temporary needs). For this reason, you might say that any time a company has a revolving fund.

Net Working Capital Fund (FR_N) or permanent is the most important in terms of long-term financial stability analysis. He is the permanent resources (R_P) after finance the remaining permanent (N_P), respectively, permanent capital surplus (CP) remained after the financing of fixed assets Net (A_{IN}). Relationship of net working capital calculation is:

$$FR_N = R_P - N_P = CP - A_{IN}$$

Depending on the size of the two factors that determine net working capital, the indicator can be positive, negative or zero:

$FR_N > 0$ which results $CP > A_{IN}$, positive working capital means more safety margin of the company, because an increasing share of current assets will be financed with permanent capital remaining after covering permanent needs.

$FR_N = 0$ which results $CP = A_{IN}$, zero working capital is the perfect shape of harmonization with the necessary resources to finance permanent, which is not really feasible in the long term.

$FR_N < 0$ which results $CP < A_{IN}$, shows a negative working capital to finance the ongoing lack of resources constantly, which means that part of the property is financed by current liabilities, and that does not reflect always a financial imbalance.

Causes a negative working capital may be declining: the effect of increasing net fixed asset investment, in which long-term hopes for a positive working capital due to increasing economic profitability as a result of investment operations, reducing permanent capital or the repayment of debentures, those received from banks or other specialized financial institutions, with positive effect on firm financial autonomy, either from capital reduction, with a negative effect on the possibility of contracting new loans.

An alternative definition of net working capital is obtained from comparing the two groups at the bottom of the balance sheet, that needs temporary (N_T) with temporary resources (R_T).

$$FR_N = N_T - R_T = A_C - D_C$$

Working capital facility (FR_{pr}) is economic autonomy of the unit in investment financing. The indicator can be determined as the difference between equity (C_{pr}) and need permanent (net assets) or the difference between working capital and net debt to be paid within a period exceeding one year.

$$FR_{pr} = C_{pr} - N_P = C_{pr} - A_{in}$$

Working capital reveals its influence on how the financing structure of the constitution, ie the extent to which financial balance is achieved through equity, which reflects the degree of financial autonomy of the enterprise.

Revolving loan fund (foreign) reflects long-term indebtedness to finance short-term needs.

According to some specialists working capital requirements (NFR) is the most important indicator for financial stability analysis, because it has the structure of current assets and liabilities and liquidity ratio / chargeability of them.

Working capital requirement is calculated as the difference between cyclical needs (current assets less availability) and cyclic resources (debt less than 1 year of current bank loans).

Cyclical needs = needs temporary (Current assets - Cash and bank accounts) + expenses in advance

Temporary cyclical resources = resources = (debts to be paid within a period of one year - current bank loans) + Deferred income.

$$NFR = (\text{Receivables} + \text{Inventories} + \text{prepaid expenses}) - (\text{short-term debts} - \text{current bank loans} + \text{Deferred income})$$

If $NFR > 0$, results in a temporary surplus to need temporary resources can be mobilized.

This is a normal situation where the consequence of the increasing demand for investment financing the operating cycle.

Otherwise, show a negative gap between inventory and liquidation of claims and liability for the debt service for the purposes of slowing revenue and accelerate payments, which will affect the ability to pay.

An $NFR < 0$, is a temporary net surplus of resources to capital assets, being smaller than the temporary needs of temporary resources can be mobilized.

This situation is favorable if the consequence of the rotation speed of current assets, to expedite payment receipts and relaxation, with favorable effects on ability to pay.

Net Treasury (TN) comes from the equal balance between assets and liabilities, tabular presentation of meaning in Active = Passive, that uses = resources, leading to equal comparison of the revolving fund (FR) to fund working capital requirements (NFR). Defined as cash surplus derived from business activity, net treasury (TN), is determined as the difference between net working capital and working capital requirements:

$$TN = FR_N - NFR$$

After comparing previous results overall financial balance of the company, which is a result of all transactions affecting the balance sheet items and that results from horizontal analysis balance sheet presented in table form, can be determined in two ways:

a) Based on the upper part of the balance sheet:

$$TN = FR - NFR$$

b) Based on the lower part of the balance sheet:

$TN = \text{Cash and bank accounts} - \text{Short-term bank loans}$

Or

$TN = \text{Active treasury} - \text{Treasury passive}$

where:

Treasury is actively released from function area current availability enterprise plus redeemable at any time investments (investment securities).

Treasury comprises passive short-term bank loans, credit balances with banks and expected effects (off-balance), interest on short-term bank loans.

The positive or negative net cash inequality is the result of working capital and working capital needs, which may explain the following cases:

a) If $TN > 0$, is the expression of established financial balance across the enterprise activities and the outcome of a financial year that ended with a surplus of cash availability.

It follows that $FR > NFR$ and that $\text{Cash} > \text{Current bank loans}$ in the following situations:

$FR > 0$ and $NFR > 0$, in which NFR is financed entirely from the permanent resources ($FR > 0$) and a "enrichment" of the Treasury, which allows the holding company liquidity to cover short-term bank loans or make investments of ;

$FR > 0$ and $NFR < 0$, very favorable position because the company has a surplus of funds in excess of permanent and temporary resources, the effect of performance management operating cycle, resulting in a net cash positive. The only problem with the finance manager for such an undertaking is the best way to find the placement of excess cash and maintaining a cash balance close to zero;

$FR < 0$ and $NFR < 0$, a situation common in the big distribution companies, where resources cover an operating surplus increased availability and only one part of a fixed asset which generates positive net cash.

b) If $TN < 0$, negative net treasury highlights a worrying situation in relation to overall financial balance of the company, which means the impossibility of financing working capital requirements of financial standing.

$FR < NFR$ and that $\text{Cash} < \text{Loans cash}$ following situations:

$FR > 0$ and $NFR > 0$, when the NFR is partly funded permanent capital ($FR > 0$) and partly from bank loans higher than the current liquidity, which requires current bank risk analysis.

$FR < 0$ and $NFR > 0$, the situation is critical because the economic unit and a negative working capital necessary to fund working capital, financed by both short-term bank loans. In the long run, such a situation can not be accepted as the firm enters into default and bankruptcy risk;

$FR < 0$ and $NFR < 0$, the permanent resources cover only a part of the assets restrained ($FR < 0$), the rest being covered by short-term loans (suppliers, customer advances) and current bank loans, which must review the financing structure , is increased risk of external financial dependence with a relatively high financial leverage, the treasury being negative.

Practice shows that in most cases, the onset of recovery and bankruptcy proceedings were originally business cash difficulties. Lack of cash is a constant source of risks to the enterprise and unfettered risk of lack of cash is reflected negatively on business profitability. However, there are situations where, because of gaps on the one hand, the recording and accounting of revenue and expenditure, on the other hand, their maturity as receipts and payments, a company ends its financial year have negative cash profitably.

Net cash analysis requires great caution, since its level (positive or negative) at a given moment is irrelevant. Treasury is an indicator that vary greatly within very short time.

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Rising Wage Inequality in India: a Translog Cost Function Analysis

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Abstract

The paper attempts to investigate the various determinants of rising wage inequality in India since 1980s. A translog cost function along with the share equations is used to evaluate the impact of various factors such as trade, technology, liberalization phase, efficiency (technical, allocative and cost) and inflation on rising wage inequality between the skilled and unskilled labour. Seemingly unrelated regressions (SUR) procedure by Zellner is used for the estimation purpose. Annual Survey of Industries data at the two digit level from the year 1973-74 to 2007-08, has been used for the study. The findings reveal that trade and technology both tend to increase the wage inequality. Further, elasticity results reveal that capital, skilled labour, unskilled labour etc have turned out to be, substitutes since 1989, although few of them were complementary before the liberalisation phase.

Key words: Translog Cost Function, Seemingly Unrelated Regressions, Wage Inequality, Trade, Efficiency

J.E.L. classification: D24, F16, J31, O1

1. Introduction

There has been a remarkable shift in the India's foreign trade structure during the last few decades. India has been an exporter of agricultural raw materials and agro based manufactured products during the initial years after independence but because of governments' policy of heavy

Industrialisation, India is now major exporter of non agricultural products as well as of services.

Indian exports now comprises of mainly engineering and textile products, precious stones, petroleum products, jewellery, sugar, steel chemicals, zinc and leather products.

India also exports services to several countries, primarily to the US. In fact, India is among the world's largest exporters of services related to information and communication technology (ICT). It is also the key destination for business process outsourcing (BPO). India's major imports comprise of crude oil, machinery, military products, fertilizers, chemicals, gems, antiques and artworks. The acceleration of trade would suggest reforms had a major effect on India's pattern of trade. India's export share of Asia has increased from 38.7% in 2001 to 51.7% in 2008 and the share of North America has gone down to 13.5% in 2008 from 22.4% in 2001. This proves that the direction of exports is moving towards southern countries. The leading export markets for India are USA, UAE, China, Singapore and UK while the leading import sources are China, USA, Saudi Arabia, UAE and Iran.

But on the other side of this glorious picture, one can see a particular trend in wage inequality since 1980s. The pertinent question is whether one can attribute this rising wage inequality to liberalization. This paper looks into the later. Following graph, prepared taking the data from Annual Survey of Industries shows the increased wage inequality since 1980s:



The graph shows rising wage inequality between wage rate of skilled labour and wage rate of unskilled labour. We see a sharp rise in wage inequality between the both, during 1989 onwards. To look into the reasons for this is an issue for discussion and research.

The paper intends to study the impact of trade, technology and liberalization on rising wage inequality in India. The paper also attempts to have a look at different efficiency measures such as cost efficiency, allocative efficiency and technical efficiency and their impact on cost share of skilled and unskilled labour.

2. Literature review

Feenstra (2000) explained the effect of trade or technology on wages and employment. It was measured by estimating demand for skilled and unskilled labour through the translog functional form along with the share equations. The cost function includes structural variables (includes expenditures on computers and newly imported intermediate inputs etc). The result shows that trade in intermediate inputs (outsourcing) as well as computer use both explain a shift towards skilled labour in united states during the 80s, with the exact contribution of each being sensitive to how computer use is measured (i.e. as a share of capital stock or as an investment).

Another paper by K.V. Ramaswamy (2008) investigates the question of wage inequality in Indian Manufacturing in the years pertaining to trade and investment liberalisation. The objective of the paper was to test the hypothesis of skill based technological change (SBTC) due to capital-skill complementarity and the impact of labour regulations on wage inequality between skilled and unskilled labour. The skill-wage bill share equation is estimated for a panel of 46 three-digit industries spanning the period 1981-2004 followed by 113 four-digit industries panel covering the period 1993 to 2004. The econometric results suggest the positive contribution of capital-output ratio and contract worker intensity to wage inequality in Indian manufacturing.

Ali M. Khalil (2005), in his paper on pulp and paper industry using the translog cost function along with the share equation shows that the industry operates at slightly

increasing returns to capital utilisation and labour and energy are complements in production whereas materials is a substitute in production for other inputs. Technological progress generated 0.037% reduction in annual operating costs at the mean but the effect was asymmetric with a much larger impact during early part of the period.

Raghbendra Jha and Balbir Sahni (1994) in examined the trends in allocative efficiency over the period 1960-1961 to 1986-1987 in seven Indian industries, namely refining and manufacture of sugar; petroleum refining; manufacture of chemicals; fertilizers and pesticides locomotives and parts; locomotives; and cotton textiles. The translog cost function incorporating biased technical change was used again along with the share equations and Allen's partial elasticity of substitution has also been worked out. It is discovered that allocative inefficiency has been non zero in each industry for every year. Allocative inefficiency has not declined over time in those industries where prices are administered, whereas in industries where prices are not administered it has. Industries that are predominantly in the public sector are not necessarily characterized by greater allocative inefficiency than those that are predominantly in the private sector.

The paper on trade liberalisation and wage inequality by Prachi Mishra and Utsav Kumar (2005) also investigates the effect of trade policy on wages in Indian manufacturing industries in the last two decades. The results suggest the significant relationship between trade policy and industry premiums. The increasing protection in the sector lowers wages in that sector. In sectors with largest tariff reduction, wages increased relative to the economy wide average.

The paper by Rubiana Chamarbagwala and Gunjan Sharma (2000) investigates the role of Industrial Deregulation and skill upgrading on wage inequality in India. The results indicate that industrial delicensing benefitted skilled labour via capital and output skill complementarities before India liberalised trade and investment. Thus much of the increase in demand for and returns to skill as a result of capital and output-skill complementarities, can be attributed to

domestic rather than external sector reforms in India.

Bin Xu and Wei Lu in their paper on trade, technology and china's rising skill demand, using a sample of 1500 firms found that export expansion had a negative direct effect (Heckscher-Ohlin type) and a positive indirect effect (export induced skill biased technical change) on skill demand; leading to have a positive change of 5% on skilled labour demand of sample firms. In case of technical change, the foreign owned firms experienced skill biased technical progress.

3. Objectives

- To find out the reasons for rising wage inequality in India.
- To study the impact of trade, technology, liberalisation phase on wage inequality in India.
- To study the impact of cost efficiency, allocative efficiency and technical efficiency on wage inequality in India.

4. Hypothesis

- Trade has led to reduction in wage inequality between skilled and unskilled labour (Stolper Samuelson Theorem).
- Technology has helped in generating the demand for skilled workers, and in widening the skill wage gap.
- Liberalisation has led to widening the wage gap between the skilled and unskilled labour.
- Allocative as well as technical efficiency both have contributed towards the increased demand for skilled labour.

5. Data sources

The data for industries output as well as for inputs have been taken from Annual Survey of Industries, published by the Central Statistical Organization (CSO), Government of India. The *Economic and Political Weekly* has created a systematic, electronic database using ASI results for the period 1973-74 to 2003-04 (hereafter, EPW database). This contains two digit and four

digit industry level data and covers all registered factories with more than ten workers. ASI-EPW volume II presents a consistent series based on NIC-1998 at the 2-digit and 3-digit level of aggregation. We have used two digit level data for our analysis.

6. Methodology

We have started with the two digit data from Annual Survey of Industries. Here we have taken total of all Industries from the two digit Industry group from the year 1973-74 to 2007-08. We have taken cost as a function of wages of skilled labour, wages of unskilled labour, capital, output and technology. For estimating impact of technology on wage inequality we have taken translog cost function along with the share equation as given:

$$C = f(Wsk, Wusk, Pk, O, t) \dots \dots \dots (1)$$

Where C is total variable cost, Wsk and $Wusk$ are the prices of variable inputs, namely, skilled and unskilled labour, Pk is the price of capital and O is real output. The equation in (1) is assumed to take the translog function:

$$\begin{aligned} \ln C = & a_o + a_o \ln O + a_k \ln Pk + a_{sk} \ln Wsk \\ & + a_{usk} \ln Wusk + a_t t + 0.5 b_{oo} (\ln O)^2 + \\ & b_{ok} (\ln O \ln Pk) + b_{osk} (\ln O \ln Wsk) + b_{ousk} \\ & (\ln O \ln Wusk) + b_{ot} (\ln O t) + 0.5 b_{kk} (\ln Pk)^2 \\ & + b_{ksk} (\ln Pk \ln Wsk) + b_{kus} (\ln Pk \ln Wusk) \\ & + b_{kt} (\ln k t) + 0.5 b_{sksk} (\ln Wsk)^2 + b_{skusk} \\ & (\ln Wsk \ln Wusk) + b_{skt} (\ln Wsk t) + 0.5 b_{uskusk} \\ & (\ln Wusk)^2 + b_{usk} (\ln Wusk t) + 0.5 b_{tt} (tt)^2 \dots (2) \end{aligned}$$

The link between cost function parameters and factor demands is given by Shepherd Lemma. If cost is given as:

$$C = S_{sk} P_{sk} + U_{sk} P_{usk} + KP_k \dots \dots \dots (3)$$

Where S_{sk} denote demand for factor input skilled labour, given skilled labour price P_{sk} , $U_{sk} P_{usk}$ denote demand for unskilled labour,

given price of unskilled labour denoted by P_{usk} and K is the demand for capital, given price of capital denoted by P_k . Now differentiating, cost function with respect to price of skilled labour gives the share equation,

$$\partial C / \partial P_{sk} = S_k$$

Properties of Cost Functions:

Homogeneity: Homogeneous of degree one in factor prices. With the symmetry restrictions imposed on (β_{jk}) , the homogeneity conditions can be expressed as:

$$\begin{aligned} \alpha_k + \alpha_{sk} + \alpha_{usk} &= 1 \\ \beta_{ksk} + \beta_{sksk} + \beta_{skusk} &= 0 \\ \beta_{kusk} + \beta_{skusk} + \beta_{uskusk} &= 0 \\ \beta_{kk} + \beta_{ksk} + \beta_{kusk} &= 0 \end{aligned}$$

Monotonicity: Non decreasing in factor prices.

Concavity: It requires the Hessian (matrix of second order derivatives be negative) of a cost function C be negative semi definite (Berndt and Wood 1975).

Putting the restrictions and after adding an error term, the equations can be estimated by the OLS technique. Such estimates are consistent, however generally not as efficient as the SUR method, which amounts to generalized least squares (GLS). The seemingly unrelated regressions (SUR) as proposed by Arnold Zellner in (1962), is a generalization of a linear regression model that consists of several regression equations, each having its own dependent variable and potentially different sets of exogenous explanatory variables. SURE is seemingly unrelated because of correlations in the error structures. Two important cases when SUR is in fact equivalent to OLS, are: either when the error terms are in fact uncorrelated between the equations (so that they are truly unrelated), or when each equation contains exactly the same set of regressors on the right-hand-side.

Finally, we calculate elasticities of substitution to find out how it has changed the scenario of demand for skilled and unskilled labor and contributed to wage inequality. One can measure the curvature of the isoquant by estimating Allen's and

Moritima's partial elasticities of substitution. By Shepherd duality, we can get ASE from estimated parameters of cost function and fitted estimated cost share of inputs as follows,

$$\begin{aligned} \sigma_{jk} &= \frac{\beta_{jk} + S_{jk}}{S_{jk}} ; \\ \sigma_{jj} &= \frac{\beta_{jj} + S_j^2 - S_j}{S_j^2} \end{aligned}$$

Where:

- $\sigma_{ij} > 0 \rightarrow$ the factors are substitutes
- $\sigma_{ij} < 0 \rightarrow$ the factors are complements
- $\sigma_{ij} = 0 \rightarrow$ the factors have no relationship

Here β_{jk} represent the estimated second order derivatives on the diagonal of Hessian matrix. S_j and S_k represent fitted cost share of inputs (Christensen, et al. 1971), (Diewert 1971), (Uzawa 1962). The own and cross factor price elasticities of substitution are defined as:

$$\varepsilon_{jk} = \frac{\beta_{jk} + S_j S_k}{S_j} ; \quad \varepsilon_{jj} = \frac{\beta_{jj} + S_j^2 - S_j}{S_j}$$

The moritima elasticities of substitution (MES) are defined as:

$$M_{jk} = \varepsilon_{kj} - \varepsilon_{jj}$$

Where ε_{kj} and ε_{jj} are cross and own price elasticities of substitution. The moritima elasticity estimate show that how the ratio of one input to the other input respond to the change in the first input.

7. Results and discussion

The results of translog cost function along with the share equations shows that R-square has come out to be very high for cost function as well as the share equations. The result of translog function reveals that skilled labor along with other factors decreases cost., while unskilled labor along with other factors increases cost. Thus, unskilled labor along with skilled labor is necessary.

The regression results of share equations reveal that skilled labor along with technology increases skilled labor share while unskilled labor along with technology reduces unskilled labor share.

Further, results of multivariate regression, when skilled labor share is taken as dependent variable and manufacturing trade, liberalization phase, inflation and cost

efficiency are taken as independent variables show that manufacturing trade increases skilled labor share while when unskilled labor share was taken as dependent variable, it showed that it reduces unskilled labor share. This shows that trade is promoting skilled labor and contributing toward wage inequality.

Again same kind of multivariate regression is run, only replacing cost efficiency with allocative efficiency shows that allocative efficiency decreases skilled labor as well as unskilled labor share. This shows that optimal allocation of resources is required given factor price in Indian Industries.

Finally, replacing allocative efficiency with technical efficiency and taking other variables same as above reveal that technical efficiency increases unskilled labor share.

When liberalization phase, overall efficiency, manufacturing trade and interactive term of technology with overall efficiency, allocative efficiency and technical efficiency and of manufacturing trade also with all three types of efficiency were run one by one, the results show that manufacturing trade with overall efficiency reduces skilled labor share and increases unskilled labor share.

Further, technology along with technical efficiency increases wage inequality and manufacturing trade along with technical efficiency reduces wage inequality. Similar results were found with allocative efficiency.

The Allen's partial elasticity results show that capital and skilled labor are substitutes while capital and unskilled labor were complementary and turn out to be substitutes after liberalization phase. Skilled and unskilled labor is proved to be substitutes.

The results of Moritima elasticity of substitution are same as of Allen's elasticity of substitution. Therefore, change in the price of one input highly affects the demand for the other input so they are not constraints for each other.

8. Conclusion

Finally we can conclude that technology as well as trade helps in increasing wage inequality. Technology when interacts with efficiency again increases wage inequality. And trade when interacts with efficiency

helps to reduce wage inequality. Thus, trade which promotes any kind of efficiency should be promoted.

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Creating a Teamwork – based Culture in Romanian Organizations

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Abstract

Customers, competition and change have created a new world of business and is becoming increasingly clear that organizations designed to operate in an environment can not only be adjusted to work well in another. One of the most challenging work cultures for an organization is an authentic teamwork – based environment. Changes in the structure of the Romanian companies call for a focus on teams, because they are able to assume continuity, flexibility and long – lasting performance.

Developing a team requires hard work and responsibility lies with the organization, manager or team leader, and each team member.

Key words: hierarchical structure, flexibility, teamwork, team leader

J.E.L. classification: M 59

For an organization to change from a traditional classical structure to an organic team – based structure requires changes not only in structure, but in processes, systems, attitudes, leadership, philosophy and style.

1. The team and the organization

Many Romanian organizations today operate hierarchically with an autocratic management style. This impedes team success because the existing culture will not support team development. Organizations mired in bureaucracy are slow to respond to environment changes. One of the most challenging work cultures for an organization is an authentic teamwork based environment.

Today's organization must be more flexible, creative, and innovative in meeting the challenges of declining productivity, increasing competition and motivating unique and diverse work force. To foster a

productive and satisfied staff, managers are increasingly involving employees in decision making and personal strategies.

Changes in the structure of the Romanian companies call for a focus on teams, because they are able to assume continuity, flexibility and long – lasting performance.

Team in organization are specialized form of work – groups which are characterized by strong interdependence, autonomy and shared responsibilities. Teams are the basic unit of performance in any organization. In any situation requiring a real-time combination of multiple knowledge and skills, teams inevitably get better results than some people with restrictive roles and responsibilities. Teams are more flexible than a larger group, being easily formed, developed, refocused and dismantled. Teams and performance are an unbeatable combination.[1]

The advantage of teamwork is significant productivity growth in the spheres that require creative solving of different tasks, a high degree of adaptability and operational management. Teamwork is not an answer to all company problems and organizational changes usually require interventions at all levels within an enterprise. If a company decides to introduce teamwork, this needs to be integrated into the entire organizational structure of the enterprise and this structure needs to be adapted to the new model, otherwise the effectiveness of teamwork is lost.

One of the keys to developing high performing teams is to remember that successful teams do not simply happen. They take much effort and time.

Teams function better in an organizational culture that encourages high performance by following these principles:[2]

✓ Teamwork is characterized by a set of flexible and adaptive behaviors, cognitions, and attitudes. This principle suggests team members actively gather and

capitalize on information from their environment to adaptively alter what they are doing, thinking, and feeling. Teamwork was defined as the mechanism by which members are able to adapt and adjust the timing of action in order to meet the demands of other team members, thereby resulting in coordinated, synchronized collective action.

✓ Effective teamwork requires members to engage in backup behavior. This principle suggests team members must have the willingness, capability, and preparedness to assume the duties of their fellow teammates. Teams that successfully engage in backup behavior will achieve a level of performance greater than the sum of its individual members. Information derived from mutual performance monitoring and environmental scanning drives the dynamic reallocation of resources and functions.

✓ Teamwork requires the coordination of collective interdependent team member behavior. Team coordination can be defined as the process by which team resources, activities and responses are organized to ensure that tasks are integrated, synchronized and completed within established temporal constraints. Coordination facilitates a team's capability to maintain high levels of performance, even when subjected to high levels of workload and stress. Implicit coordination occurs when team members dynamically reallocate resources among one another without being primed to do so by action plans or in reaction to explicit requests.

✓ Teamwork requires team members to actively manage conflict to create and maintain harmonious interpersonal and interteam relationships. Every team member must make a concerted effort to contribute to the collective social system within which team members operate. Team members must consciously manage interpersonal relationships because good relations can prompt the voicing of concerns, the giving of feedback, and the implementation of change. Interpersonal relations are defined as a team's ability to optimize the quality of team members interactions through resolution of dissent, utilization of cooperative behaviors, or the use of motivational reinforcing statements.

Successful teams effectively turn strategy and goals into tangible actions and results. They make decisions more rapidly and create support for their decisions in the wider organization. They adapt faster to changing market conditions or to changes in their organization. This obviously leads to better results.

When team work, they represent the best proven way to convert embryonic visions and values into consistent action pattern because they rely on people working to develop a shared sense of direction among people throughout an organization. Teams can make hierarchy responsive without weakening it, energize processes across organizational boundaries, and bring multiple capabilities bear on difficult issues.

In conclusion, companies need to understand the power of teams. Organizational team leaders need to be nurtured and equipped to build teamwork and team efficiency.

Organizations need teams to:[3]

- Socialize new members through shared norms and values
- Facilitate sharing of knowledge through the grape vine
- Implement new policies and systems through project teams
- Improve individual performance through task specialization
- Increase operational flexibility through job rotation.

Teams need organizations too:

- To provide necessary resources through budgets
- To provide attractive working environments through job design
- To provide purpose and direction through policy and leadership
- To learn and improve themselves through feedback.

2. Creating and managing teams

Customer, competition and change have created a new world of business and is becoming increasingly clear that organizations designed to operate in an environment can not only be adjusted to work well in another. Organizational form most recent issue accordingly and at the same time reducing the number of hierarchical levels in the organizational structure and

management practice is the team. Teamwork can be viewed as an attempt to realign the modern rationality of individual motivation in the organizational motivation. Create an environment based on teamwork and effective teams is a challenge for any company. Developing a team requires hard work and responsibility lies with the organization, manager or team leader and each team member.

We believe that for most of Romanian companies is necessary to implement fundamental changes in the value system and management, thus ensuring the conditions necessary for enhancing business performance. In Romanian companies the pyramid organizational structure is the most frequent type of structure and emphasizes the high level of the power distance.

In response to international competition and the accelerating pace of technological and market change, Romanian organization gave attempted to become more flexible and adaptable. One way to do this is to push decision making down the organizational hierarchy, assigning the freedom and responsibility to respond to threats and opportunities to the work teams.

But, resistance to change is inevitable. The very structure of an organization can create barriers to teamwork. In a traditional bureaucratic structure, top management and departmental specialization predominate. Redesign of the organization must remove the layers and open up communication. If teams are going to make decision that support organizational goals, they first need free access to information and to provide input on overall operation.

Working in a team and manage a team can become the basic characteristics of the work carried out in Romanian organizations. Availability of teamwork is a requirement of the current recruitment announcements, and the presence of necessary qualities, or on the contrary, their absence may be decisive factors in hiring a person, or to keep them in the organization. The need for teamwork has become increasingly evident as the human resource policies have evolved and Romanian companies began to consider the need for communication and human contact of their employees, realizing high motivational value of dialogue and mutual support in a team

Research of theoretical, methodological and practical advantages of teamwork in organizations has enabled us to synthesize the following results of investigations:

➤ To Romania, developments taking place internationally is a chance that the integration process of transition from industrial society to knowledge society without attending preparatory stages. The main resources of knowledge society and material resources are not money but knowledge is illustrated mainly by human and social capital. Power is not given by money, providing control and distribution of resources, but given the knowledge to ensure equitable distribution of resources and labor factor mobility. Teams bring together complementary skills and experiences that, by definition, exceed those of a single person on the team. This broad mix of skills and experience enable teams to respond to complex challenges such as innovation, quality and customer service.

➤ Currently, the working environment of the Romanian organizations tend to encourage inefficient individualism, where people are concerned to achieve their own goals, goals that do not necessarily coincide with those of the company where they work. In these circumstances, if a company wants to operate effectively in a climate conditions based on teamwork and serve the common interest, the most difficult obstacle to overcome is to create an organizational culture based on teamwork.

➤ In the Romanian organizations, teamwork must be accepted and included in the approaches of leadership performance. The management team is to create conditions to ensure its success: establishing a compelling purpose, forming a group to work efficiently, ensuring that organizational support helps the team to do their duty and careful planning of the intervention leaders. The main concern of a team leader is to create a culture that promote and maintain qualitative and quantitative performance of his team, stimulate and innovate, to change, to seek solutions to new challenges. A leader's role is to ensure that the individual contribution to the overall goal of the team is formally assessed, so that team members receive clear feedback on their work. It is very important that team members feel involved as much as possible in all aspects of

their work and planning decisions. This involvement leads to increased accountability and dedication to the company, lower staff turnover and retention in the company's best employees

➤ Employees tend to benefit as much as organizations in a team environment. Teams can provide a sense of self, human dignity, identification with work and sense of self - confidence and self - fulfillment, for which current workers seem to work. The teams give employees the freedom to grow and gain self respect and dignity - management making decisions about their work. As a result, employees work better and face less stress at work. Team members feel they have an interest in the results, the achievement of tasks, the team are dedicated and do not want to disappoint.

➤ Modern organizations will have to find a way to recombine spontaneously to form multidisciplinary teams and high performance, working in a natural way. The skills of teamwork are essential for teams to operate successfully. This means that the organization will be to prepare people for them to acquire all necessary skills. Where appropriate, individuals will find the position of leaders of a team, members of another and subordinates in the third team, roles are defined by the nature of work. Operating within these different roles require a completely new range of skills in relation to those required in a traditional organization

Teams can be real work force in increasing productivity and promoting change if:[4] formal group structure is the same with the informal group; there is a competition between the teams, which can lead to increased performance; management staff has knowledge of human resources and also have the skills and motivation for their application in practice

3. Conclusions

Teams are not the solution to everyone's current and future organizational needs. They will nor solve every problem, enhance every group's results, nor help top management address every performance challenge. Moreover, when misapplied, they can be both wasteful and disruptive. They represent one of the best ways to support the broad-based changes necessary for the high -

performing organization. And executives who really believe that behaviorally based characteristics like quality, innovation, cost effectiveness,, and customer service will help build sustainable competitive advantage will give up top priority to the development of team performance.

Teams are a critical method for facing the challenges of globalization, increased competition, and ever-evolving technology. Companies form teams for different reasons, but most teams are created to solve problems and ensure that an organization becomes more flexible, effective, and competitive. However, simply putting a team in place is no guarantee it will produce results. All teams need support and training in order to help them work effectively and productively.

Teams are important for organizations because:

➤ Organizations must keep in the forefront that the customer is truly number one and that customer satisfaction is a critical and worthwhile goal. Companies must creatively find new and appropriate ways in which all work team know, understand and are responsive to the need of their customer.

➤ Organizations must be committed and focused in giving quality products. Organizations must be willing to create an environment that supports teamwork in which work teams can find new and creative ways to meet the customer needs for quality products and services.

➤ Organizations must develop leaders that have the appropriate philosophy, attitude, commitment and skills that can set a good example of teamwork.

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Benefits of the Informal Organization

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Abstract

In today's world, with development of economic globalization and competition among enterprises of the content, in addition to markets, products, technologies, increased competition in human resources. The purpose of study of the informal organization is to its as a human resources can be developed, the correct guidance, the positive role played by the informal organization to avoid the damaging effects, so that the work of groups rationalize and improve efficiency. Ignoring the informal organization can be a major mistake in light if today complex and dynamic organizational structure. Managers need to learn to work with both formal and informal structure. Business can best be managed through a balanced implementation of formal and informal organization.

Key words: formal organization, informal organization, informal leader, organization

J.E.L. classification: M19

1. Introduction

In all businesses there are two organizations: one that is shown on the formal organization chart and another that exists in reality. The formal and informal systems mirror each other and go together.

2. Formal and informal organizations compared

An organization is neither totally formal nor totally informal. It is a combination of formal and informal aspects. Approaching the informal without appealing to the formal would be incomplete. The line separating formal and informal organization is not always clear. Formal organization is created by management to achieve organizational

objectives. Informal organization originates from within the formal organization to meet the social and cultural needs of people. For an effective manager to be successful in managing his staff, it is essential to understand the formal and informal organization.

A formal organization is characterized by several distinct features: [1]

- ✓ a common goal; an accepted pattern of purpose
- ✓ a set of shared values or common beliefs that give individuals a sense of identification and belonging
- ✓ continuity of goal – oriented interaction
- ✓ a division of labor deliberately planned to achieve the goal
- ✓ a system of authority or a chain of command to achieve conscious integration of the group and conscious coordination of efforts to reach the goal.

An informal organization refers to all the channels of interaction that are not defined by the formal organizational. The informal organization challenges a manager because it consists of actual relationships that have real consequences on worker's behavior but that are not prescribed by formal organization, and, therefore, not shown on the company's organization chart. The informal organization is a system of interpersonal relations formed spontaneously within all formal organizations. It consists of a dynamic set of personal relationships, social networks communities of common interest, and emotional sources of motivation.

An informal organization is one that exists naturally within a social structure. As individuals find common interests or purpose, they have tend to operate more closely with one another than with others they have little in common with. These relationship can be and frequently are more influential than actual formal organizations. They don't have any documented

accountability requirements or procedures that drive their performance and behavior. They function through discretion and personal choice.

The main points of difference between formal and informal organizations are given below:

Formation:

- ✓ formal organization – deliberately planned and created by management
- ✓ informal organization – emerges spontaneously as a result of social interactions among people.

Purpose:

- ✓ formal organization – to achieve planned goals of the organization
- ✓ informal organization – to satisfy social and cultural needs of members and fulfill common interests.

Structure:

- ✓ formal organization – has a well – defined structure of tasks and relationships
- ✓ informal organization – a complex network of relations.

Leadership:

- ✓ formal organization – managers act as leaders by virtue of their superior position
- ✓ informal organization - members voluntarily choose their leaders.

Communication:

- ✓ formal organization – formally established or official lines of communication
- ✓ informal organization – members communicate informally according to convenience.

Organization chart:

- ✓ formal organization – official structure, can be shown in the form of a chart
- ✓ informal organization – unofficial structure, not shown on the chart of the company.

Rules and regulations:

- ✓ formal organization – written and fixed, violation leads to penalties
- ✓ informal organization - oral norms, violation leads to social disapproval.

The informal organization provides leadership to members in addition to what the formal structure provides. Any formal organization functions best when the informal organization support it. Formal and

informal goals may be complementary if the members of the informal organization perceive benefits from working in a unified way with the formal structure. Sometimes the informal structure may conflict with the formal one. Where this is the case the organization may become less efficient at meeting its stated objectives.

In every organization, there is a continuous interplay between its formal networks and its formal structure. Formal policies and procedures are always filtered and modified by the informal networks, which allow workers to use their creativity when faced with unexpected and novel situations.

The relationship between the formal and informal organizations is always subtle always complicated and always interesting.

3. Impact of the informal organization

The informal organization can affect the formal organization positively and negatively. The informal organization is important to the personal integrity, respect and independence of individuals in the formal organizations.

The informal organization has the potential to be helpful to managers in the following ways: [2]

Makes the total system effective. A formal organizational policies, systems, plans can not solve all the problems that exist in the organization, it can not meet the needs of all members, the organization of the situation is constantly changing, with dynamic nature. The informal organization is relatively flexible, organized some of the issues in the informal organization can be resolved in the interpersonal relationships with members of some of the requirements can be met in the informal organization.

Provides support to management. The informal organization can provide support to the individual manager. If the manager will accept assistance, the informal organization can fill in gaps in the manager's knowledge through advice or through actually doing the needed work. When the group performs effectively and positively, it builds a cooperative environment. This, in turn, can lead the manager to delegate more tasks to the employees.

Provides a useful communication channel. As the informal organization is the spontaneous formation of people's interactions, and interpersonal communication have become a way to maintain the informal organization. People in the informal organization to pass a variety of information, understanding what is happening around, talk to their own feelings.

Provides stability in the workplace. Informal organizations tend to make employees more than the formal organization creates a sense of belonging and a sense of security, because people in the formal organization not only to share work – related content, but also the lives of more or emotional exchange. Therefore, the informal organization that provides its members in formal organizations, it is difficult to get the satisfaction of psychological needs to create a more harmonious, harmonious interpersonal relationships, improve the spirit of mutual cooperation of members.

Encourages better management. Managers should be aware of the power of the informal organization in what is actually a checks- and – balance system. Planned changes should be made with an awareness of the ability of the informal group to make the plan successful or unsuccessful.

Although the informal organization will bring some benefits, but also the organization will usually bring some potential problems.

Develops pressure for conformity. The norms of informal groups strongly pressure group members to conform. The more cohesive the group, the more accepted are the behavioral standards.

Creates conflict. Because an employee not only the formal leadership of the organization to meet the requirements, but also meet the requirements of the informal organization, the requirements of the two may sometimes be contradictory, in which case the employee organization would be confused.

Resists change. The informal organization can resist change. In an effort to protect its values and beliefs, the informal group can place roadblocks in the path of any work modifications.

Unable to effectively control. As the power of the informal organization is independent of the formal organization of the power system, so the power of the formal organization of the informal organizations is

sometimes unable to effectively control. Especially when there close of the informal organization, its interests and objectives of management effectiveness will reduce or even obstacles, and thus unable to complete the work of the organization goals.

Tended effectively, the informal organization complements the more explicit structures, plans, and processes of the formal organization: it can accelerate and enhance responses to unanticipated events, foster innovation, enable people to solve problems that require collaboration across boundaries, and create footpaths showing where the formal organization may someday need to pave a way

To return to a long – term performance, companies will need to embrace both formal and informal structures that are present in every organization.

4. Working with the informal organization

One concept to keep in mind concerning the informal organization is that it serves many useful purposes for its members, it usually provides a satisfactory amount of social affiliation and interaction as well as information to workers rapidly. The informal organization is capable of controlling or influencing the behavior of its members if their actions become so far out of line with formal organization expectations that they tend to create problems and dangers for the informal group. [3] In many cases, the informal group even works to support and achieve formal goals and objectives that are in harmony with informal ones. Since the informal group is capable of performing for its members many positive, constructive tasks that are desirable from the formal point of view, the group should be permitted and encouraged to perform these supportive functions. In meeting personal and group needs and in regulating worker behavior constructively, the informal organization can be a very helpful auxiliary to formal manager.

Managers need to learn to work with both formal and informal structure. A flexible manager will realize that elements of the informal structure can be formalized i.e. by adapting the formal structure to incorporate

improvements which result from the day – to – day working of the informal structure. Because the informal organization is inevitable, the manager must develop methods for influencing it.[4]

One of the most direct ways for a manager to influence the informal organization is by tapping its grapevine, learning what is being communicated, and countering any negative rumors by getting the formal organization's message into the channel. This can be done by learning who the liaison people in the informal network are and using them as a point of entry. The manager must also work closely with these people and show them that the company is interested in them and views them as important resources.

Another way for a manager to influence the informal organization is to understanding the roles of informal leaders and learning how to leverage them. Informal leaders play key roles: they are motivators and enablers, inspiring teams and management to accomplish goals; as agents of execution, they drive the business forward and get results; they are advocates for the business, mentoring and supporting others to achieve their objectives; as communicators and connectors they bridge the communications gap between management and employees; they serve as an extension of the manager when the manager is absent. An excellent way of putting the informal organization to work for the good of the company is to bring informal leaders into the decision – making process.

5. Conclusions

The informal organization exist everywhere. Ignoring the informal organization can be a major mistake in light if today's complex and dynamic organizational structure. Knowing its features means being able to handle and guide the firm in the right direction. Armed with theoretical and practical knowledge, managers will be able to take a step toward dominating the liberal or conservative tendencies of the organization. They will be able to stimulate or subjugate these according to the requirements and aspirations of the firm.

By mobilizing the power of the informal organization, Romanian companies will benefit from faster decision – making and improve execution, as well as from having more highly motivated employees whose behaviors are better aligned with organizational goals and strategies.

Managers of Romanian companies should realize that informal organization cannot be done away with. They should try to integrate both formal and informal organizations such that facilitates the achievement or organizational goal. There are certain guidelines to be followed in managing informal organizations:

- ✓ The management should realize that informal organizations can co – exist with the organization and should take the help of informal organizations to achieve organizational goals.

- ✓ Identifying the leaders of informal organizations who are most influential and maintaining good rapport with them will help managers to work efficiently.

- ✓ The management of the organization should try to integrate the interests of the informal organizations with those of the organization.

- ✓ The management should try to find out the reason for the formation of the informal organizations and how far the management is responsible for actions of informal organizations.

- ✓ The management can encourage the existence of informal organizations by molding them in line with the interests of the organization.

Firms are unique as living entities and as such may respond to similar economic phenomena with opposite result. Managers should then be aware of the impact of the informal in the organization over which they rule and learn how to cope with it. They should realize that every human contact has an echo. And some contacts may even change an individual's nature. The efficient management of informal organizations can help in better organizational functioning.

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Considerations about Retailing Trends

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Abstract

Retailing has experienced a number of changes over the past decades and many trends are expected to continue in the future. Retailers should understand these trends as a method of planning and developing successful strategies. Retailing innovations should be carefully examined and considered for possible use in the market. Changes in the population, store trends and the retail promotional mix are all factors that must be studied in order to predict the future retail environment.

Key words: retail, ethic, competition, trends.

J.E.L. classification: M21, M31

1. Introduction

The present paper aims to discuss some of the major retail trends that retailers faced and are likely to face over the next year.

Market trends-there are several trends relating to the market that will affect a retailer's operation: population changes, household formations, ageing of people, income distribution, ethnic population growth or consumer sophistication.

2. Content

There are some features and trends that must be underlined to better understand the retail global configuration.

Concerning the demographic changes there can be mentioned:

- The increase in population changes-the increase in population comes an expanding need for retail services, could be the result of both an increased birthrate and immigration; all population changes will affect the buying habits and preferences of the market.

- Household formations-although the population will increase steadily during the 1990's, the expected rate of growth will slow somewhat. This will be paralleled by a corresponding decrease in the formation of households. As the household tends to be the base for retail spending this will have a significant impact upon retailers. To compensate, the spending power and influence of working women will continue to increase. Retailers will continue to find the female market for goods and services an attractive one as more women enter the workforce.

- Elderly population-one important demographic factor will be the age distribution of the population. Better health care and a healthier, more fitness-oriented lifestyle should permit increased percentage of population to live beyond the age of seventy. As a result of this trend, a new retail market will expand to areas where this age group is the major purchaser of health and personal care products, travel packages, fitness products, educational programs and restaurants dining. If the retailers begin to realize the impact age has on business, there will be a headlong rush to grab a share of the thirties plus market. Ultimately the market will become glutted and those retailers that learn best what this customer wants will succeed most. And, at the same time-while merchandising to the junior customer is increasingly abandoned – some astute junior-apparel retailers may once again win that market share.

- Income distribution-for approximately the past fifty years, the large middle-income portion of the population was the prime target for retailers because it tended to make up the largest group. Today, it is no longer case. Increasingly, despite of economic crisis, income trends show the market is polarizing into two groups-the low income and the high

income wage earners. This polarization has caused an interesting shift in retailing objectives as both new high- end and low-end stores have been experiencing success. For instance, many new stores carrying designer labels and high- priced merchandise have emerged in an attempt to meet the increased affluence of the high-income market. Famous international designers, such as Gucci and Ralph Lauren have opened stores in major cities of the world, in order to capture the market. On the other side, the growth of discount retailers has been due largely to the unprecedented growth in the low-end income market.

- Ethnic population- over the last 150 years, countries like Canada, for example, has become home of people from many different other countries. Within the last few decades, there has been considerable immigration all over the world, from countries such Italy, Portugal, Poland, Romania, Bulgaria, Moldavia, the former Soviet Union and far eastern countries including China, Vietnam, India, Philippines and more. The ethnic population growth brought about by each new wave of immigration provides unique retail opportunities for the emergent markets. Some of these new immigrants open retail stores that often sell specific food stuffs or clothing to other members of their ethnic group. The result of this has been a colourful mosaic of good and services in many big cities of the world. Some future immigration trends can be anticipated. This will lead to numerous retailing opportunities for housing, food, clothing and various other products for the emergent markets. Some stores that are located in the predominantly ethnic areas make it a policy to hire staff members who are fluent in the appropriate foreign language in order to service their customers better. Wise retailers of the future will keep abreast of changes in the ethnic mix of their store location and find new services and products to satisfy the needs of the community. The globalization of markets means that retailers will have many opportunities to expand elsewhere. In the past, some retail organizations have done so with mixed results. However, the relaxation of trade regulations and changes in the Eastern Europe signals opportunities that many retailers took advantages of. A good example

of such success is the McDonald's establishment in the eastern European countries, even in the former Soviet Union. Whether the retailer is located in the USA, Europe or elsewhere, however, care should be taken to understand the effects on demand as a result of the ethnic factors.

- Consumer sophistication-with a population that is becoming more educated, the sophistication of the average consumer has also increased. This has led to changes in product demand. For example, a low price is no longer sufficient to guarantee high retail sales because today's consumer demands quality as well. The retailer who can offer a quality product at a low or reasonable price has the best chance for success. Another important aspect of consumer sophistication concerns the exposure that consumers have to various specialized and ethnic products and their willingness to sample these items. One good example of this is food. Urban consumers have been exposed to foods from many different parts of the world including the West Indies, Europe, the Middle East and Asia. A wide variety of ethnic restaurants, which cater to more exotic food tastes, can be found in urban centres. In addition, many mainstream grocery and food chains have added ethnic foods to their regular stock. It is not unusual to find exotic fruits such as kiwi and mangoes in traditional food stores. Affluent and sophisticated consumers frequently demand high quality and high priced products that are well designed and manufactured. The success of European companies such as Moulinex and Braun in the areas of food processing equipment and personal care products testimony of this fact.

Today's increasingly demanding consumers has fostered the growth of consumerism.

Defined as the organized expression of dissatisfaction with business practices consumerism requires that retailers listen and respond to consumer concerns.

As the demands on consumers' time increase, the convenience aspect of retailing should also increase in importance. Some industry experts predict that time and convenience will be important criteria to gain a competitive edge in the future. Retailers who offer goods and services at the convenience of the consumer will be successful in this years. By capitalizing on

this poverty of time, services retailing has become the fastest growing part of the industry. Services retailing represents another area of opportunity for the retailer. Similarly, franchising is once again experiencing an upsurge in growth.

Another important trend in consumer demand is the increased concern on the part of the public for the environment. For the retailers this means a consideration of products, packaging and store operations and the affect they have on the environment. Some retailers have incorporated this concern into their operations by adding environmentally friendly products.

Retail Store Trends

Changes in the population usually bring about changes in the style, size, location, and operation of the retail store. Retailing has involved from the wooden floors and crowded displays of general stores of the past to the sleek lines and sophisticated displays of the boutiques of today. However, the changes that have occurred in the past will be minor compared to the retail changes that are likely to occur within the next two to three decades.

Store design

One of the major changes that has occurred in retailing concerns store design. Store sizes have changed from small to large and back to small again. Currently, stores are either large establishments such as super center consisting of 100000 square feet of display space, or small boutiques containing only 400 to 1000 square feet of display.

The nature of of retail operations has also changed. Many stores today follow either a self-service or a full service mode. Large retailers have moved towards the self-service end. In this type of operation, customers come into the store, find what they need and pay it at a checkout counter. There are a minimum of retail sale people. The primary responsibility of most clerks is to keep the shelves stocked and to answer any consumer inquiries. This type of operation is beneficial to both the consumer and retailer. Consumers are able to walk into a store and live again in a short space of time. For the retailer, this

type of operation reduces labour costs so that prices can be lower and displays can be improved.

This approach has worked extremely well with food stores and department stores. However, in specialized area such as delicatessens in food stores, or large appliance sections in department stores, higher service levels are still maintained and a greater number of clerks is required to assist the customer.

The small full-service boutique is quite the opposite of the self –service store. Here the retailer has a sufficient number of clerks on staff whose primary responsibility is to assist customer. This is especially common in fashion stores which cater primarily to the high-end market. For consumers, this type of of store has a number of advantages. First, they are assisted by a salesperson from the moment they enter the store. This create a comfortable and intimate shopping atmosphere where the sales clerks get to know their regular customers` needs so they are able to serve them better. The disadvantages is that the prices tend to be higher in these stores than in self- service stores. Yet, it seems that higher prices do not discourage customers, as many feel the additional service is well worth the extra cost. This type of retailing, referred to as "niching", is expected to continue

Throughout the decade as markets become more fragmented and consumers demand more specialized service.

For the retailer, a full service establishment is more expensive to operate in terms of staffing and rental costs but compensation is provided by the considerably higher average sale per customer.

Store location

Store location have changed over the years as well. Originally, stores were located in the main business district of a city or town. Each store was usually operated by the owner. During the 1950s and 1960s stores tended to move away from central business to districts to outlying suburban shopping malls. These malls provided attractive clusters of stores for a growing suburban clientele. In addition, with the increased dependence on the automobile, suburban mall locations provided ample free parking

for the customer. As a result, many downtown business districts fell into decline and retailers in these areas struggled to remain in business. Many central business districts in cities are being revived and trendy new stores are moving in. Similarly, suburban malls have found their customer traffic is decreasing and some malls have even closed. It is likely that, in the future, new malls will become more specialized. A large concentration of stores is an attractive magnet for the consumer, and, by adding entertainment features, a whole new shopping experience is created. Some independent retailers have noticed the value of entertainment for shoppers and have added in-store restaurants and playrooms for children. One notable example of this is the IKEA chain from Sweden which is a worldwide retail presence and a strong believer in combining shopping and entertainment.

Other retailers prefer to locate in small strips or in specialized business districts. Sometimes, a number of small retailers provide specialized goods and services and are located in a cluster. The combined effect of all these retail stores helps draw consumers. The addition of open-air restaurants and sidewalk cafes often enhances the area by providing not only a place to shop and to eat, but also a place to socialize.

Retail competition

The retail industry has, in the last decade, experienced a trend toward increased consolidation and concentration by the major chains in the form of mergers and acquisitions. For smaller retailers in high developed countries this will likely mean stronger retail competition as the larger chains are better able to take advantage of economy of scale. Increased competition is also expected to come from foreign firms.

In the past, retail competition has consisted of one store competing against another. In the future, the growing trend of nonstore retailing outlets will prove to be a significant threat to the traditional retailer. Examples of nonstore retailing include mail order retailing, door-to-door sales, sidewalk and street vendors, and electronic retailing. The retailer of the future will have to

compete against both non-store and regular store retailers. This will be especially prevalent in areas such as gift wares, specialty foods and fast foods. Some retailers are already meeting the challenge of non-store retailing by going into the non-store retailing area themselves, while keeping their regular retail outlets. Successful, small specialty retailers maintain both a retail store and an active mail-order clientele. Both of these activities are major contributors to the success and overall profitability of the operation. Other retailers may work in the opposite direction, starting out as nonstore retailers and eventually building up sufficient clientele and profits to open a full-scale retail establishment.

Automation

In the past, many of the advances in retailing as a result of automation were concentrated in the warehousing – distribution area. However, automation is playing an increasing role in the retail store itself. From yesterday's large mechanical cash register to today's modern electronic point-of-sale device, there have been tremendous changes in the retail world due to computerization and automation. The introduction and development of the universal product code (UPC) has allowed retailers a greater degree of control over their inventory and has lessened the number of errors that occur when entering data at the point-of-sale terminal. A special lightwand scans the UPC code and immediately enters the sale data into the store's computer. This computer then registers the price, calculates any applicable sales tax, and prints out the customer's bill of sale. The store's inventory records are continually adjusted and the store owner/manager is able to determine inventory as well as sales levels on a daily basis. Not only are scanning devices efficient and helpful to the consumer but they also allow the retailer to gain valuable information about the customer transactions.

Credit cards become a major fixture in retailing, and today, instead of entering all the data from the credit card by hand, a machine automatically reads the magnetic strip on the back of the credit card, obtains authorization, and automatically prints up the customer's charge slip. This machine has

helped prevent credit card fraud. Electronic funds transfer allows the retailer to have money transferred from the customer's bank account directly into the retailer's account as the sale occurs. This essentially becomes a cash sale and can represent a major cash saving for the retailer.

Retail research has also been greatly enhanced through retailers' use of consumer databases and computer assisted surveys. Automation is also contributing to creative devices for in-store promotion.

Promotion

The promotion of the retail store has changed considerably within the last decade and is likely to change even more during the period of 1990s-2000s. In general, the dominant form of retail promotion has been the printed media where newspaper advertisements or door-to-door flyers have been common. Also, some retailers, spend a great deal of time and effort producing catalogues for their customers and the production costs, which include photography, copywriting and printing, are very high.

Many retailers are moving away from the printed media in favour of the electronic media. For example, the use of radio commercials is an increasing phenomenon in retailing. Many of these commercials are scheduled for the rush hour slots when people are in their cars going to or from work.

Local television has also become a viable advertising tool and, while some retailers now use it to supplement their print or radio advertising, it is quite likely that in the future some retailers will use it as an exclusive means of promotion. While television advertising is extremely expensive, it can give a new retail store rapid exposure to a large segment of the consumer population. Some large urban centres have ethnic television stations that broadcast messages in various languages. Frequently, the advertisers here are retailers who sell specialty products to a largely ethnic clientele. The cost of advertising on these stations tends to be substantially less than on larger network stations, which makes advertising on television an affordable proposition for certain retailers.

Retailing Ethics

Many ethical issues facing retailers have been discussed already. Examples include the areas of retail research, legislation, layout planning, human relations, management, pricing, personal selling, customer service and promotion. Retail managers may be called on to make decisions involving ethical issues in each of these areas. As ethical considerations are seldom clear-cut, the retailer would be wise to develop broad guidelines or policies to provide guidance when such questions arise.

In many cases the ethical decisions may not lead to successful short-run sales performance but often contributes to a positive image and reputation leading to long-term success. The retail manager may look beyond what is „legal” because what is perceived as „unethical behaviour” often leads to legislation.

In the last years, retail managers will be faced with even more complex decisions that bear ethical overtones. Increased competition, technological advances, and socioeconomic changes all suggest that new situations will emerge requiring increased sensitivity to ethical questions.

3. Conclusions

The future of retailing will be affected by the changes in population, ageing, ethnic population growth, income, household formation and consumer sophistication. In the past few decades, there have been changes in the style, size, location, and operation of the retail store. Automation has helped the retailer control inventory levels with a greater degree of accuracy and has provided a more efficient internal management information system. Although print media and radio advertising are important for retailers there will be a greater reliance on television advertising in the future.

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Accounting Policies Regarding Environmental Costs

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Abstract

The purpose of this article is to present certain aspects regarding the involvement of accounting in the environmental issues that a company may face, to also present environmental costs and the chance to reflect them through environmental accounting. The main objectives taken into account by the article were to define the concepts of environmental costs, and to describe how environmental management accounting may be useful in determining environmental costs. The scientific demarche is based on information from the national, European and international specialized literature and practice. Our approach turned to research methods like documentation, analysis, synthesis, comparison, all these being part of the positivist research current.

Key words: accounting, environment, environmental accounting, environmental costs, environmental management accounting
J.E.L. classification: M41, O13

1. Introduction

Considering the intense normalization and standardization process in accounting, it must be known that in terms of environmental management and protection there are sustained efforts for a joint representation of such activities. The emergence of environmental accounting goes back to the 1970s; since then, the interest for this area has grown considerably and managers have started to pay more attention to environmental issues. Accounting is required to submit various types of user information on the financial position and performance of

entities in the management of resources at their disposal. Historically speaking, the accounting was limited, mostly, to the resources represented by material and financial goods of entities. This became less appropriate, being left out of accounts significant "costs", such as environmental, social, which were not found in the financial statements of entities. This is because entities didn't "pay" anything for the environment, and only little for social issues. This does not mean that society as a whole does not support these "costs". Various other factors have forced the conservative to take measures of modernization. In recent decades a growing number of entities give great importance to environmental issues and their reflection by accounting, either under the influence of administrative regulations or because of their information needs. In certain circumstances, for certain fields, they can have a significant impact on the financial statements, and that of their users.

2. The need to involve accounting in the environmental problems of the entity

Environmental issues are starting to become an area of interest for the users of financial statements; a growing number of entities are beginning to pay attention to these issues also.

Today, the concept of natural environment or environment is associated with three perspectives [1]. According to the *first perspective*, the environment is *the set of natural resources*. It is the initial notion of the environment and the most intuitive. It emerged as a result of several analyses and findings at the end of the 20th century, which gained growing significance as the chance to

observe global economy as a whole increased. According to the *second perspective*, the environment represents *the interaction between natural resources and human activities*. This is the notion with the most uncertain limits, which occur from the negotiation between different abilities and disciplines. In terms of the *third perspective*, the environment is the *set of all available resources*. This is the notion that derives from the concept of sustainable development, according to which environmental, social and economic elements are actually indissoluble.

Bennet and James (1997) identified six fields related to the association between environment and accounting. The goal of this association is to ensure that the management of the entity has sufficient information to improve the management of the decision-making process. Bennet and James (1997) claim that the environment-environmental accounting association may be effective in improving the efficiency of the entity's management by: identifying and reducing costs, prioritising environmental actions, directing the process of establishing prices for products, increasing the client's value, making investment decisions with consequences on long term and assessing the eco-efficiency and/or sustainability of the entity's activities [2].

The incorporation of environmental issues in the life of the entity involves taking them into consideration in terms of economy, legal framework, accounting, finance and technique (Lafontaine, J.P., 2002). In terms of *economy*, taking into account environmental parameters in the cost of services and products allows the entity to ration the consumption of natural resources or energy on one hand, achieving substantial savings, and, on the other hand, it allows to meet the requirements regarding the environment and the consumers' health. In terms of the *legal framework*, taking into consideration the environment is imposed by the risks that engage the responsibility of the entity. This responsibility is generated by non-compliance with the environmental legislation and may result in administrative and/or criminal sanctions. In terms of *accounting and finance*, recording environmental costs generated by the activity of the entity and presenting the associated

financial information represent a mean of assessing performances [3].

Involvement of Romania's accounting in the business of environmental protection is even stronger with the entry into force on January 1, 2010 of the Order 3055/2009 for approving the Accounting Regulations in accordance with European directives, so in the chart of accounts, a new account is inserted, account 652 "Expenditure on environmental protection. With this account is recorded environmental protection expenditure recorded in the relevant period, for example, environmental taxes paid, the certificates of emissions of greenhouse gases effect purchased.

3. Environmental costs – premise of environmental accounting

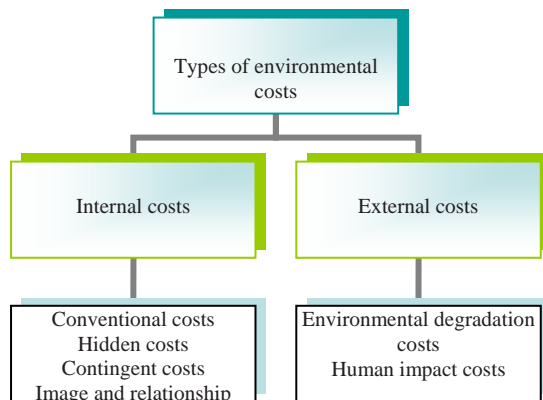
The main component of environmental accounting is the environmental cost. Over time there have been many definitions for the concept of environmental cost, and we will analyze these definitions next.

European Commission Recommendation 453/2001 makes the distinction between environmental costs and other costs, defining them as costs of the actions undertaken by the economic entity and by third parties in the name of an economic entity with the purpose of preventing; reducing or repairing the environmental damages resulted from operational activities. These costs include: waste storage and disposal, soil protection, underground and surface water protection, clean air and climate protection, noise reduction, biodiversity and landscape protection. The definition given to environmental costs by the United Nations Conference on Trade and Development (UNCTAD) posits that they "comprise the costs of steps taken, or required to be taken, to manage the environmental impacts of an enterprise's activity in an environmentally responsible manner, as well as other costs driven by the environmental objectives and requirements of the enterprise".

The Environmental Protection Agency defined environmental costs as being costs with a direct financial impact over entities (internal costs) and individual costs, for which the entity is not responsible (external costs). This definition is the basis of the

distinction between environmental costs, which is seen below [4]:

Figure no 1. Types of environmental costs



Source: Patrick de Beer, Francois Friend, Environmental accounting: A management tool for enhancing corporate environmental and economic performance, Ecological Economics Journal, no.58, 2006, p. 550.

According to the Environmental Protection Agency (1995), *internal costs* include:

- *Conventional costs*, which include costs with equipments, raw materials and consumables;
- *Hidden costs*, which refer to the results of assigning environmental costs to indirect costs or overlooking future and contingent costs;
- *Contingent costs* refer to environmental costs that will not occur with certainty in the future, depending on uncertain future events, such as the costs involved in a future restoration process;
- *PR costs* are less tangible because they cover the subjective perceptions of management, clients, employees, community and regulators. This category may include costs of the annual environmental reports, as well as costs for environmental activities, such as planting trees.

External costs include the costs of environmental degradation for which the entities are not legally responsible and which have negative consequences on humans, property and their well being, and can't be always compensated through legal systems. Determining the financial value of external costs is difficult, but, nevertheless, some entities are trying to approach these costs as

part of their environmental accounting system.

IFAC makes a distinction between waste and emission control costs, prevention costs and other administrative costs, such as the research and development activity, which helps to increase eco-efficiency.

According to the IFAC (2005) classification, the following costs are considered environmental costs [5]:

a. Materials Costs of Product Outputs: Includes the *purchase costs* of natural resources such as water and other materials that are converted into products, by-products and packaging.

b. Materials Costs of Non-Product Outputs: Includes the *purchase (and sometimes processing) costs* of energy, water and other materials that become Non-Product Output (Waste and Emissions).

c. Waste and Emission Control Costs: Includes costs for: *handling, treatment and disposal* of Waste and Emissions; *remediation and compensation* costs related to environmental damage; and any control-related *regulatory compliance* costs.

d. Prevention and Other Environmental Management Costs: Includes the costs of *preventive environmental management activities* such as cleaner production projects. Also includes costs for *other environmental management activities* such as environmental planning and systems, environmental measurement, environmental communication and any other relevant activities.

e. Research and Development Costs: Includes the costs for *Research and Development* projects related to environmental issues.

f. Less Tangible Costs: Includes *both internal and external* costs related to less tangible issues. Examples include *liability, future regulations, productivity, company image, stakeholder relations and externalities*.

From our point of view, environmental costs are those expenses incurred to prevent, reduce or repair damages caused to the environment, incurred at the initiative of the entity or required by the regulations and rules in place to reduce the environmental impact of the entity and to reduce the environmental risk.

4. Environmental management accounting – the main tool used by the entities to determine environmental costs

Environmental issues, together with associated costs, revenues and benefits, are a growing concern for the citizens and corporation leaders in most countries of the world. As they are now, the accounting practices don't provide sufficient information to support the decision-making process regarding the management of the environmental responsibilities. In order to fill this gap, at the beginning of the 1990s, the US Environmental Protection Agency was the first agency to set up a program that promotes the adoption of the environmental management accounting (Environmental Management Accounting – EMA). Since then, organizations in 30 countries have begun to promote and implement environmental management accounting for various types of management initiatives related to the environment. The International Federation of Accountants (IFAC) decided to authorize the creation of a guidance document regarding environmental management accounting, a document that was based on the first two publications of the ONU DSD EMA Group, in order to put together the best information about environmental management accounting and, at the same time, to update and complete it. This is intended to be a guidance document that provides guiding information, being "a middle way" between regulatory requirements, standards and pure information. Therefore, its purpose is to reduce international confusion on this issue by supplying a general framework and a set of definitions for EMA, which is quite comprehensive and consistent with other existing ones, used widely for environmental accounting. A recent evolution of EMA is to include social aspects also and to move emphasis from "environment" to "sustainability". According to the IFAC analysis, the environmental management accounting practice moved beyond the provision of information by focusing on reducing waste (for example, reducing loss of resources) and generating value (for example, the efficient use of resources).

As in all cases, environmental management accounting is a tool to inform managers about environmental costs and the quantification of the effects of the entity's activity over the environment. It emerged as a result of the growing pressure over the entity's management to reduce costs, but also to minimize the environmental impact of the activities [6]. This pressure comes from internal users, but especially from external ones (public authorities, consumers, investors, mass-media).

Environmental management accounting (EMA) is defined as the generation, analysis and use of financial and non-financial information in order to support management within the framework of society or business [7]. EMA incorporates environmental issues and business policies and, thus, provides guidance for the building of a sustainable business. EMA examines financial costs and environmental benefits, contributing to the recognition of high and rising levels of capital and operating expenses for pollution control equipments and environmental taxes.

An essential feature of environmental accounting is that its implementation requires several disciplines [8]: first, environmental policy should be integrated within the global and strategic policy of the entity; second, there are the disciplines involved in producing environmental and reporting costs; third, there is the auditing requirement that ensures conformity with environmental regulations and adequate reporting of environmental accounting.

Because environmental management accounting provides financial information, as well as non-financial information, there is an opportunity to split environmental management accounting into Monetary Environmental Management Accounting – MEMA and Physical Environmental Management Accounting – PEMA. **Monetary Environmental Management Accounting** (MEMA) is used for internal management decisions and aims to identify and treat costs and benefits that emerge as a result of the environmental impact of the entity (Schaltegger and Burritt, 2000). Regarding its methods, MEMA is based on the adapted traditional management accounting that will be applied to the environmental aspects of the company's activities. It is focused on assessing the

environmental impact in monetary terms (costs with fines received for violating environmental regulations, investments in pollution prevention projects). MEMA is the central and ubiquitous tool that underlies most internal management decisions and approaches the issue of identifying, monitoring and treating costs of the environmental impact of the entity. MEMA is a system that emphasizes the economic impact of the entity's activities influenced by environmental aspects and contributes to the strategic and operational planning and provides the main basis for decisions directed towards achieving the desired objectives and acts as a control instrument.

Physical Environmental Management Accounting (PEMA) serves as an informational tool for the internal management decisions, using non-monetary information, expressed in physical units (kg, t, m³, etc). PEMA is: an analytical instrument that allows identifying the environmental strengths and weaknesses; a support technique of the environmental decisions; a tool of direct and indirect control of the environmental consequences; a tool that provides a neutral and transparent basis of internal communication and, indirectly, external; a tool for promoting sustainable development [3]:

As can be seen from above, management accounting is not just about the monetary standard, but presents information in terms of a natural standard also, having the ability to reflect environmental costs that the entity has to cover in order to prevent, treat or repair damages that the activity of the entity has caused to the environment.

5. Conclusions

From the presented information, it can be noted that lately, the development of accounting has focused on environmental accounting, and new sub-fields of it have started to develop, such as environmental management accounting and environmental audit. In terms of the researches conducted in Romania regarding environmental accounting, they are still in their early days, but there is a definite interest for this field. Considering the intense normalization and standardization process in the field of

accounting, it may be noted that in terms of environmental management and environmental protection there is considerable effort also to achieve a joint representation of these types of activities, by establishing standards that regulate environmental issues, like in the case of Bulgaria, where there is an international standard regarding environmental accounting, called "Reports on environmental regeneration", which approaches environmental issues. In Romania, due to Order 3055/209, the involvement of accounting in covering environmental aspects has begun to be felt.

According to IFAC (2005), implementing environmental management accounting within an entity may bring a series of benefits, such as [5]:

- *Promoting environmental protection in terms of compliance with environmental regulations in force and complying with self-imposed environmental policies within the entity by:* planning and implementing pollution control investments, investigating and seeking substitutes for toxic materials, reporting emissions and waste to the regulatory authority;

- *Supporting costs' reduction and minimizing the environmental impact through an efficient use of energy and resources:* the accurate monitoring of energy, water, materials and waste flows, assessing the benefits resulted from investments in eco-efficient activities;

- *Supporting the assessment and implementation of efficient environmental programs that support the long-term strategic position of the entity:* designing green products and services, estimating internal costs generated by the change of regulations;

- *Helping management to identify and record hidden environmental costs.*

By separately managing environmental costs, by identifying the cost bearers and generators and by using cost-sharing basis and adequate costing methods, we may conclude how important is the implementation of environmental management accounting, which may contribute more efficient processes that generate costs' reductions and increased profitability.

The presented information and conclusions provide opportunities for new approaches regarding environmental costs and the implementation of environmental management accounting within entities in order to ensure continuous environmental performance and to reduce environmental risks.

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Access Database Using ASP Technology

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Abstract

ASP (Active Server Pages) is a technology created by Microsoft to create dynamic web pages, which is based on storing and executing scripts on the Web server and ASP.NET is an evolution of the ASP based on a new technology developed by Microsoft, and more specifically platform. NET Framework. ASP technology. NET ASP which bring significant improvements.

The paper shows the ASP technology, which includes articles and features underlying its functioning.

Besides our technology, we also present ActiveX Data Objects (ADO) that provides access to databases within Web pages.

Key words: ASP, script object

J.E.L. classification: O 30

1. Introduction

ASP is a technology used to create dynamic Web pages providing access to online applications.

2. ASP technology

Active Server pages technology (ASP) is developed by Microsoft, allows scripts for server and is used to create and run the Web applications.

An ASP page is a file stored on a Web server and has the extension. ASP. This special extension distinguishes between an ASP page and a normal HTML file which has extension Html or Htm.

When a user visits a Web site and requires a normal HTML file, the server simply takes over the file from your hard disk or computer memory and sends it to the user's browser.

The browser interprets the Html file content and the visitor will see the Web page.

When someone ask for a normal Html page, the Web server is not interested in the content file. The Web server's role is limited to the correct file download without processing it. All the interpretation work for the file content is carried out by the user's browser.

On the other hand, when someone ask for an ASP page, the Web server will have a more active role.

Before sending the file to the user's browser, it is first processed by the Web server. The latter interprets and executes any scripts from an ASP page, before it is sent to the user's browser. Due to the fact that an ASP page is processed by the server instead of the browser, such a page is compatible with all Web browsers.

ASP pages containing scripts server-side. As script generation language, you can use Microsoft Visual Basic Scripting Edition (VBScript) or Microsoft Jscript or PerlScript.

Microsoft Jscript technology company includes ASP PerlScript is not a Microsoft product.

Script generation languages such as VBScript differ from complete programming languages, such as Visual Basic and Java, by the simplicity of rules and their syntax. For example, VBScript does not require the declaration of variables as particular types of data.

Moreover, unlike Visual Basic or Java, ASP page should not be compiled into a separate file before it can be executed.

When you modify an ASP page, it is automatically recompiled for the next request.

The advantage of using a language generation scripts to build up web pages is that it facilitates the modification of a Web site even after it was released on the Internet.

If you discover an error in this site, you can quickly load page in Notepad or Wordpad program which will solve the problem.

However, we should not conclude that if an ASP page uses language generation scripts then the Active Server pages are slow or do not provide necessary coverage .

ASP scripts run in the same process as the Web server and can be divided into threads. This allows an ASP page to provide simultaneously ,in an efficient way , support to a large number of users.

An ASP page would be strictly limited if it could contain only scripts. The exact time or other interesting posts might be shown, but it wouldn't be possible to acquire information from users, to store data in a database or create files on the server. Fortunately, an ASP page can contain server-side components.

A script for the server begins to run when a browser requests an ASP file on the server. In turn, the server calls ASP processing your requested file and executes each command in the script, then send to the browser page.

In order to create the ASP file one can use any text editor, but it is advisable to support ASP environment such as Microsoft Visual Studio or Macromedia Dreamweaver MX2004.

A component is something that usually has methods, properties and collections.

Component methods determine the actions they can perform with an object.

Component properties can be read or set in order to establish the component state. Collections of components are sets of key and value pairs referring to the component.

Active Server Pages are two types of components: objects that can be included and components that can be installed.

The six items included in Active Server Pages are:

- Applications – is information that can be shared among all users of ASP applications.
- Object Context - this object is used in ASP pages dealing transactions
- Request - all information is sent to the server browser, including form variables and query strings.
- Response - is all the information sent from a server to a browser, including HTML content sent by an ASP page.

- Server – the server allows the use of different utility functions

- Session - represents the information on this particular session of a user.

Active Server pages include a special set of objects, ActiveX Data, which allows accessing a database from an ASP page. These objects are used to insert, update and delete rows in a table.

The objects can be used also to retrieve a set of records from a table and display them ai an ASP page.

Features

- Distribution through a network. ASP site provides access to online applications - either by Internet or a private network.

- External control. Instead of making the location of each user, the application administration and maintenance is carried out externally, from a central location, by the ASP provider. One-to-many service. ASP model was created as a one-to-many. Normally, ASPs provide standardized applications or with a minimum degree of customization to a large number of customers, which provides a financial advantage due to the minimal costs of implementation.

- Compliance with contract. An ASP assumes responsibility for access to application distribution mechanism including related services. ASP's support, supervise and monitor the distribution mechanism operations under a contractual agreement to the service.

ASP runs on these servers:

- Microsoft Internet Information Server (IIS) version 3.0 minimum running under Windows NT Server 4.0;

- Microsoft Peer Web Services 3.0 running under Windows NT Workstation;

- Microsoft Personal Web Server that runs under Windows 95.

Accessing databases is done with the help of ActiveXData Objects (ADO) which is an extensible and easy to use technology that allows access to databases whitin Web pages.

ADO can be used to write scripts compact and scalable in order to connect to databases through ODBC (Open Database Connectivity).

Basically, ADO can be used for compact writing scripts with a view to connecting to data sources from Web pages or OLE DB compatible data sources, while ADO is used

as databases, spreadsheets, sequential data files, or e-mail directories.

Before you can open a connection to a database, ASP page will need to provide physical location information database.

In order words, the script should provide method of finding the database on the hard disk.

This can be done with the help of a data source name (DSN Data Source Name-).

There are two different types of data source name. If you create a source file name (File DSN), information about connecting to the database will be stored in a file. If you create a name of source system information about connecting to the database, it will be stored in the computer's registry database.

There are no special reasons which require the use of one or other type of data source name. Both types work equally well, but I used in my application one system data source name.

OLE DB is a programming interface that provides system-wide standard set of COM components for database management. Accessing the COM component object model is achieved by using ADO and using VBScript or JScript scripts we can access databases from Web applications.

ADO is used to open databases ODBC (Open Database Connectivity).

In order to establish and handle connections between application and OLE DB compatible data sources and databases compatible ODBC, ADO provides Connection subject. It has properties and methods that allow open and closing the connections to databases, as well as formulating queries for updating.

ASP works with objects and, in order to be able to use these objects, they must be initiated by the program. ASP provides five no instantiate objects: Response object can be used to send data to the client. Contains methods: Write (send the information directly from the browser), redirect (send to a URL), ContentType (controls the content type sent by the client), cookies (assign unique values to identify the customer).

- Server Object ASP executes control environment;
- Session object contains information on the work sessions open by the client web server;

- Application object contains comprehensive information about the application that can be accessed by many clients;

- Object Request allows retrieving the values that the client's browser transmits to the server during an HTTP request.

ASP Code includes:

- Native ASP commands, access Active Server objects and engine components;

- Scripting commands have a clearly defined syntax in which the script language type that is used must be specified .

Scriptures are of two types:

- client-side scripts are scripts that are executed and interpreted by the browser and which access the objects available in the browser;

- Server – side scripts are provided by ASP for IIS and also allow including ActiveX components.

The most striking features of the site consist of ASP interaction with databases that become very accessible by using the Active Data Objects, developing complex applications at the server that is programmed in ASP or application level session and Active Server exploitation as well as Active Server IIS server components.

3. Conclusions

Microsoft Active Server Pages (ASP) is used to create dynamic and interactive Web pages. An ASP page is a page that contains script commands that are processed by the server before being sent to the client browser.

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Distributed Database Design

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Abstract

BDD systems show a number of advantages mainly related to the system performance increase by reducing costs relative to processing and transmission of data and, last but not least, to the fact that BDD system better fits in the organizational structure of an economic unit. The disadvantages are related to the high complexity of design applications). If your DBMS does not provide facilities for handling distributed conflicts, they will have to be dealt with through applications,. This is more difficult for such a system which, besides the complexity of a computer network, has problems related to the data distributed processing, as well as ensuring a high level of transparency of the distribution.

The process of achieving a BDD system is complex and generally justified in one of the following situations: when conducting large database, which provides support for most activities in an organization, where frequent extension of the existing system or interconnecting a set of existing database are expected.

Key words: databases, distributed design, design methods.

J.E.L. classification: O 30

1. Introduction

Distributed databases are controlled by a database management system baazelor data.

2. Transaction database

A distributed database (BDD) is a collection of logically related data shared, physically distributed over a computer network. management system of distributed

databases (SGBDD) is a software system that allows BDD managing and makes its distribution transparent to the user.

Distributed database systems are meant to address "information islands." They have emerged as a necessity, especially for computer network, to support data management when they are found physically in different parts of the network..

The first systems were distributed database Ingres / STAR, a distributed version of Ingres, SQL*STAR distributed version of Oracle and R* distributed version of DB2.

Among the requirements that a distributed database system must provide, we mention: local autonomy in organizing and processing data, not using a centralization of records and data, the possibility for sites to work continuously, independently of changes in working configurations (adding or removing sites), location independence and data fragmentation (physical transparency), potential for replication (copying) and independence of copies, distributed processing of applications, distributed transaction management, independence of hardware, operating system, network management system and database.

A SGBDD consists of a single database that is split into fragments, some fragments may be multiplied, and each piece or copy is kept on one or more sites under the control of a local DBMS. Each site is capable of processing user queries in the local system, independently of the rest of the network, or is able to participate in the processing of data in other sites in the network. In order to say that a SGBD is distributed, there must be at least one global application.

Transactions in a distributed database are classified into local and global transactions according to the sites their execution require.

A network configuration is a distributed database if the different sites are "aware" of the existence of other sites and if each site offers an environment that can run local and global transactions.

Physical system (network) which is supported by a distributed database may consist of personal computers, Minicomputers, Workstations, etc.. all linked in the network and generically named sites.

We can restate our original definition saying that a distributed database system consists of a collection of sites, each of them being able to participate in carrying out transactions which access data one or multiple sites.

A SGBDD has the following characteristics:

- contains a collection of shared and logically related data
- data are divided into a number of fragments
- fragments can be reproduced
- fragments / reproductions are allocated to sites
- sites are linked in a communications network
- data from each site under the control of a DBMS
- DBMS system of each site can handle local applications autonomously
- each DBMS system participated in one global application global at least

Benefits distributed databases:

- distributed system is best modeled on the organizational structure of many organizations, considering that many companies are located "distributed" geographically
- data are shared, but their management has a high degree of local autonomy
- Database availability is obviously better than if centralized. If the system indicates some errors in the system at local level, the entire system can continue function in satisfactory condition
- system reliability is improved. It can quickly restore damaged files by using replicas located on other sites
- data processing performances improve by enabling parallel processing of queries

A distributed system provides economic advantages if we compare the costs of implementing and maintaining a network to the appropriate costs of a similar centralized processing power system. Lower costs can also be obtained if more local processing are carried out (the system accommodate and permit applications). In the same way, it is more convenient to "adjust" a computer network to the organization needs (if [for example it is necessary to add additional sites) than a central computer with similar power.

The system's modular management capacity allows its extensions or settlement of some partial "failure" without affecting too much (sometimes without affecting at all) on-going activities throughout the distributed system.

Among the distribution disadvantages, we mention the increased complexity of such a system.

This is a major disadvantage arising from some disadvantages "consequence" of which:

- it is more difficult to manage and develop a distributed system
- Costs related to such systems are much higher than those related to centralized ones. More time and more specializes staff are necessary at the level of system design and implementation. Both things require higher costs in terms of money. To these costs can be added those which arise from the necessity of ensuring performing hardware and the software necessary software . Similarly, if the systems are operated at normal costs, quite costly communications will have to be added
- increased error potential. A series of errors such as, for example, those generated by distributed algorithms can be added to the common errors which occur while working with databases
- additional processing is required due to the exchange of messages between sites and their coordination in general
- it is more difficult to ensure the security of a distributed system than of a centralized system. Data are more readily available to unauthorized persons as one may try to access them through access between computers. Control at physical administrative level has less weight than for a centralized system.

- Data integrity is also more difficult in a distributed system. Integrity is often expressed in terms of restrictions (rules, conditions) that the database needs to check. Due to the high cost of communication (time and money) one sometimes gives up some rules at the expense of consistency database checking .

- lack of standards. We cannot speak of a total lack of standards but work with distributed data systems is still not based on generally accepted international standards. Hence disadvantages such as: communication problems which arise due to the fact that fixed standards and widely accepted communication standards and protocols for data access have not been yet established yet. There is not enough experience concerning distributed work and design are concerned; it is more difficult to manage and operate a distributed system than a centralized one.

Another disadvantage that I can mention here is the emergence of a large flow of information between sites and hence the need to solve problems such as synchronizing, detection and correction of disturbances, the elimination of redundancies due to inconsistent, etc..

Types of design. BDD design can be done, just like the central database, in top-down and / or bottom-up manner :

- Top-down design aims to ensure optimum data distribution and is used when designing BDD start from scratch. Generally, top-down approaches result in consistent systems.

- Bottom-up Design of BDD is recommended if there are local database to be integrated into a unified system. In this case the main objective in designing the BDD is to ensure the best possible cooperation between the existing databases which are usually heterogeneous.

- Mix design, partly top-down and respectively partly bottom-up is recommended in most cases because it responds better for practical situations.

3. Conclusions

Distributed database is a database management system controlled by a database in which storage devices are attached in a more distributed computers.

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The Cluster Approach for Facilitating Romanian Firms' Access to the European Single Market

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Abstract

The article analyses the possibilities for facilitating Romanian firms' access to the European Single Market through clusters development and internationalization. Having considered the clusters' role and characteristics, in order to determine their potential for growth and internationalization and the implications at a national, regional and firm level, this potential is analyzed in the context of the European Single Market.

The cluster approach in the Romanian context, as status-quo and possibilities for development, is analyzed considering the specific policy, institutional and economic framework, providing recommendations for appropriate measures in order to greater benefit from the clusters' potential and the opportunities provided by Romania's integration in the European Single Market structures.

Key words: Clusters, Cluster policies, European Single Market, Internationalization.

J.E.L. classification: F23, L22, O33.

1. Introduction

Cluster-type agglomerations have been a socio-economic reality even before the Industrial Revolution, drawing the attention of well-known researchers like Marshall, who noted the tendency for specialised firms to be concentrated in "industrial districts", or Schumpeter, who noted the innovative potential of cluster-type phenomena in his

now highly influential exposition on the role of entrepreneurs and the "creative destruction". The fundamental changes in the economy, leading towards a knowledge-based economy and society, have determined the proliferation of clusters - considered as organizational forms specific to the knowledge economy, with enriched potential, functionalities and characteristics.

Clusters and cluster policies have begun to arise special interest in the last decade of the 20th century, which has grown substantially in the last years, in order to accomplish the competitiveness demands at a national, regional and firm level in the emerging knowledge economy. Clusters intercorelate the constitutive firms in an integrated system which provides higher possibilities concerning the access to knowledge and information, costs reduction and innovation, thus contributing to the economic development of the region where they are located.

2. Clusters' role and characteristics

The cluster concept has been introduced to the attention of both analysts and policy-makers by Michael Porter in his highly influential analysis of the competitive advantage of nations ([15]), which is presented as resulting from the interactions of four forces which compound the competitiveness "diamond" - factor conditions, demand conditions, firm strategy, structure and rivalry, and related and supporting industries. The last of these points toward the importance of location and offers an explanation for the well-known success of

Silicon Valley in electronics, or Hollywood in the film industry.

Porter also developed a widely-used definition: "Clusters are geographic concentrations of interconnected companies, specialised suppliers and service providers, firms in related industries, and associated institutions (for example universities, standards agencies, and trade associations) in particular fields that compete but also co-operate" ([16], p. 199).

Approaches to cluster vary, focusing especially on elements like *location*, *industry* or *innovation*; a common element is the inter-firms and other organisations linkages, which provide economic value to clusters. There is a shift of focus from a firm-level to an inter-firms approach. In the context of the knowledge economy, it is well recognised that industry specific knowledge is becoming cumulative and embedded in a particular region or area rather than in a specific firm ([3], p. 322). Clusters largely resulted from the opportunities for economic transactions between firms, explained by Porter in terms of "*economies of agglomeration*" ([16], p. 213); however, concerning the latest generations of clusters, the emphasis has shifted to *learning and knowledge access*.

Location, or geographical proximity, has been greatly emphasized, however, it is not sufficient for a cluster development, as geographical proximity facilitates but does not guarantee effective inter-firms interactions. Actually, progress in information and communication technology has allowed for the creation of *virtual clusters*, at an international level and based on emergent technologies, which create and share information and knowledge across great distances. Clusters may also be viewed as networks of firms with complex interactions, but they differ from networks in that they integrate firms linked in a value chain, as an alternative way of organising the value chain ([17], p. 80).

Clusters can be very different in terms of density, social cohesion, level of activity, vitality, industry concentration, geographical area and stages of development. It is worth mentioning a general classification which allows for an analysis of a cluster's *development stage and possibilities*, thus distinguishing between: *potential clusters* - that present good opportunities for

development and where some key elements of an effective cluster are already in place, *latent clusters* - with an high number of firms but where the level of interaction among them is still low due to lack of trust, low cooperation and high transaction costs; *working clusters* - well developed industrial districts ([4], pp. 99-129).

Clusters' role as competitiveness and innovation promoting mechanisms is largely recognised. Among the many clusters specific *competitiveness-generating advantages* that mark their proliferation tendency can be counted: inter-firm cooperation at lower costs, higher innovation possibilities for persons or organisations, dissemination and lower costs and risks for research and development activities, higher technical, economical and organisational flexibility, shorter periods of time for manufacturing, lower unit costs due to scale economies at the cluster level, etc. ([11], p. 187).

Clusters' *innovative potential* is mostly due to access to knowledge and information, new technologies, business concepts, etc, and to flexible organising, as an essential characteristic of clusters ([14], pp. 400-405), which allows for a quick efficient reconfiguration of its activities. OECD specialists have actually suggested a cluster approach as a "reduced national innovation system", as clusters incorporate the main requirements for promoting innovation ([2], pp. 673-709).

3. Clusters development and internationalization on the European Single Market

Clusters can facilitate the *internationalization* of firms on the one hand, through the benefits offered to members, and, on the other, through initiatives at a cluster level. Specific barriers to internationalization, regarding managerial, financial, informational and competition-related issues faced by firms can be substantially reduced by a *cluster membership* ([10], pp. 529-554). Firms' competitiveness is enhanced through the external characteristics of the cluster, such as cost advantages due to proximity, joint marketing, reduced costs of access to competent personnel and information, etc.

Positive externalities of the clusters thus determine the members' growth and competitiveness, and participation to a cluster will have a positive impact on their internationalization. Clusters may thus become a platform to boost self internationalization of firms.

Cluster based initiatives for internationalization have become more numerous and wider in recent years, although traditionally, the focus was on the internal activities related to improving the business environment at a cluster level, strengthening the links between participants, and modernizing the members' strategies and transactions. International cooperation between clusters and between clusters and other actors is a strong impetus towards internationalization for the firms within the cluster. Also, we can say that it is a way to prevent one of the main cluster limits - and networks in general - namely, *the lock-in effect* ([8], p. 109), which occurs when a firm is over-embedded with existing cluster partners and fails to broaden its network horizons with other prospective partners and to identify potential business opportunities beyond the cluster boundary. Smaller firms are more likely to be locked in and subject to inertia in clusters due to their liabilities, whereas firms that are larger and better positioned within the cluster may often exercise stronger power upon smaller firms.

Cluster based internationalization may take different *forms*, among which the most common approach is *establishing contacts* with other networks and clusters. This may include facilitating knowledge and experience exchange, for example by mutual providing of information and mutual exchanges of staff. More advanced forms of international cooperation are *partnerships*, by sharing support services and access to facilities like research and development centers.

The growing importance of establishing international relations between clusters is due to the changes in the global economic environment in which clusters operate. Reducing barriers to trade and investment, and technological changes have determined decreasing transport and communication costs, and thus have created opportunities to *break the supply chain at a geographical level*. The efforts for fostering

internationalization have been mainly directed to increasing income from exports, but the focus is currently shifting to creating and sustaining competitive advantages through international cooperation. As a result, clusters tend to specialize on their core competences, which further leads towards a growing integration of clusters into global supply chains.

We may argue that the *European Single Market* actually creates additional pressures for the development of the relations between clusters. National borders continue to distinguish between the European markets and the competitive environments, by political, administrative, legal, cultural barriers. However, the efforts to consolidate the Single Market and, particularly, to eliminate the obstacles to the free movement of goods, services, capital and people, act as strong incentives for international cooperation between clusters. European clusters can not rely solely on the natural forces which determine the agglomeration of firms, attraction of capabilities and assets, as do, for example, the clusters on the U.S. market, with a higher level of integration, but this may be offset to some extent by promoting and strengthening international cooperation ([5], p. 50).

Fostering clusters development and internationalization is an important axis of the Community Programs, particularly circumscribed to the territorial cooperation objective of the Cohesion Policy, but also as a way of promoting innovation in the Lisbon Strategy. Key measures for cooperation between European clusters in specific areas of coverage include: the *European Cluster Policy Group* - cluster policies, the *European Cluster Alliance*, under PRO INNO Europe - cooperation at the political level, the *European Cluster Observatory*, under Europe INNOVA - European clusters analysis, *European Innovation Platform for Clusters*, under Europe INNOVA - fostering innovation, the *European Excellence Cluster Initiative* under PRO INNO Europe - quality of clusters management ([6]). Europe INNOVA is a European initiative which aspires to become the laboratory for the development, testing and promotion of new tools and instruments to support innovation, with a view to helping innovative firms to innovate faster and better. PRO INNO

Europe is an initiative of Directorate General Enterprise and Industry which aims to become the focal point for innovation policy analysis and policy cooperation in Europe, with a view to learn from the best and contribute to the development of new and better innovation policies in Europe.

4. The cluster approach in the Romanian context

In Romania, the general approach to clusters can be described in the way that the national level has been "too high", whereas the local level has been "too low" ([1], p. 214). The institutional framework for regional economic development includes the Regional Development Agencies, created in the late '90s of the last century ([21]). Clusters began to be mentioned in the national strategic documents in the context of Romania's integration in the European Union, as a priority related to the economic development and integration into the Single Market structures. However, no national cluster specific institutions or policies have emerged so far.

Considering the proportionality between the quantity and quality of knowledge circulating and spilling over between the firms within a cluster and the cluster's size, level of specialization and the extent to which the locality or the region is geared towards and focused upon the industries comprising the cluster - which also appears in the literature as the cluster dominance ([18], pp. 104-130) - the European Cluster Observatory proposes an indicator that measures the specialised critical mass' to develop positive spill-overs and linkages for each cluster by assigning each cluster a number of stars for each of the three criteria. Thus, *size* is measured by the number of employees, *specialization* - compares the proportion of employment in a cluster category in a region over the total employment in the same region, to the proportion of total European employment in that cluster category over total European employment, and *focus* - relates employment in the cluster to total employment in the region.

In the case of Romania, according to this methodology, the identified clusters appear as shown in Table 1. and Table 2:

Table 1. The main clusters in Romania by stars, employment and specialisation

Cluster	Region	Employees	Specialization	Stars
Apparel	Nord-Est	53 835	6.64	***
Textiles	Nord-Est	45 786	5.62	***
Apparel	Centru	42 396	5.65	***
Apparel	Sud-Est	41 401	5.65	***
Apparel	Nord-Vest	40 798	5.51	***
Apparel	Sud-Muntenia	38 710	4.61	***
Textiles	Centru	38 378	5.09	***
Communications	Vest	36 431	14.10	***
Oil and Gas	Sud-Muntenia	36 383	21.97	***
Metal	Sud-Est	36 040	2.25	***
Automotive	Sud-Muntenia	32 935	2.71	***
Building Fixtures	Nord-Vest	30 919	3.21	***
Footwear	Nord-Vest	28 200	15.66	***
Textiles	Sud-Muntenia	25 884	3.06	***
Building Fixtures	Sud-Muntenia	23 113	2.12	***

Source: European Cluster Observatory, ISC/CSC cluster codes 1.0, Dataset 2007/06/06.

It can be argued that in Romania, the existing clusters have a relatively low level of specialization, but have a significant number of employees at a regional level. Among the main clusters in Romania, and also, among the oldest ones, can be mentioned especially those of the North-West and West regions, which have been created mostly due to foreign investments from Italian clusters beginning in the early 90's of the last century. The main industries of Romanian clusters are: apparel, textiles, building fixtures, communications, oil and gas, metal, automotive and footwear.

In what concerns the regions comprising the highest number of stars, according to the European Cluster Observatory, the Centre and South-Muntenia regions are primarily noted.

Table 2. The main regions in Romania by total number of stars and share of employment in clusters with stars

Region	Total number of stars	Share of employment in clusters with stars
Centru	27	71.25%
Sud-Muntenia	26	71.43%
Vest	22	62.53%
Nord-Vest	19	63.06%
Sud-Est	17	77.59%
Nord-Est	17	60.47%
Sud-Vest Oltenia	15	50.75%
Bucuresti-Ilfov	15	54.92%

Source: European Cluster Observatory, ISC/CSC cluster codes 1.0, Dataset 2007/06/06.

We may argue that clusters are a relatively recent phenomenon in Romania - which emerged in the early 90's of the last century, in the context of the transition to a market economy - clusters are few in number and unevenly distributed across Romania. Thus, their capacity for association, cooperation and coordination at national and international level - which should be inherent to their development, as it can be argued, for example, for Italian clusters - is reduced. Moreover, because the phenomenon is relatively recent, cluster specific policies and institutions at national, regional and local level have not yet sufficiently emerged. Hence *the need to adopt specific measures and instruments for the development and internationalization of Romanian clusters*.

The potential of clusters as engines for the economic development at regional and national level is widely recognized. Clusters are also effective ways to conduct efficient policies, as firm-level interventions are too costly and tend to distort competition, while policies directed at broad industries will tend to have little effect and may miss the critical levers. Clusters can help to identify opportunities and threats in the business environment affecting the whole economy, and they can be the testing "laboratories" for adequate solutions addressing them. Clusters can also help the private and the public sector policy making by facilitating collaboration and joint action along a wide set of players ([9], p. 19).

The need for intervention by policy measures for clusters promotion in order to prevent some negative effects of the market mechanisms meets several arguments, including the non-appropriability of positive externalities, lack of location information, lack of coordination of members, restrictions on firms' mobility, negative externalities ([12], pp. 34-35).

The development and internationalization of clusters requires *coordination at national and regional level*. Clusters literature particularly points to the importance of national policies, but in order to obtain superior knowledge and greater adaptability to the conditions of the region, it is essential that these efforts be coordinated at a regional level, and this is especially important in a country with a relatively weak state such as Romania ([13], p. 4). The cluster approach has yet to be mandated at the level of central government, and the measures should further be adapted and varied according to the characteristics of clusters.

5. Conclusions

Clusters are acknowledged instruments for providing competitiveness, access to learning and knowledge, innovation and growth at a national, regional and firm level. Clusters can facilitate the internationalization of firms on the one hand, through the benefits offered to their members, and, on the other, through initiatives at a cluster level. Clusters development and internationalization is an important axis of the Community Programs, while the characteristics of the European Single Market provide strong incentives for international cooperation between clusters.

Romania's integration in the structures of the European Single Market provides specific opportunities for Romanian clusters development and internationalization. Clusters are a relatively recent phenomenon in Romania, with a reduced capacity for association, cooperation and coordination at national and international level, but there is potential for a cluster approach which can be used for facilitating Romanian firms' access to the European Single Market. Applying the cluster approach in Romania requires the adoption of specific measures and instruments for the development and

internationalization of Romanian clusters and coordination at national and regional level.

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Virtual Enterprises Development and Facilitation on the European Single Market Cluster

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Abstract

The article analyses the possibilities for virtual enterprises development and facilitation on the European Single Market, with a special emphasis on the case of Romania, as new Member State of the European Union, which can use this possibility to quicker and easier involve in the Single Market. Virtual enterprises are organizational structures of the knowledge economy, with great potential for development in the near future. Their characteristics, as well as advantages and limitations are considered, in order to identify the issues and the appropriate measures related to their development and facilitation in the context of the European Single Market and Romania.

Key words: Virtual enterprises, Virtual enterprises policies, European Single Market, Internationalization.

J.E.L. classification: F23, L22, O33.

1. Introduction

The virtual enterprise - or virtual organization - is a concept launched in the early '90s of the last century, in order to describe the effects of the electronic business development (e-business), based on new information and communication technologies, which resulted in radical structural changes in the economy, both inside organizations and in the relations between them. A virtual enterprise is a new

form of the relations between organizations in light of these developments.

A virtual enterprise can be described as a group of enterprises which come together in an integrated network to share skills, competences and resources in order to better attend market opportunities, with the support of the information and communication technologies. It envisages the creation of an organizational forms which allows for a synergetic combination of the partners' core competences to achieve maximum consumer satisfaction.

2. Virtual enterprises - organizational structures of the knowledge economy

The central element that characterizes the "virtuality" of such organizational forms is the ability of the enterprises to offer a complete product to consumers for which it does not have all the necessary competences, the others being achieved through cooperation. In this way, each enterprise can bring a contribution inside the partnership in order to produce more complex but also more customised goods and services ([7], p. 6).

Virtual enterprises can be best described by their main *characteristics* and in this respect may be referred: the focus on core competences, a single point of contact with customers, the international dimension, independency, low formalization, the systems provided by information and communication technologies, temporariness ([4], p. 16).

Each of the partners in a virtual organization focuses on their *core competences*, their complementarity allowing

for the achievement of synergy. Virtual enterprises' competitiveness is therefore primarily due to an advantage of differentiation - because the current market requirements call for a diversified portfolio of high skills, but also for cost reduction for different processes - based on distinct competences, technology, and a rational division of labour between the partners. The focus on core competences enables the cooperation with other enterprises for the non-core competencies. Virtual enterprises are therefore a dynamic combination of core competences, thereby meeting market requirements in terms of efficiency and effectiveness, rapid response and flexibility.

Virtual enterprises' support systems are based on *information and communication technologies*, which allow for overcoming the problems of geographical distance between components and facilitate coordination at low communication costs. Advances in information and communication technologies can also be considered as the main element that enables the creation and development of virtual enterprises. Such support systems allow for the development of intensive communication processes between the enterprises, at a maximum speed.

The products or services created within a virtual enterprise are provided by a *single point of contact with customers*, which can be a trademark or an enterprise focused on sales which acts on behalf of the entire organization. From the customer's point of view, a supplier that provides the whole offer is more attractive than several small businesses which must coordinate, and the customer doesn't need to know its suppliers or partners.

Virtual enterprises do not have a common area where the employees are located, and so the network can expand with no geographical restrictions, in several different countries, the *international dimension* being actually considered implicit for the virtual enterprises. This is a significant advantage in a globalized business environment where the international presence of a business is becoming increasingly important. At the same time, geographical distance still holds an important place, even if it has become insignificant for transmitting information, it remains an important factor for the timely supply of

resources and the production of goods and services.

Although they have joint activities, the partners within a virtual enterprise remain legally and economically *independent*. A virtual enterprise aims to combine resources and expertise in order to better exploit business opportunities, with no merger of their internal structures. This creates a fluid organizational system that allows for flexible recombining of resources. However, we can still argue the co-dependency that comes from the cooperation of the enterprises, in the sense that each of them depends on the performance of the others.

In order to achieve flexibility and response speed, the enterprises do not adopt a hierarchical, formal organizational system, and the relations between them are characterized by *low formalization*, oriented towards value creation. Virtual enterprises are characterized by rather informal relations based on mutual trust.

Virtual enterprises are regarded as *temporary networks*, quickly set up in order to exploit a specific market opportunity, which can disperse afterwards, reconfiguring into other forms, according to the new emerging opportunities. Such flexibility enables enterprises to form systems that can respond quickly to the current market requirements and to dissolve after the requirements have been met.

These characteristics of virtual enterprises have undergone changes over time, both in terms of economic reality and conceptual approach, although they are relatively new organizational forms of the contemporary economic environment. Thus, the focus on core competences remain an essential coordinate of the virtual enterprises, but *there is a tendency towards long term cooperation, with higher levels of formalization, and the international dimension is not necessarily essential*. Also, *information and communication technologies and a single point of contact with customers are more and more applied on a medium level*. The emphasis is on *creating and maintaining stable networks, on the basis of specific policies* ([4], p. 28).

3. Virtual enterprises development and facilitation

There are many *advantages* of developing such organizational forms, that derive from the characteristics of the virtual enterprises. The focus on core competences enables competitiveness and costs reduction. Being built upon systems based on information and communication technologies which facilitate fast data transfers and coordination within the company at low costs, with no geographical and temporal boundaries, virtual enterprises enable efficiency gains for all activities. The possibilities of rapid and competitive reconfiguration of resources in order to respond quickly to market opportunities provides flexibility and speed of response to market requirements.

At the same time, virtual enterprises have some *limitations*, among which should be mentioned especially the current, still insufficient level of technological capacity and affordability, which hinders a full integration of the virtual enterprises, that are wholly dependent on the quality and transparency of electronic information exchanged between the partners. This has implications on the distribution of profits, costs reduction, strategies and policies, information privacy and intellectual property protection. Although virtual enterprises do not imply hierarchical relations, the dominance of the enterprises from its core may appear. Another problem is related to regulations, including those regarding electronic contracts, taxation, monopolies. Virtual businesses do not fall under the classifications provided by law, and production can be placed anywhere the law is more favorable.

Facilitating the creation and development of virtual enterprises must consider each stage of their *life cycle*, which can be defined in the following steps:

- *Creation* - the initiation and constitution of a virtual enterprise, by an enterprise or a group of enterprises, which have seized a market opportunity and carry out a strategic plan for the operation of a virtual enterprise in order to exploit it;
- *Operation* - Execution of operations within the defined scope of the strategic plan;

- *Evolution* - The context of virtual organizations is rapidly changing which lead to a continuous evolution of the virtual enterprise, within the current strategic plan;

- *Metamorphosis or dissolution* - based on the experience gained during the functioning as a virtual enterprise, its components may choose either a metamorphosis into a new virtual organization by changing its form, with the establishment of new goals, or for its dissolution ([2], pp. 529-542).

Corresponding to these steps, the creation or participation in virtual enterprises, from the point of view of their management, as distributed economic processes, requires, specifically:

- *Creation of a virtual enterprise* includes: *forming a virtual enterprise* (development and announcement of the distributed economic processes, search for potential partners, receipt of proposals and selection of partners from the negotiation phase to the legal agreement) and *modelling the virtual enterprise* (coordination of the distributed economic processes);
- *Operation and evolution of a virtual enterprise* includes: *management of the distributed economic processes* (evaluation, measurement, simulation and monitoring of the distributed economic processes, from technical, human and socio-legal point of view), *supervision* (reconfiguring a virtual enterprise by inclusion or exclusion of members, changes to the contract regarding the distributed economic processes like rescheduling or cancellation) and *dispute settlement* ([8], p. 34).

At each of these stages a number of specific issues arise that may prove problematic for creating or participating in virtual enterprises - from the firms' perspective, or for their facilitation - from a regulatory and institutional perspective.

4. Issues in virtual enterprises development and facilitation on the European Single Market and Romania

Virtual enterprises require a *specific environment for development*, beyond the general trends of globalization and dynamism of the business environment. The *U.S.* is the reference model in this respect, as environment for the emergence and proliferation of such organizational forms, as far back as in the late '90s of last century being reported over 250,000 virtual enterprises ([7], p. 2). This can be explained by the fact that the *U.S.* is already constituted as an integrated market with a fluid social structure, individualism and autonomy in operation. We may argue that the *European Single Market* does not fully meet the features of the *U.S.* market as an enabling environment for the creation and development of virtual enterprises, especially due to the lower integration and still higher administrative and regulatory uncertainties. However, the progresses towards a full integration, and, especially, the specific efforts to create a favourable environment for the virtual enterprises, enable their creation and functioning, an aspect of great importance especially for the new Member States like Romania, which can use this possibility to quicker and easier involve in the Single Market. The worldwide efforts to boost virtual enterprises are most visible in the European Union, and among the programs with specific measures in this regard can be mentioned: the European Strategic Program on Research in Information Technology - ESPRIT (1983 - 1998), Information Society Technologies - IST (1999 - 2006), Information and Communication Technologies - ICT (2007 - 2013), International Scientific Cooperation - INCO (2002 - 2006 and 2007 - 2013). One of the European Union projects, the European Collaborative Networked Organizations Leadership Initiative - ECOLEAD, conducted between 2004 and 2008, put as a vision that "in ten years, in response to fast changing market conditions, most enterprises and specially the SMEs will be part of some sustainable collaborative networks that will act as breeding environments for the

formation of dynamic virtual organizations" ([1], pp. 3-32).

In the case of *Romania* is primarily proving problematic what is in fact a prerequisite for the existence of the virtual enterprises, namely, the *availability of information and communication technologies*. The issue of its implementation in *Romania* is hindered by both objective and subjective factors, including the lack of the specific information and communication technologies infrastructure at national level, underdeveloped communication networks, still high costs for communications services, weak informatization among the economic organizations, lack of the specific culture in informatics among the employees, resistance to change ([3], p. 131). We may assert that in *Romania* the introduction and use of information and communication technologies is still incipient, which does not repeal, however, the possibilities for the *Romanian* enterprises to adopt organizational structures such as virtual enterprises, provided the appropriation of the necessary infrastructure. Issues fall to a more general level, respectively, achieving the *Romanian* knowledge society, which, providing the adoption of a correct management, and especially, consistent efforts of the decision makers, can become reality.

In the creation of a virtual enterprise, a key issue is *identifying the appropriate partners and establishing relationships with them*, both for the initiating enterprise and for those wishing to join a virtual enterprise. Conclusion of contracts can be a complex, long lasting process, from the first contact phase to the negotiation phase and the reach of an agreement. This is a problematic issue, and one of the solutions proposed is the use of electronic institutions have all the information needed to identify potential partners, act as a broker, facilitating negotiation, contract validation, monitoring and enforcement, building members' reputation ([5], p. 18). Building such institutions is still a desideratum, as there are many problems to be addressed in this regard, like for example, related to the development of an open and flexible support infrastructure, allowing for use on a wide variety of platforms, the ensuring of data safety, confidentiality and veracity, or the establishment of a uniform regulatory

framework, based on certain standards of conduct which need to be set out.

The possibilities for virtual enterprises development on the European Single Market remain primarily related to the *firms' networks*, of either high or low formalization. The projects at the European Union level trying to facilitate such networks can also be an opportunity in this respect. The existing relationships between companies, especially long term ones, can offset these difficulties, actually incorporating a degree of flexibility. In this case, contracts are not necessarily required, and business opportunities can be exploited as soon as they appear.

Mutual trust is fundamental for the existence of virtual enterprises, as it acts as a substitute for two critical factors, which are often missing in a virtual enterprise, namely, the hierarchical control associated with traditional organizations, which rarely can be found in a network of independent firms, and the legal framework to regulate the formation, operation and dissolution of the organization, much less developed in the case of virtual enterprises, since long contract negotiations could reduce or even cancel out the positive effects of a fast-reacting virtual enterprise ([7], pp. 8-9). Mutual trust results from an expectation of fair behavior and a level of understanding of shared business practices, which is facilitated by closer interactions than those usually found in a virtual enterprise, as well as a common history, which also is not a feature of a virtual enterprise. Thus, mutual trust is a factor influencing the trend of formation of stable, long term virtual enterprises. In any case, mutual trust plays an important role for the electronic business in general, which, despite the issues of trust that they may involve, have seen a spectacular development.

The regulatory framework for virtual enterprises in the European Union is that regarding the information and communication technology services, including the protection of intellectual property, distance selling, electronic commerce, electronic money, electronic signature. Of special interest for virtual enterprises is the *Directive on Electronic Commerce* - whose main provisions are transposed into Romanian law by *Law no. 365 of 7 June 2002 on Electronic Commerce*

([16]) - which sets out the main rules of conduct for virtual business, like the requirement of transparency concerning information about the organization for the customers. The *Directive on Distance Selling* - which has as Romanian counterpart the *Ordinance no. 130/2000 on the Legal Regime of Distance Contracts* ([17]) - influences the activities of virtual enterprises as it introduces a number of regulations, particularly regarding Business-to-Consumer type sales. The *Directive on Electronic Signatures* - with its corresponding *Law no. 455 of 18 July 2001 on Electronic Signature* ([15]) - is of particular importance for the virtual enterprises, confirming the validity of distance contracts between the participating firms.

We cannot assert, however, that there is an integrated regulatory framework for virtual enterprises on the European Single Market, as there still are a number of legal concerns regarding, for example, legal representation - in the sense that within a virtual enterprise, its components remain independent as a legal entities, which raises the question on how a virtual enterprise could and should be constructed legally. In practice, the members can found an association for each project, or establish a leading firm acting as a legal entity, and the other participating firms receive the status of sub-contractors.

5. Conclusions

Virtual enterprises are organizational structures of the knowledge economy having as main characteristics the focus on core competences, a single point of contact with customers, the international dimension, independency, low formalization, the systems provided by information and communication technologies, temporariness. There are many advantages that derive from such characteristics, among which flexibility and response speed, which motivate the efforts for facilitating their creation and development.

In the context of the European Single Market, the integration of markets, and, especially, the specific efforts to create a favourable environment for the virtual enterprises, enable their development and facilitation in all the Member States, which can use this possibility to quicker and easier

involve in the Single Market. Issues related to virtual enterprises development and facilitation include: availability of information and communication technologies, identifying the appropriate partners and establishing relationships with them, building networks, achieving mutual trust, developing an integrated regulatory framework.

We may argue, in any case, that virtual enterprises are still a nascent form, but with substantial development potential in the near future on the European Single Market, along with the progresses towards integration as well as regulation and institutionalization. They can also be an effective possibility for Romanian enterprises to gain access on the Single Market, on the condition that the related difficulties can be successfully overcome, as a specificity being mentioned that they would rely mainly on such informal relationships developed by firms.

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Specified of Substantiation of Administrative Decisions of Investments

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Abstract

The decision-making process specific at public investment is a set of activities and operations involved with all decisions of the three stages of public investment. Complexity of specific public investment decision-making process leads to the idea that the achievement to be part of different entities having different responsibilities and objectives and including different methodological activities.

Key words: administrative decisions, public investments, public investments management

J.E.L. classification: G28, H76

1. Introduction

The purpose of this paper is to define the concept of decision making and analysis of its specificity in relation to public investment. Throughout the paper stated the main objective, the entities involved in its realization, and decision stages, broken down by main phases, which mostly correspond to the stages of public investment: the allocation of funds for public investment, public investment and their operational implementation. Were treated and main failures that can occur in decision making and how they affect the efficient use of public funds. It analyzes the actions of lobbyists on public investment decision and action on the design and efficiency of public investment through their impact on growth.

2. The decision-making system

Administrative decentralization process profoundly changes the terms of reference and are chosen targets set based options and decisions. Local agent acts as a component of a political environment and administrative

decisions are the product of local origin-specific variables, which central government can not collect them. The quality of decision making in influencing public institution reduce costs through better management of all categories of resources to meet increasing public interest.

The decision-making system in public institution includes the entire through which improves the satisfaction level of public interest and thus its social mission. Diversity causes grounding system of social needs of different types of decisions. If political decisions are the choice of a legal action more politically possible to achieve the proposed objective, policy decisions require a comprehensive analysis of impact studies to identify a variant of public policy that will lead to solving public interest issues raised on the public agenda.

Customizing, administrative decision is the choice of a rational process of decision alternatives, the more possible to achieve the government target. Administrative decision can be defined as a manifestation of the will of an organ of government in which he opts for a solution that would enable the achievement of a goal. It is important to know that a decision must contain the following: factors affecting the choice of a number of solutions, selecting one of at least two variants, the existence of one or more objectives to be achieved and the presence of one or more decision makers. Adopt an investment decision involving the local government from those anticipated that triggers investment, but these expectations may be compromised by events whose sources are multiple, but SIU contingencies. Financial analysis allows a rapid assessment of risk. Activity takes place under the influence of the authorities a degree of uncertainty generated by economic and financial environment, requiring a greater adaptability and flexibility.

In the literature circulating and the sense of overall decision-making activities aimed at decision making or not a particular public investment, which I consider the definition too narrow and unable to shape the image of particular importance and complexity of public investment decision-making process. Specific decision-making process at public investment is a set of activities and operations involved with all decisions of the three stages of public investment.

Making a parallel with the three steps required in the distribution of public funds (inventory needs, prioritizing needs and quantification of needs) we could say that specific public investment decision-making process begins with the decisions involved in allocating public funds for current expenditure or investment, determine the costs of competing destinations investment, the decision to perform or not a particular investment decisions and continues until the stage of implementation and operation of investment, including those aimed at controlling and measuring the effectiveness of that investment.

Regarding specific major objective of public investment decision-making process, given the complexity of this concept, it becomes difficult to distinguish the overall objective of public finances namely the allocation of public funds with maximum efficiency to increase welfare citizens. But he does not relate to all allocations of public funds on public policy but only on that part of the allocation and use of public resources that relate to public investment. Concerning the efficient allocation of public funds, this means obtaining the maximum social benefit from the use of resources, taking into account both benefits and costs of monetary and non-pecuniary those that are significant for public investment.

The complexity of decision-making process specific public investment leads to the idea that the achievement to be part of different entities having different responsibilities and objectives and including different methodological activities. I believe an analysis of decision-making bodies, decision-making levels and steps required to achieve a public investment in the paper.

3. Entities involved in decision making process specific at public investment

The particularity of decision making to private sector projects is given by the existence of a unique player, "public entity" (government), the initiator of the project. The analysis of the concept of public investment decision-making process shows that at each stage of the investment and depending on the political and administrative features, there are a wide variety of public and private entities that can contribute to public investment decision making. Depending on the powers of the political system in Romania and the level of interest for public investment, allocate decision will be taken by the legislative (parliament or local council) or the executive (mayor). At the legislative level, involvement in decision making is to determine the exact destination for investment funds, or provide their absolute amount. The administrative decision is in fact an out-put of work of civil servants, citizens and administrative structure of the collaboration between departments.

The public entity decider on the exact use of funds for public investment notes that for each type of investment can partly determine the specific optimal way. The tradition states that allocate decision for most large public investment in Romania is the central power. Data analysis shows, however, that for certain categories of public investments, transfer to local government allocate decision efficiency gains lead to debt, according to experts, higher capacity needs of local deceleration. Decisions at the central level, even if the same lump sum, often lead to oversupply of public services in some regions and shortages in others, resulting in inefficient allocation of public funds. So, one of the reasons for the differences between the perceived utility of using variants of a public investment in centralized or decentralized system is the cross-effects of consumption. Therefore, promoting investment in decentralized system generates little effect on neighboring regions, but leads to a better allocation of resources locally.

Funds received from the European Commission ^[2] determinate that the decision

of allocation of local public investment belongs to a particular destination. In this connection, the effectiveness of using such funds and whether the decision at European level show that it is very important to define precise objectives and using those types of investments best suited to them. Thus, the objective of reducing disparities between EU regions is not well met by allocating a larger part of the funds for road infrastructure, because it usually takes just the most developed regions of countries with lower economic development level of the EU. Such investment has a powerful effect on per capita GDP growth, but mainly leads to the development of regions rich in the less developed EU, increasing interregional disparities within the same country.

A special issue on the most appropriate entity to allocate decision on public investment is the degree of development of local or regional government, and its degree of autonomy granted her experience to cope with managerial decision-making activities involved. The question arises acutely in the case of emerging countries where infrastructure and local public awareness and implementation of appropriate management procedures do not always transfer to local decision.

Some allocate decisions can be taken on public investment and public agencies established for that purpose (ex. SAPARD Agency in agriculture). In general, they do not imply a particular difficulty or unexpected implications, being confined to limited areas. Note that for certain types of public investment, public education can be a right for endorsement or approval just wish it meets the criteria of efficiency in public investment.

Specific public investment, allocate decision is not the only type of decision in decision making. In the implementation phase it can belong to the same or other public entities. Compliance with the efficiency criteria imposed detailing procedures to be followed such as public bidding, with regular reporting requirement of efficiency indicators, etc. It also important is monitoring and enforcement of quality standards and deadlines for implementation in this phase.

For the operational phase, the fundamental decision is the choice of entity responsible for operating and maintaining the investment. Exploitation shall follow the same criteria of efficiency and accountability will be clearly defined public entity in terms of control because this is the phase where the real benefits occur for citizens. A common solution recommended by the theory and practice specialty is to develop public-private partnerships, particularly in the operational phase of the investment. At this stage, local government or entities responsible for acts as representatives of citizens who have legitimate decision by voting, but there can assist decision by other entities. Most important, analysts believe that there are public policy role to play in achieving basic and reliable assessment of the effectiveness of public investment and provision of data for public policy makers (but still have work to counseling). Others may be employees of public institutions responsible for implementation of public investment, through the power of unions.

A thorny issue in the optimal choice of entity decision is redundant responsibilities more entities from different decision levels, which leads to hinder decision-making and loss of efficiency (ex implementation of public investment is made by local governments, but funding from the government).

4. Stages and binding activities of public investment decision making

The steps are: first public resources for investment, which includes a series of activities required to ensure that conditions of efficiency. Thus, the first phase is an inventory of its citizens by decider authorities (local government). Arrangements for obtaining data for this goal are manifold, and the decision on choosing the best power must take into account information gathered data: public consultation survey, brainstorming or analysis of past allocations (the first three have the great advantage of give a clear picture of the needs of citizens, but the costs are relatively high and requires the active participation of citizen-voters). Last

involving low levels of cost, but would lead to inefficient allocation of funds, confusing the past with the efficiency of expenditure (previously allocated funds were used, and hence the public service was required). Scientists recommend priorities transparent and objective selection criteria. Not be forgotten in the course of decision the rank of priority, to satisfy urgent needs.

The second phase is the planning of public investment, leading to complex decision making, organized in several directions. It examines the basic situation needs to prioritize public investments. Then make decisions on spatial planning (geographical location) and temporal (time required for implementation of the investment) and socio-economic planning is investment. Next phase is prognostic of budget, where is estimated the cost of public investment, financing and timing of payments. The prognostic of budget of public investment may be in the system of capital budget projects and budgets. The literature recommends the second option because it gives the best prerequisites for the application of efficiency criteria.

The second stage is the execution of public investment. Public decision-makers must choose providers of execution, which can be public or private. The choice of procedure is usually done by public auction or public procurement procedure suitable to the nature of investment. In recent years, increasingly more decisions in the second stage refers to the type of resources used, a procedure often used as private fundraising through public-private partnerships. Also in this stage is important and control decisions related to the calculation of efficiency indicators during implementation, the relevant timeframe. Efficiency analysis can reveal whether abandonment even execution.

The third stage is the exploitation of public investment, beginning with the decision on how the operating entity and investment (public or private provision of public services free or not, etc.). Important for making the decision on the operation of public investment is to calculate the activity of ex-post efficiency indicators, representing the feedback of the investment, but also a

knowledge base for future public investment. At this stage, decisions are to operational service.

For ensuring that the administrative decision with maximum efficiency purpose, it must meet certain requirements, the most important being ^[1]:

1. To be scientifically proven, legal and social (scientific validity of the decision provides relief practice, routine, chance, improvisation, subjective, but at the same time to comply with the requirements of citizens);

2. To be the result of the management team and to stimulate citizens' initiative. Modern management determine teamwork, the leader (mayor) has acted as a catalyst. In general, the team must attract and citizens in the foundation and making decisions.

3. To be pragmatic and simple. (Any administrative decision should have a practical use, so it is necessary to complete a comprehensive assessment and socio-economic situation of the administrative-territorial unit, taking account of specific local and national issues, simplicity increases execution efficiency and leads to a logical progress).

4. To be appropriate. (Administrative decision must be taken by the body at the right time, knowing the local administration bodies at local social needs better. It is noted that in taking decisions, local authorities take account of normative acts issued by central government which, in turn, is consult directly with local representatives).

5. To be systemic in nature. (Administrative decision will be integrated into administrative decisions taken previously, thus vanishing overlaps and contradictions between different decisions. The character of the system ensures consistency of administrative decision, administrative decision being determined by the particular content and participants in decision making. The administrative decision is output of the civil servants, professionals, citizens, and collaboration between the departments management structure).

The peculiarities of the administrative decision are:

- is a complex process that requires a lot of work, extensive research and documentation directly, but better meet citizens' demands;
- socio-political in nature (Management objectives are determined by political power);
- is the result of more people work and collaboration between employees in different departments of administrative structure;
- endorsed by one or more persons responsible for the legality of the decision and realism;
- is characterized by high degree of diversity and difficulty;
- makers have relative autonomy in the decision process indebted of regulatory framework in which the activities;
- in formulating, is the only logical approach is science approach, because it provides the possibility of forming a fundamental point of view that takes into account all the problem, to avoid superficiality and subjectivity;
- Decision-making transparency is a feature that creates the opening act of public participation in governance.

5. Problems in public investment decision making^[3]

Public decision-making process involves a series of elements of subjectivity, which may give rise to disturbances which strongly affects the efficiency of public investment to which it relates. The most common are: poor management or an unrealistic view of the effects of public investment, electoral manipulation or influence of various interest groups.

A poor management decision-entity at any stage in the implementation of public investment induces inefficiency risk on decision-making and implementation of operational risk, which leads to inefficiency.

Unrealistic vision of decision makers in different phases of public investment The literature identifies two types (Boardman) ignores the prudential than monetary costs and benefits, eliminating external ones so that some worthwhile projects are rejected

and the showing the spenders trend to consider and some the project costs as benefits, which artificially enhances the efficiency parameters of accepting risk inducing inefficient projects.

Manipulating the election - the public investment decision-making process is effective to the extent that its purposes are the creation of additional capital capable of being operated effectively and lead to increased welfare. There are times when it is likely interfered with the electoral purposes. Manipulating the election would have to disappear as a phenomenon by increasing the rationality of voters, but the reality proves otherwise, which only leads to increased sophistication. In this regard, candidates promise not increase public spending but also change their structure to focus on the voters want, increasing investment costs and lower current expenditure. The ability to not only be an election slogan and thus lead to deceleration is difficult to streamline decision making specific public investments. Other possibilities for the use of public funds for investment in employment for political purposes is too large amounts for projects that do not represent voters' preferences at the end of the mandate to limit political freedom to choose his successor in terms of financing and other investment programs leading to the continuation of projects already commenced, without the development of public investment in the preferences of voters. Practice shows that the method is used in a situation where politicians are aware of the very low chances for getting a new mandate.

Interest groups, "association of persons formed to communicate their preferences to public policy makers, influencing decisions by exerting pressure (represented by unions, employers' associations, environmental organizations, each with very different kinds and sizes and different means). Their action can be considered legitimate if their purpose is to highlight the public policy maker voter preferences. But it can also have adverse effects in terms of allocate efficiency of public facilities because they want some. There are such mechanisms depending on the type of influence on decision makers:

- dominant interest group (the public pressure on policy makers meet for a single interest held by a dominant group, other groups with insignificant action)
- conflict between two dominant groups (the same decision-maker is under pressure from two opposing interest groups. The situation is counterproductive for the lack of reconciliation of objectives leads to a policy of public investment is not optimal)
- variety of interests (the pressure of several groups, each with its interests, independent of each other. The power of these groups is weak, but public policy makers have the advantage of identifying the preferences of the electorate)
- dominance of political parties (political parties where voters support preferences)

6. Conclusion

The overall conclusion of the study is that it is absolutely necessary to comply with ethical requirements, legal and practical for the proper conduct of specific public investment decision-making process so that the objective of an efficient supply of public goods resulting from the investment process can be achieved.

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Communication Potential of Fidelity Cards

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Abstract

The loyalty card represents an excellent communication method for the improvement of the clients' loyalisation because it permits the immediate answer by making possible the accomodation of the offer to each customer. These types of cards are efficient from the viewpoint of both the measurable and the estimated present effects and for the relatively reduced costs together with a short time for application. The cards may be a long term solution and an instrument of marketing at the disposition of the producers or companies that wish an efficient way to stimulate the increase in sales.

Key words: loyalty cards, client, database
J.E.L. classification: M31, M37, M39

1. Introduction

Successful companies approach a new attitude to the market materialized in the customer care, considering that the business can survive only if it motivates them and manages to satisfy their needs in order to enhance their loyalty to the brand. In this respect, a fundamental role in a company is played by the development of customer relationship skills and by the ability to adjust to the requirements of a changing dynamic market.

The loyalty card is used as a tool to retain clients in order to continuously improve the firm's activity aimed at establishing a sound connection between the two parties involved. A characteristic feature of modern economic life refers to long-term sales, which are an effective way for gaining and maintaining competitive advantage, the firm acting in a global market place by enhancing economic relationships with the customers, including the satisfaction of their needs and their retention.

2. Some aspects concerning the loyalisation programs based on cards

Analyzing the slow rhythm of the economy upgrading, one notices fundamental changes in the area of consumers who act on short term regarding the purchasing of products accessible from the price point of view, this being the most used element of the marketing mix, which lays on the basis of purchasing decision. Consequently, the tendency of loyal customers that is based on the price label does not present any restriction regarding the selection of a cheaper product.

A fundamental feature of the market economy consists in the determinant influence of the human factor, which is permanently in the situation to choose. In the current context, the efforts for the fidelity of clients and drawing of potential clients for the company, an excellent sale strategy, which consists in establishing a strongly positive correlation between the brand and the client on a longer period of time.

In this situation, the most of the companies organize fidelity campaigns of clients, built around the fidelity card, representing for the traders a real marketing instrument, a viable fidelity alternative and sale promotion. These types of cards are important for the successful business by two reasons: on the one hand, it is manifested as essence in generating profitably for the client for the company without appealing to big discounts that diminish the company incomes, and on the other hand, the efficiency of integration program may be evaluated by the pursuance of feedback received from the clients, which gives you the possibility of collecting a large range of information, which helps you automatically to build data bases that may be further used in the training of the different marketing campaigns.

More and more companies are mainly oriented to the market and implicitly they stress the maintaining and development of clients. The basic idea is the establishment of a unique relationship with the consumer, this being evidenced on the first phase on the care to the client and further in an analysis of his/her needs.

The main role of such a card consists in the segmenting and targeting of consumers, respectively their selection, having as purpose a better allocation of resources that lay on the basis of a good operation of the organization. Taking into account the schematic presentation of the type of client, of the behavior of possessors of these cards and their reaction to promotions, one may notice their loyalty towards the one who issues such cards, a process that evidences from the time when the consumers interacts with the fidelity card. This type of card offers you the opportunity of selling products additionally.

From the point of view of the holder of this type of card, it grants him the possibility of benefitting from advantages at the purchasing of the products of the issuer company or of its partners, consisting in significant discounts, priority to the acquirement of products being in the promotional campaign and reception by different occasions of presents from the company, as well as the accumulation of points depending on the value of acquisitions, points that transform into value checks by the aid of which you may choose other types of products. The measurement of efficiency of a fidelity campaign of clients using the cards has as index the number of offered cards.

The clients use this kind of card because it gives them the possibility of participating to special promotions and competitions addressed exclusively to them, offering them something that is not available for non-participant clients. Consequently, this being the best reason to purchase more often other products of the company, too, the temptation of making purchases under the impulse of the moment is much bigger. In many cases, not necessarily the volume of discounts matters, but the fact that rather it creates at the level of the level of customers' perception the sensation of belonging to a well defined social group.

The main advantage for the one who issues such cards is the fact that it identifies the client and allows the collection of data with a personal character, which may be processed and may be introduced in the data bases, being used in other marketing campaigns, too. In fact, this type of card represents a means of obtaining the essential information about what the client bought, more precisely regarding the behavior of consumers for the purpose of maximization of the trading actions. But, for the most of the times, it is used to be able to notice who are the loyal clients, what products they acquire, where the purchasers will be placed and when they will want to buy, which makes that the trader to regard his/her business through the long term value, more precisely of the final result, this being oriented towards the market needs and the clients' needs.

The tendency of the loyalty program is towards identifying patterns of integration with Customer Relationship Management systems which are manifested by a more efficient communication. In this situation is allowed the passing from communicating advertising materials or launchings of products on mail way, at their communication by mail, is followed the extension of the range of benefit granted to the customers because could determine an increase of the performances and appearance of multi-brand cards. In the actual context, on the inland market the loyalty cards are under the form of multi-brand, which underlines the creation and management of certain profitable relations with the customers by accepting partnerships with a number of non-competitive companies. Is obvious that, dividing the loyalty support is a method which allows the reduction of maintenance expenses of the loyalty program, a strategy well chosen for attracting new customers. In these conditions, as partner or associate companies may take advantage from an extended database, together with the one of other brands.

Loyalty cards are centering the satisfaction and knowledge of the customers' needs, is important what is selling but also to who is selling, as a consequence, allows the acquisition of information about each customer. The cards may be an instrument of marketing at the disposition of the producers or companies that wish an efficient way to

stimulate the increase in sales. Is needed to maintain ourselves competitive in the age of discounts for consolidating the relation with the existing customers, delighting them by meeting their individual needs, in the idea of customizing the offer and inviting them to discover new things for transforming customers that are satisfied and un-satisfied in loyal customers . But many times helps you to remove rapidly and efficiently the merchandise remained on stock and to get to know better the reasons for which customers are buying your products. It is used as a communication mean which every company must have in point and apply it both in the organizational development and for improvement of the business relations.

Collecting data based on studies performed in distinct places and periods demonstrates that is a lot cheaper to keep an existing customer that to attract a new one. The customers are constituting the main advantage of any business, but still the attraction and conquest of the buyers, respectively customers, and, furthermore, keeping them, are of a decisive importance. „The high satisfaction degree or delight are creating an emotional affinity with the brand, not just a rational preference. The result will be a high degree of loyalty [1].”

The positive impact of implementing such cards al market level has in consideration not necessarily an increase of the number of buyers, as a loyalty of the ones already existent, by which we reward the most worthy customers granting them more value. Also, it represents for the customer a way to make savings within the budget meant for acquiring products by promotions, granted discounts, grace period, in another words, it demonstrates a high efficiency in the activity rendered. As a consequence, it highlights on the one side the positive features on which we can connect for believing in its success and on the other side the determining factors which influence the buying decision.

3. Conclusions

The basic principle of this paper is providing a conceptual framework for studying and putting into practice of the loyalty card, as well as the development of profitable customer relationships. We also outline the description of the concept of loyalty card and the creation of structural links with the most important clients. On the one hand, this analysis emphasizes the firm's competitiveness against the background of a broader horizon of future action of the parties involved in the sales/buying processes; on the other hand it involves a change in the mode of action of the firm on the market. The principle that a profitable business must take into account the customers bears a significant influence upon the activity of the enterprise. The most valuable partner is a loyal constant customer that brings middle-incomes to the firm, than a high income one who performs one single transaction. This comparative approach is feasible because of the possibility of using databases, with the help of which customers are identified and continuously monitored with regard to their purchases.

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The Role of Organizational Identity regarding Change Management

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Abstract

Managing change is always problematic, because it affects both human resource management and the managers. This paper is addressing the question of identity, both individual and organizational, redefining the strengths and limitations in the life of the enterprise and not least, considering the vectors of identity. Also, the identity is presented in the context of change management. The definitions of the identity in management are multiple and we are not presenting here a review of the literature but a pragmatic definition, which will allow the reader to understand the concept and above all be able to put it into practice.

Key words: management strategies, resistance to change, change in organizations.

J.E.L. classification: M19

1. Introduction

To orient the reader towards the general concept of identity, we can refer to the works of Roland Reitter [7] which approaches this concept. For a sociological view of the phenomenon, we can relate to the work of Renaud Sainsaulieu [6] or to that of Raphael Gely [5].

The word "identity" derives from the Latin word "identitas" with the meaning the "quality a specific thing" derived from "idem" which means "the same." Thus, the identity, at an etymological level, seems to have an antinomic character regarding change. But in reality, it is not necessarily like that. If in the case of the Renault-Nissan merger [1], an experience readily accepted by

the Japanese people (known for its strong identity), perfectly illustrates the fact that change management is not necessarily incompatible with the concept of identity.

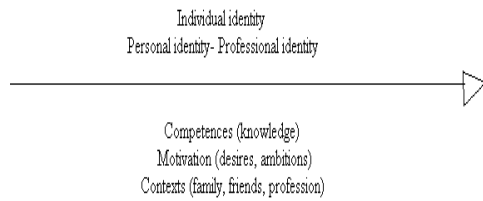
A major change does not necessarily mean a complete change. Total change does not exist in management because the process is too costly. It is preferable to recreate an organization from scratch. Consequently, in terms of switching is better to make an identification of what may or may not change, then to undertake an activity to verify the identity elements that influence both the organization and how people operate there. In the case of Renault-Nissan, the changes in doing certain activities of production and distribution have not reinvented the identity of Nissan, which remains clearly under the influence of the Japanese.

2. The functional definition of identity

2.1. Key Characteristics of identity

If the first definition of identity emphasizes the absence of incompatibility between identity and change, however, does not sufficiently illustrate what identity means in practice and whether it can prevent or facilitate change. The trajectory of identity applicable to an individual, group or organization can help us find a possible answer to this question.

Fig. 1. The trajectory of an individual's identity



The identity of an individual is represented by an arrow to emphasize its dynamic character. Indeed, a person's identity is constantly evolving, as determined by the tastes, desires and ambitions and the people he meets, the experiences, knowledge and the risks he/she assumes. All these criteria are either individuals or the environment in which it operates, but they are far from being statistics, but are at the basis of the constantly changing nature of identity. Thus, we face a paradox: the identity at the semantic level makes us think of the "one who is just alike". This could leave the wrong impression that all concepts are incompatible with dynamic identity. In fact, the "quality of the one who is alike" should mean that in an identity, the individual remains coherent, evolving in some stage before adapting to the environment, its needs and desires. This notion is entirely evolutionary close to what Mauss [4] or Bourdieu [2] have called habitus. A sort of "structured structure", personal to each individual, which allows both the incorporation of experiences which he is experiencing and also the interpretation of social structures. Without this unique habitus, the individual will not know how to react, and if it will remain the same, he will be lost in absurd actions. The habitus allows the understanding of the consistency of the approach or the conservation of identity in an evolving social environment, thereby ensuring its survival.

What Bourdieu [2] called "primary and secondary socialization", are identified clearly, as family and school. The individual's confrontation with the extreme challenges of the organizational environment (crisis, unemployment, exclusion) can position him beyond the "structured structures", for example in a context characterized by a strong identity discomfort.

Here are a few big trends in regard to identity issues referred in recent findings [8]

Professional identity problems have almost always an impact on personal identity (the characteristics of personality and family relations, friends and even neighbors.)

An unemployed person who has no role in society, is easily prone to have low expectations.

Increasingly, many employees think that if they do not have the chance to put their skills into practice today, they will lose their status in the organization (constraint to change).

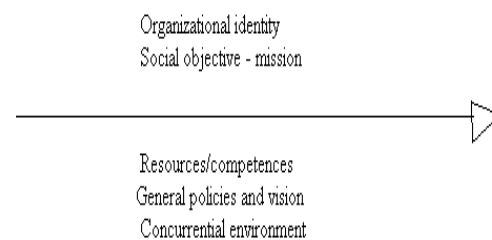
Those who look for a job feel victims of a system over which they have no control over. They refuse even more the change.

These developments, do not make it easy for those working in the field of human resources or for the managers who want to implement change. In fact, in a context like this, change becomes synonymous with danger. But individuals are not the only ones who have suffered as a result of this turbulent environment. Companies are also aware of the volatility of change and this is observed since the early 60s [3]. Consequently, we can apply this trajectory of individual identity and the organization.

2.2. The trajectory of the organization's identity

Paul Ricoeur defines identity as "a narrative, an unfolding of the self, a temporary ongoing". This definition takes into account the dynamic nature of risk and identity, preserving the notion of a coherent whole. But individuals encounter, throughout life, certain events, which mark their professional career. Even organizations go through sequences of events, some of which are historical. Thus, sometimes an individual's identity trajectory can be superimposed on the trajectory of the organization's identity.

Figure 2. The path of the identity



When we talk about organizational identity, we refer to the duality of personal identity and professional identity, which leaves place for the dualism between the social object and the task of the organization. Concordance between the two types of identity will allow to maintain, over time, the coherence of organizational identity.

3. Vectors of identity: two essential key points to change

As the expression "with one swallow we can not consider that spring is here", the change actor should not confuse a change of identity with an important event, whatever its importance or seriousness. An identity is always based on time and the change actor should not be influenced by current events, even if they seem decisive for the future of the organization.

Human resource management or even the manager who must develop or face the effects of change, must recognize that above the apparent phenomenon of speech that is often excessive, a distance must be kept. As Francois Mitterrand said: "We need a less involved approach".

It is important for human resource management to avoid all questions related to judgment values (eg.: This event is dangerous for the future of the enterprise?). This type of question leads to a defensive emotional response, it will not help the manager in the process of change. Although the manager has a duty to listen to various speakers whose argument is based on judgment values, he must not be influenced by this vision. The fact that some managers are recognized as members of the group, will make them lose their objectivity that initially was more visible. The hardest part is keeping a certain distance from the event, on the other hand, this distance should be kept and should be extended also to the people who deal with the event. Referring to the company's values or by reference to certain routine activities to certain myths, symbols and structures, the manager will see himself included in an intrinsically collective dynamic of the group that will help him cope with the situation. Organizational identity is such an important asset for human resource

management or managers confronted to change.

4. The binomial change-aspirations in the psychology of change

Organizational identity is formed based on the dynamics of the balance of power between employee's aspirations, namely, the nature and extent to which they are subject to change.

Depending on the degree of compatibility between change and aspirations, there are two major types of change: change in accordance with the aspirations and changes in conflict with the aspirations.

Any change that complies with the aspirations, desires, expectations, needs, dreams and our ambitions is integrated almost immediately. In fact, we do not live this as a change but rather as a chance or feel it as a reward for our efforts.

The way we look at change often lacks objectivity, because we lose sight of the fact that one of the fundamental laws of change always involves the element of losing the previous state of facts. Therefore, even if we worked to get a change, this will not necessarily give rise to, a sense of satisfaction. It is the case of some people who have worked to achieve an almost immediate promotion and tend to almost regret it. The subsequent rejection of the desired changes, is called the "Faust' syndrome".

In general, we adapt very well to changes that we've desired, even if consequences or side effects may appear, especially if they are minor. Integrating change, in accordance with our aspirations is sustainable if the case when the side effects are of lesser importance than the desired effects. The case is striking in terms social ranking, be it economical, political or artistic.

The central element of success is not a myth but a law from the perspective that it corresponds to the change, even if it bears a substantial gain it is always accompanied by a loss. However, the change is irreversible. This is particularly striking in the relational plan: never change a relationship that will not return to its original state. A man who was fired will not see an "employer" in the same way as

before. Similarly, a single mistake will not be forgotten. Therefore, even a desired change is not part of a final integration.

Changes in contradiction with the aspirations are required, proposed, announced even if they do not expect or desire them. These changes will be incorporated only after a process of decomposition in several stages: denial of the situation, strengthening, decompensation, resignation and integration.

The duration and intensity of each phase depends mainly on two factors: emotional distance that puts us in touch with what is changed and the "expected" distance which separates us from what is changed. Emotional distance is seen through the attachment to our built and virtual reality while expected distance translates, in turn, into our capacity to imagine the possibility of such changes.

A principle will result in relation to change: as the emotional distance is even shorter the expected one becomes longer and the change process is more difficult.

If a change has a powerful and unpredictable emotional impact, the integration process of this change is compromised. Our survival instinct allows us to rationalize the event several times, so that it becomes bearable. Extremely, this type of rationalization is neurotic or worse, psychotic (total rejection of reality shared by others, breaking the contact with the world).

In contrast, when the emotional distance is long (the subject is poorly attached to the subject of change) and the expected one short (subject imagines that such a change may occur), then the process of change is fast and painless. Long emotional distance associated with a short expected one is called indifference.

The duration of each phase depends also on the personality and experience of the persons involved. The more we build our own realities on rigid plans (strong beliefs, strong values, strong ego) the less we have experimented change and have more difficulties to adapt to it.

Our point of view regarding the world around us associated with our emotions, characterizes our ability to embrace change, therefore, causing differences in responses to change. Whether the fact that the expected distance is short or long and that its valence (the term derives from experimental psychology and means that the attributed value of an object or a situation is used to motivate ones attraction or rejection) is positive or negative.

5. Conclusions

An organization, today, can easily change the field of work, especially taking into account the extremely rapid technological fads. However, the field of activity is stored as an expression of talent, expertise, and not least the structural framework of the organization.

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Profile of the ECO-HOTEL Market in Romania

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Abstract

In order to develop a study for the hotel market profiling Romanian ecological was undertaken with direct reference to the current state of development of eco-management system implemented in the hospitality business in Romania. The analysis undertaken concluded that currently there are only three ecological certified units, two by national eco-certification authorities and one unit TUV certified. The three units are hotel Saturn from Romanian Saturn seaside resort, Crowne Plaza Bucharest and Vega Hotel in Mamaia resort.

Key words: eco-management, hotel, environment, eco-label.

J.E.L. classification: L 83

1. Introduction

Presentation of the three eco-systems management approach became paramount in determining the eco-hotel market profile.

Introduced after 2005, eco-labels are a hotel's environmental performance certification, configured by 20 criteria that include, among others, indicators of the ecological materials used, presence and quality of vegetation within the perimeter of the building, energy and water consumption, waste disposal and recycling effectiveness of cleaning systems, information on ecological preventive behavior and so on [5]. Fee for obtaining this certification is currently 200-300 Euro per year.

Eco-label awarding criteria for tourist establishments are regulated by the Government Decision no. 1855/2005. The regulation implements the European Commission Decision no. 287/2003/CE establishing ecological criteria for the award of community eco-label for tourist accommodation services, published in the

Official Journal of the European Union European Communities (OJEC) No L12/2003.

The label is a voluntary certification that was created in 1992 by the European Commission to encourage the market for "green" products. It is granted after a review of the characteristics of the product or service and is valid for a period of 3-5 years.

2. Ecological certified hotels in Romania

The eco tourism services accreditation is simple because it relies on self declaration by many shareholders.

2.1. Crowne Plaza Hotel Bucharest

Crowne Plaza Hotel Bucharest is part of the Crowne Plaza Hotel Chain, chain belonging to hotels group IHG InterContinental Hotel with outstanding brands, such as InterContinental, Hotel Indigo, Holiday Inn, Holiday Inn Express, Staybridge Suites and Candlewood Suites.

Hotel chain Crowne Plaza Hotels & Resorts is a brand found in over 50 countries worldwide, mostly in urban centers, specializing in business hotel services, offering businessmen comfort and services of superior quality.

Ecological certified. Crowne Plaza Hotel Bucharest is the second hotel in Romania that received on November 4, 2009 the right to use the European Ecological Label - Ecolabel. European Eco-label created by the European Commission in 1992, is a single certification scheme to help consumers to distinguish green products and services, Crowne Plaza Bucharest Hotel enrolling as among the companies that contribute to maintaining a healthy environment and reduce global pollution.

The process of obtaining the label was neither short nor easy, the hotel managed to get 46 points from the 16.5 necessary.

The objectives were mainly concerned on decrease consumption, eco-style training of staff, raising awareness and promoting a "green attitude" among customers, suppliers and business partners.

Although initially not designed to save energy, the hotel has undergone a series of renovations to be labeled ecological. Used water comes from its own well drilled to 192 m. This will save water. Crowne Plaza Bucharest currently carrying out a national program "Conserving for Tomorrow", which encourages tourists to think and act in the spirit of ecology[6].

Hotel investors have realized the importance and economic benefits of a more responsible towards the environment approach, architectural design, renovation and management benefits of green building. Using intelligent systems for buildings means energy savings with up to 30% of all integrated and controlled facilities of a building automatically. Fruitful collaboration between design teams, plumbing, electrical, design and investors to achieve an ecological hotel led to the implementation of innovative solutions for the hospitality industry with regard to energy efficiency, renewable energies and punctual solutions to reduce environmental impact in the operation phase of the hotel.

Ensure 112 non-smoking rooms (representing approximately 70% of the total available rooms) is one of the minimum criteria for environmental labeling. Starting from the premise that the green stands for quality, the hotel has enough green space, sustainable solutions for the development of green areas, where water consumption is reduced.

In order to improve air quality all conference rooms enjoy natural daylight and are situated on the ground floor with direct access to courtyard gardens.

Creating a Green Team with the role of implementing green initiatives in the hotel network or to initiate a program of "customer awareness" on environmental behaviors during accommodation, fully demonstrates the merit of obtaining the EU Eco-label.

2.2. Vega Hotel

Hotel Vega is part of the Upetrom Group and classified 5 stars. Located in Mamaia, Hotel Vega was completely renovated over a period of two years and opened on August 8, 2008. The consolidation work and modernization have led to an investment worth 13 million euros, in addition to building value amounting to 2.5 million.

Overview of Hotel Vega Mamaia: Feng Shui principles of harmony governs the hotel in a very high level and discreet. Not disparate components and kitsch, but its layout, color inspiration from elements of Feng Shui, the arrangement of furniture and interior decoration, rounded lines and the way light is received and the very location of the hotel (all rooms overlooking the sea) show management environmental concern.

Thus, the first three floors represent the fire (red), the following two Earth (brown), floors 6 and 7 the water (sea green) and the last floor the air (white). All the hotel accommodations have the same principles of harmony, high standards and modern facilities.

Ecological Certified. Vega Hotel has shown interest in the direction of protecting the environment and ensures maximum safety conditions for customers and employees. Thus were created and implemented the requirements of the Eco-Hotel, becoming the first hotel in Romania certified by international certification body Eco-Hotel Management System. Eco-Hotel certificate granting has a guarantee that governs all the processes within the Vega Hotel. Eco-Hotel Management System certification was granted following a thorough and strict audit conducted by TUV Rheinland Portugal in cooperation with TUV Rheinland Romania. TUV Rheinland Group, optimizes, verifies and documents the safety and quality of worldwide products and systems, services and people.

Eco-Hotel is an exclusive standard that adds value to the hotel, being an additional guarantee of quality hotel services at European level. The new management system certified by TUV Rheinland that addresses hotel units is designed to reduce their impact on the environment.

Hotel Vega obtained from the audit, a very good score, in addition to satisfying the mandatory 90% of the additional requirements. The minimum requirements for certification Eco-Hotel consist of 100% in fulfilling the mandatory requirements and at least 50% of additional criteria. Score of Vega Hotel is very good, placing it on the Romanian seaside hotel unit in the top of the best European hotel units.

Joining the largest environmental rally ever held in the world "Earth Hour" lights closing for one hour per year in a given day, along with the rest of the planet, shows attention to the already fragile environment by hotel investors.

2.3. Saturn Hotel

Saturn 5 star classified hotel is the only hotel of this category in the Saturn resort and the first hotel in Romania to receive eco-label for tourist accommodation services, showing permanent care and concern for environmental protection.

Ecological Certified. It is the first hotel in Romania that has received from the Ministry of Environment and Sustainable Development (MESD) European Ecolabel for tourist accommodation services, the national eco-label Commission, the advisory body, with a role in evaluating the eligibility criteria. Thus, there have been examined the requirements for the label in accordance with the decision establishing criteria no. 287/2003/EC the European eco-label for tourist accommodation services and found that the requirements set out in the above decision are being met. From a total of 84 mandatory and optional criteria, the Saturn hotel has managed to meet all 37 mandatory requirements and another 21 optional.

The criteria focus on reducing consumption of electricity and water, reduced use of chemicals and selective waste collection. Gaining 30.5 points, almost double the minimum required (minimum score required to obtain eco label is 16.5 points) and the hotel was the eco-label shows that the services and try to protect the environment while showing managerial concern for quality.

Worldwide, more than half of the tourists choose for their destinations a hotel that respects the environment through its services.

It is to remark in this situation that tourists are increasingly interested in more ecological services offered, trying to find out what it means to be an "eco" tourist. Although the term 'eco' automatically leads to the idea of a diet based on organic products, without additives and preservatives, the hotel is focusing at least for now, largely just on providing environmental services, nutrition program, "bio" being present in the hotel offer only raw material suppliers, sorting food and supplies from its own organic fruit orchard.

Tourists are given cards that can help reduce electricity consumption. When they accommodate they are asked to reduce water consumption for washing teeth, etc.

The interiors are decorated in warm and soothing colors, colors that do not require additional electricity consumption.

Saturn Hotel has been designed from the beginning to save energy, with a sustainable investment of 3 million euros.

3. Hotel eco management – a sustainable development requirement

It can be concluded that to adopt a pro-environment hotel management capital is needed. Major hotel chains and management companies have substantial capital, thus have more opportunities both for better education and for strategic management. Smaller units operates with shorter time horizons and less strategic 'know-how'.

In order for the Romanian hotel owners to improve attitudes regarding environmental policies and strategies, the example of European hotels should be followed. Thus, the large European hotels use between 170 and 440 liters of water per day, depending on the source of information and, of course, the efficiency of hotel management. Solid waste, on average, can reach 1 kilogram per person per day in a classic hotel, while in efficient hotels this figure is reduced to just 50 grams. Besides these two examples, it is added knowledge gained in environmental practices, knowledge that differentiates hotel chains and affiliated units from independent hoteliers, but also eco-managed units with traditional management.

Hence the desirability and importance of a more environmentally responsible architectural design, renovation and operation of hotel properties is becoming necessary in the future with a broad vision, open to new eco-management challenges.

With a slight increase in expenditure (2-4%) for a green building project, aggregate savings fall to about 40% per annum, effective return of the investment can be done in the first 2-3 years.

A complete control system (BMS), lead to electricity savings of up to 40%.

Benefits from automation generalization in all types of buildings, including hotels are enormous. The Active Energy Management systems have systematic controllable and predictable reductions of consumption across all buildings, ensuring optimum comfort of tourists. Integrated solutions can cause constant decreases by 30% of electricity consumption and heat for long periods of time and significant reductions in personnel.

Punctual solutions put together three important elements: energy benchmarking, CO2 footprint clarify criteria (design, system active / passive high load, energy efficiency and low recovery of energy) and information / education of users in this case, tourists.

4. Conclusions

One explanation for the Romanian hotel owners that are not interested in organic certification would be that Romania, as a relatively new member of the European Union, still lacks a tradition of eco-label, as countries like Denmark or Italy. On the other hand, nor certification costs are negligible. High costs and the difficulty of qualifying for the European eco-label keep the certification off the Romanian hotel products and services.

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The Necessity of the European Capital Markets Development in the Current Economic Environment

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Abstract

The capital market plays an important role in every modern economy, regarding both, its current state and its sustainable development. The aim of this paper is to present the main role of the capital market on all of the three levels on which they appear (the macroeconomic level, the microeconomic level and the individual level), using a comparative analysis between the European capital markets and the American ones, in order to highlight the necessity of their development. Also, the paper analyses the growing importance of the capital market in the process of financing the economy, which has become an important and essential part of any long term sustainable development strategy employed by any modern state.

Key words: capital market, sustainable development, systemic risk, modern economy.

J.E.L. classification: O42, E44, G11, G14.

1. Introduction

Taking into account the current evolutions of the capital markets and the general state of the economical and financial environment, we believe that an overview of the role of the capital market in the modern economies may prove to be useful for remembering their importance. The aim of this paper is to present in a non exhaustive manner the main characteristics of the capital markets and their importance for the modern economy,

using a review of the main ideas that appear in the academic literature so far. In order to achieve our goal we have organised the paper into four sections. Thus, section one provides an insight on the positive impact of the capital markets on the modern economy at three levels: macroeconomic, microeconomic and individual. The second section underlines the main risks associated with the capital markets while underling the role of the derivate products in a modern financial system. Then, in section three of the paper we underline the importance of the capital markets on the modern economy, using some empirical evidence based on data provided by the World Federation of Exchanges. The last section summarises the main ideas of this paper, underling the necessity of the capital markets development in a modern economy, like the European ones.

2. The role of the capital markets in the modern economy

A good functioning of the capital market represents an incontestable factor these days in order for the market economy to work. Regardless of the interpretations given to this subject, it is considered that in order for the market economy mechanism to work, the capital market must ensure the fulfilment of two main objectives: first, the financing of the economic activities and second, the insurance of the capital flows based on the economic efficiency principles and the diminishing of the default risks. Based on these principles and the effects that the *capital markets* are producing we can argue that they are representing *one of the main*

stepping stones on which the modern world relies, at least on its economical dimension.

The current stock exchanges have gone through a fundamental change over the last hundred years in order to achieve their current position, as the stepping stone of the modern economy, from their humble beginnings (the first stock exchange in the modern sense is considered the one founded in Anvers in 1531). The ultimate goal of this transformation is the creation of a stock exchange able to trade 24/7 globally. A good example of the magnitude of the transformation that these stock markets have gone through is the New York Stock Exchange, which became, after the merge with the pan-European stock exchange Euronext, the most important stock exchange in the world. In 1792, 24 small American investors, that used to meet under a sycamore in the south side of New York, have decided to put the basis of what it will become the largest stock exchange in the world. Two centuries latter the US Treasury Secretary, James Brady, declared that "the New York stock exchange has managed to handle the most astonishing transformation in the financial world, evolving from transaction settling under a sycamore to electronic transaction, thus becoming a model for the global financial industry" (Dominique Gallois, 1997, p. 14). Currently, the New York Stock Exchange - became in the meantime through an intercontinental merge NYSE Euronext - is characterised by a high degree of capitalisation, the specialisation of its intermediaries, fast order execution and a high degree of fluidity and liquidity.

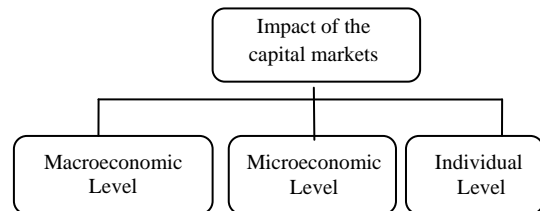
These transformations have been enhanced especially by the emergence of the trading technologies and informational communication methods that have enabled development of new financial services and products and have lead to the current state of evolution where classical trading methods are combining with high tech informational technologies. The modern stock exchanges are ideal institutions for commercial transactions in large volumes that are handled in a very fast meaner (Dornescu, 2001).

Thus, from a place that was considered "taboo" for the inexperienced, not so long ago, the capital market has become a place that attracts more investors every day, both private and institutional, and its role in the

economy is becoming central.

The role of the capital markets in the modern economy can be identified at different levels: at the macroeconomic level, at the microeconomic level and at the individual level.

Figure 1 - The levels at which the capital markets have a direct impact on the economy



Source: based on Stoica, 2002

At the macroeconomic level the capital markets manifest its fundamental role, that of financing the economy. Through this fundamental role, the capital markets manage to *provide an efficient capital transfer between the entities that are registering an excess of liquidity to the ones that are registering a deficit of liquidity and which manage to provide this capital with a higher usage value into the economy* (Stoica, 2002). The primary market provides the necessary settings for the initial public offers to be lunched, both for stock and bonds, which provides the necessary financial resources for the agents present on the market. The fundamental role of the capital market is more visible through the secondary market which provides access to the public and allows the titles that have been already emitted to be freely traded and thus allowing the function of the financing mechanism for the economy. In this context, we can identify the interdependence between the two components of the stock market: the primary market provides the economy with the necessary funds in order for it to evolve and prosper and in order for this segment to be believable and attractive to investors, the secondary markets needs to provide the investors with the realistic opportunity to clear their positions and sell their titles at a fare value price, almost instant at any time. This represents the mechanism that allows the transfer of funds from the economic agents that are registering an excess to the agents that are registering a deficit.

To underline this important role of the capital market we can *compare* this form of economic financing with the alternative that exist and especially *with the banking sector alternative*. If in the European Union the economy is mainly financed through the banking sector, in the United States the capital market represents the main source for financing the economy. In 2009 for example, in the United States approximately 70% of the economy was financed through the capital market, while only 30% of it was assured through the banking system (FED, 2010). By contrast, in Europe, approximately 60% of the economy was financed through the banking system (BCE, 2009). The banking system is limited in its financing offer by the fact that it relies heavily on the liquidities attracted from the population and other economic agents. On the other hand the excessive financing of the economy through banking credits can generate high systemic risks. A relevant example in this sense is the Asian crisis, with its painful lessons, that serves to underscore the importance of capital markets, because the crisis revealed major weaknesses in the region's financial markets, in particular, an excessive reliance on the banking sector (Krugman, 2009). From these aspects, we can underline an important characteristic of the capital markets, which permit the financing of the economy without the danger of creating inflation bubbles, because it allow the activation of the "passive currency", held by the excess liquidity agents, and its usage in the real economy for the benefit of the whole society.

Also at the macroeconomic level, *the capital markets provide the necessary mobility of capitals among the different economic sectors*, from the more inefficient ones to the more efficient ones, enhancing the overall strength of the economy. By allowing such a dynamic, the capital market provides an investor with the possibility to invest in high innovative and high efficient sectors of the economy and the possibility of immediate reallocation of capital at the moment when new domains are taking off. Accordingly it allows a higher profitability.

Another interesting facility that the capital market is providing is represented by *the intermediation of mergers and acquisitions*, both at national and international level,

which have become more interesting in the last period, especially as a result of the financial turmoil and the necessary consolidation process that has followed. These types of operations are carried through the capital market using the so called "tender offers".

Because of the important role of the capital markets and implicitly of the stock market as one of their main components, their development represents an etalon of a modern and successful economy (Szel, 2005).

The stock exchanges picture also the image of the economical, political and social events that are occurring not only at the national but also at the international level, *reflecting like a mirror the real state of the economy*. Because of this, it is justified to believe that the stock exchange cannot represent in the medium and long term a feasible alternative to the real economy. If the real economy has a direct impact on the stock market, then also the reciprocal is true: the financial fluxes that form the secondary markets are useful clues for the economy and determine shifts in the investments that are about to be made in the real economy, determining investors to reconsider their options and allowing overall a better allocations of financial funds in the economy.

Even taking these realities into consideration, we must not forget that the stock market represents only an indicator of the real economy. For example the Eurostat uses 35 economical indicators in its analysis regarding the state of the European Union economy and only one of these describes the evolution of the stock markets.

But, not every drop in the value of the stock market represents a sign for an upcoming financial crisis. If these drops are not followed by inflation, a drop in the production or any other economic setbacks then they only represent price corrections through which overpriced stocks are adjusted to their real value. Moreover, we must take into account the fact that the activity of every stock market is sensible to rumours or any other type of news related to it, which sometimes tend to be followed by herd mentality actions, especially from the part of individual investors, and thus provide a very good environment for panic attacks.

The impact of the stock exchange is tremendous on the real economy, especially in the more advanced economies where economic agents are used to follow the information fluxes of the capital market in order to determine the future evolution of the economy. Moreover a crisis of the capital market can extend itself to the real economy, and even spread at an international level, like in the case of the financial crisis that started in 2007 in the United States and which has spread all around the world.

At the microeconomic level the stock market has an impact on the economy through the multiple benefits that it is providing to the listed firms.

We must acknowledge the fact that the benefits of listed firms have been increased mainly as a result of the stiffening of the banking credit process, in which banks required extra guaranties to firms that wanted to receive additional banking loans, making it more difficult to them to obtain new capitals for their projects. In this context, the necessity for firms to maintain an adequate financial structure in order to be able to finance their fix capital assets has become more important in time (Pop, 2003, p. 202).

The listing of a firm on the stock market provides a necessary diversification of financing options. So, the firm gains in economic flexibility and financial independence, being able to finance more easily its development through capital expansions or through the issue of attractive financial products, like bonds that have the option to be turned into stocks or preferential stocks.

The listing of a firm enables it to access *different sources of financing* in the future through the capital market and thus the capital market is providing the necessary resources for its future development.

Another advantage that is generated for the listed firms through the stock market is *free publicity*. Information regarding the transactions that have been registered in one day at the stock market are widely disseminated in the printed media, radio and television, and contain, beside the transactions summary, the names of the firms listed at that stock exchange. The reputation that the firms listed at the stock exchange have can determine a raise in their share of

the market and thus enabling them to gain an important advantage on their competitors.

The mechanism of the stock exchange permits *the determination of a firm's daily value* through its stock market capitalisation. The report between offer and demand for a certain firm's titles establish that titles daily value, which fluctuates and can penalise certain managerial decisions that are not in accordance with the fundamental objective of any economical endeavour: the efficient usage of limited resources in order to gain a higher profit.

At the individual level, the stock exchange allows investors to place their resources at any time in what they believe to be the most efficient financial titles that are traded, while also providing the opportunity to transform almost at an instant these titles in liquidity, both operations taking place in an organised environment and at a reasonable fair price. The investors are provided by the issuers with continuously and real information regarding the financial results that they have obtain and also in regard to any factors that may lead to a price shift of their title. The shareholders are protected against any malicious actions that may occur on the stock market, their rights being protected and underlined in the status of the stock exchange.

3. The risks associated with the capital markets

As we have presented, the capital market has a determined role on all three levels of an economy but we must not underestimate the risks associated with it.

Influenced by some reports in the media, a part of the general public tends to consider the capital market as a "*zero-sum game*", where the gains of one investor represent the lost of another. Moreover, there is some concern that the stock exchange may represent a source for economic instability, the volatility of the exchange being enhance by the development of derivates products and their transaction (like the CDS or the CDO). The critics, especially taking into account the recent financial downturn, argue that the development of such products *has introduced and enhanced the systemic risk* that the stock markets are generating (Obstfeld and Taylor,

2004, Duffie, 2007, Blanchard, 2009). The reality has instead provided some different arguments regarding this aspect, underling the impact that these financial products had on the diminishing of transactional risks. Many of the so called derivate financial products are truly innovative providing benefits for all the market participants. Overall the benefits of derivate products are more than evident, while their negative aspects have been very little documented, tending to occur especially when these financial instruments have been used in a malicious way, while being insufficiently supervised and regulated.

The internationalisation of the national financial markets in general, and that of the capital market in particular, has lead to the enhancement of the identity losing risk for the listed firms. Thus, the stock market has become the battleground for some violent encounters between firms that have different financial strengths (e.g. Vodafone AirTouch bid for Mannesmann AG).

Despite all the aspects presented above, *we consider the advantages that the capital markets mechanism is generating for the whole economy are more important than the associated risks that exist.* The stock exchanges dissipate risks, enhance capital gains, direct information in the way it is best used and keep managers competent. *The prosperity of a modern economy depends on its ability to foster an efficient capital market.* Thus the capital market provides the capital necessary for the development of the economy, satisfying the interests of investors who seek security and flexibility and of firms who want access to a flexible and easy to reach source of financing.

Taking into account the current economical and financial environment, many governmental agencies and commissions have been created in order to better regulate and supervise the different financial markets that exist in the modern economy. The aim of the regulatory process is to provide the safety of the transactions and that of the participants, ensuring and guarantying the existence of the counterparts and also to standardised procedures. Also, the regulation of capital markets aims at protecting the investors – especially the individual ones, at allowing an efficient and fluent functioning of the markets, at diminishing the effects on

the real economy in case of a negative evolution of these markets and not the least at imposing fair and attractive practices that are mutual beneficial for all participants (Kawai and Pomerleano, 2010). Thus, the regulation of the capital market is carried out at national level (and in some circumstances at international level, like in the case of the European Union), according to the legislation in place, by a governmental appointed institution (e.g. based on these characteristics, the capital markets is regulated in the United Kingdom by the Securities and Investment Board (SIB) or in France by the Commission des Operations de Bourse).

4. The importance of the capital markets in the modern economy

The importance of capital markets in the financing mechanism of the modern economies has grown in time, as the economic activities have evolved and diversified and the saving degree has risen. These evolutions have allowed the capital markets to become an essential and alternative mean for financing firms and public entities alongside the banking sector, with which it's competing for market share. Moreover, the single usage of the banking sector as a sole provider of capital for the economy can lead to disruptive effects on the stability of the currency.

The financing mechanism through the capital market has become such an important way for the modern economy to obtain its financing resources also because the capital markets are providing *a financing source for the economy that is non-monetary, non inflationist and which aims at benefiting all the participants to the transactions:* the title issuers, the buyers, the non-monetary financial intermediaries and also the stock exchanges.

The importance that the capital markets (and also its size) have in an economy can be measured through a series of quantitative indicators, from which the most important are *the turnover* and *the stock market capitalisation*.

In the current conditions in which the different stock markets from around the world are interconnected, influencing each

other, we founded it relevant to provide the following table which presents the capitalisation of the main stock exchanges in the world. We argue that as an aftermath of the financial crises that started in 2007, the capitalisation of the main stock exchanges in the world at the end of 2008 has dropped from the previous year, while at the end of 2009 an upward trend is present on all the major stock exchanges of the world.

Table 1 – The level of capitalisation of the main stock exchanges, between 2007 and 2009, (in millions USD, yearly variation)

Stock Exchange	2009	2008	2007	Variation 2009/2008	Variation 2008/2007
NORTH AMERICA					
NYSE-US	11.837.793	9.208.934	15.650.832	+ 28,5%	- 41,2%
NASDAQ	3.239.492	2.396.344	4.013.650	+ 35,2%	- 40,3%
EUROPE					
Deutsche Börse	1.292.355	1.110.579	2.105.197	+ 16,4%	- 47,2%
LSE	2.796.444	1.868.153	3.851.705	+ 49,7%	- 51,5%
Euronext	2.869.393	2.101.745	4.222.679	+ 36,5%	- 50,2%
OMX	817.222	563.099	1.242.577	+ 45,1%	- 54,7%
ASIA					
Tokyo SE	3.306.082	3.115.803	4.330.921	+ 6,1%	- 28,0%

Note: OMX has been acquired by NASDAQ in February 2008, Borsa Italiana has been acquired by LSE in October 2007 and Euronext has merged with NYSE Group in April 2007.

Source: Own calculation based on data provided by World Federation of Exchanges

We can observe that the capital markets are playing a defining role in the economy of the United States of America, a good proof in this sense being the fact that the largest stock exchange in the world operates in New York – the New York Stock Exchange. Another aspect that can be observed from the up table is the fact that in 2008 all the main stock exchanges from north America and Asia have registered drops in their capitalisation: NYSE falling by 41,2%, NASDAQ by 40,3% and Tokyo SE by 28%, while the backlash of the financial crisis has been also felt in Europe where the main stock exchanges have also dropped by: 47,2% in the case of the Deutsche Börse, 54,7% in the case of OMX and by 50,2% in the case of Euronext.

Following the massive rescued planes put in motion by public authorities all over the world the stock exchanges have registered a raise in their capitalisation in 2009, but still remaining under their 2007 level.

These evolutions that characterise the main stock exchanges are also present on the medium and small stock exchanges of the world. Thus, according to the statistics of the *World Federation of Exchanges* which follows the actives of 53 stock exchanges, during 2008, the year in which the effects of the global financial turmoil were the most hard felt, the global capitalisation of the 53 stock exchanges was of 32.551.432,8 millions USD, being 46,5% smaller than the one of the previous year (when the global capitalisation of the 53 stock exchanges was 60.854.944,5 millions USD). The revival of the activities that characterised the most advanced stock exchanges in the world was in fact a global trend, which is underlined by the evolution of the global capitalisation of the 53 stock exchanges that are monitored by the World Federation of Exchanges which roused by 20,1% in 2009, when compared with the previous year.

Beside the two main indicators of the capital markets development that we have mentioned, the global turnover and the capitalisation, in order to underline the importance of the stock market in an economy we can also use an alternative indicator, represented by *the ratio between the capitalisation of a stock market and its national GDP*.

Table 2 – The evolution of the ratio between the capitalisation of the main stock markets and their national GDP, between 2004 and 2009 (percentage)

Stock Exchange	2004	2005	2006	2007	2008	2009
NYSE	108,3	109,2	116,4	113,3	64,8	83,4
Tokyo SE	73,3	107,4	108,3	98,8	64,0	65,8
Euronext	70,7	86,4	101,0	104,3	59,7	68,2
Deutsche Börse	39,7	46,1	53,8	63,4	30,4	34,7
LSE	127,4	145,0	149,2	138,9	66,0	93,5

Source: Own calculation based on data provided by World Federation of Exchanges

We can observe that the ratio of the capitalisation of the stock exchanges from our panel in the national GDP has grown steadily between 2004 and 2006, underling

their raising importance in their respective economies. As the financial turmoil has grown we observe an abrupt drop in this ratio for all the stock exchanges in our panel which starts in 2007 and intensified itself in 2008. As noted earlier, as a backlash to the massive stimulus packages put in place all over the world by the national governments, the ratio between the capitalisation of the main stock markets and their national GDP has registered a small rise at the end of 2009.

We can observe that this ratio is registering a different value for the stock exchanges from our panel, with the New York Stock Exchange scoring the highest on the list, and thus underling once more the determinant role that it plays in the financing process of the US economy. The lower levels of this ratio, that characterise the European stock markets, can be attributed to the fact that these economies tend to be financed through the banking sector, as we have noted earlier. Nevertheless the importance of the capital markets in Europe was amplified by the introduction of the single European currency, at least in the euro zone economies, starting with 2000, according to data provided by the Federation of European Stock Exchanges.

5. Conclusions

As we can observe from our paper, in a modern economy, capital markets are an important and efficient conduit to channel and mobilise funds to enterprises, and provide an effective source of investment in the economies they serve. They play a critical role in mobilising savings for investment in productive assets, with a view to enhancing a country's long term growth prospects, and thus act as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace. In addition to resource allocation, capital markets also provide a medium for risk management by allowing the diversification of risk in the economy. Also, a well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment which is founded on integrity. Despite the many benefits of the capital markets, we must not exclude the risks

associated with it, for example the systemic risk that can be generated in some cases on these markets, as the recent financial crises shows us. Thus, the regulatory and supervision entities that are responsible for the capital markets must developed and implement regulations and procedures which can handle the ever changing financial environment. Overall, capital markets provide a helpful environment for the financing of a modern economy as long as proper regulations and supervisions entities and procedures are in place.

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Financial Innovation and Its Effects on Financial Stability and Efficiency

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Abstract

In the last decades, financial innovation has been in the fore front of all the major changes which have affected the financial system, both at national and international level. Thus, the research of this subject has become a major field of research, its importance growing since the start of the current financial and economic crisis. In this context, the aim of this paper is to underline the impact of financial innovation on the stability and efficiency of the financial system while also taking into account the implications over the systemic stability of an economy. The results of our study highlight the need for a cautionary approach regarding the usage of financial innovations, as new financial instruments used excessively or in an inappropriate manner, without proper regulations and supervision, can lead to financial instability and the accumulation of major systemic risks.

Key words: financial innovation, financial stability, efficiency, crisis, systemic risk

J.E.L. classification: G01, G14, G32.

1. Introduction

Taking into consideration that, over the last decades, financial innovation has been considered to be one of the major causes of the radical changes that took place in the financial systems, both at the national and international level, its analysis represents an actual and interesting problem for both policy makers and participants from various financial markets, whether we are talking

about investors, financial intermediaries or end-users of financial services. Within this framework, it becomes clear that a better understanding of *the impact of financial innovation on the two key components of the financial sector, namely: stability and efficiency* is crucial in order to ensure that episodes such as the current financial crisis does not happen again.

In this context, *the purpose* of this paper is represented by the study of the financial innovation and of its implications on the financial systems development, highlighting both the positive and negative effects that the financial innovation has on its efficiency and stability. Thus, taking into consideration that all financial innovations encompass advantages as well as risks, *the core question* that arises refers to under what circumstances financial innovations enhance the efficiency and the stability of financial systems, and, under what circumstances do they threaten their stability?

In order to achieve this purpose the research is structured in *five parts*: *the first part* contains introduction remarks regarding the field of research and the importance of the approached theme; *the second part* is dedicated to a literature review which identifies the main researches undertaken so far on this subject; *the third part* highlights the key role played by financial innovation in increasing the efficiency and the stability of the financial systems, and *the fourth part* of the paper reflects, mainly, the negative impact that the financial innovation may have, in certain circumstances, on the stability of the financial systems; while *part five* provides the concluding remarks of the research.

The *methodological approach* used starts with a literature review, which is useful because, on one side, it helped us to familiarise with the main studies from this field and, on the other hand, we were able to underline the way in which our research will cover the least approached areas of this field, especially the problems regarding the trade-off which often exists between the efficiency and stability characteristics of the financial system. As a method of data analysis we have used systematisation techniques and also a series of comparative tables and graphics. In order to obtain our data, we have used mediate techniques for data gathering, like official statistics of the Bank for International Settlements (BIS), different reports, studies and researches.

2. Financial innovation – a literature review

In general, most scientific papers undertaken on the subject represented by financial innovation have focused on three main research areas: the concept of financial innovation, the drivers of financial innovation and the effects of financial innovation.

Regarding *the concept of "financial innovation"*, taking into consideration its' dynamic and complexity, even after a quarter of century, the academic literature has not reached a consensus. Anyway, one of the most widely and frequently used definition is that offered by Frame and White (2004, p. 118), which after having analyzed the basic functions of the financial system, considered financial innovation as "something new that reduces costs, reduces risks, or provides an improved product/service/instrument that better satisfies participants' demands".

Concerning *the drivers of financial innovation* there are four main theories: the circumvention innovation theory (Kane, 1981), the transaction regulation innovation theory (Sylla, 1982), the cost innovation theory (Niehans, 1983) and the constraint-induced financial innovation theory (Silber, 1983), each of these theories explaining in a comprehensive manner the reasons why the pace of financial innovation have accelerated in recent decades.

In respect to *the effects of this process*, it is considered that financial innovation has a direct effect on reducing the negative elements (such as costs and risks) as well as on increasing the positive ones (through development of products, services or instruments that would better meet market's needs). Hence, Van Horne (1985) highlights in his paper that a real financial innovation helps to increase market efficiency and completes the range of products and services. Also, Llewellyn (1992) argues that financial innovation refers to the creation of new financial instruments, techniques and markets as well as to the separation of different characteristics and risks of individual financial instruments, followed by their combination in various new ways. The author emphasizes also that the financial innovation helps to increase the overall efficiency of the financial system. However, in the aftermath of the 2007 crisis, a series of studies have underlined also that, in certain conditions, the impact of financial innovation for stability is ambiguous and that techniques and instruments, used to shift credit risk in a stable environment, may become problematic when the market environment becomes more volatile and uncertain, and when there are systemic shocks (Anderloni et al, 2009).

Summarizing, *the researches undertaken so far regarding the subject of financial innovation are still in an early stage*, when compared with the abundance of researches undertaken on the innovation from other sectors of the economy (like the industrial innovation), and we can observe also a lack of systematic empirical researches with unique and unanimously accepted results. Thus, we consider that *this research can represent a relevant response to this very important subject, that should be studied continuously in order to improve its comprehension for the benefit of those who produce it, use it and eventually who regulate it.*

3. Financial innovation – key factor for the development of financial systems

The process of financial innovation is one of the key factors for the development of financial systems because it contributes to the achievement of five basic functions of a

financial system: (1) it increases the variety of the financial spectrum by combining the characteristics of various financial instruments in order for the advantages of one instrument to alleviate the disadvantages of another; (2) it enables various types of risk to be more efficiently managed and shifted to those who have a greater ability and willingness to absorb risk; (3) it increases the liquidity of assets and markets; (4) it allocates funds to their most efficient use and (5) it may give investors access to new markets from which they were previously excluded. Based on these functions we consider that the *various forms of financial innovation* can be grouped as in Table no. 1.

Table 1 – The taxonomy of financial innovation

Types of financial innovation	Examples
• Instruments/processes that ensure the transfer of price risk	Swaps, forward, futures and options contracts
• Instruments/processes that ensure the transfer of credit risk	Securitisation, collateralized debt obligations - CDOs, credit default swaps - CDSs
• Instruments/processes that allow the growth and development of firms and corporations	Bonds
• Instruments/processes that contribute to the liquidity enhancement	Securitisation, Direct access trading (DAT)
• Instruments/processes that ensure the financial services modernisation	ATMs, internet banking, Target 2 Securities
• Instruments/processes that ensure the substitutability between different financial instruments	Debt equity swaps

Source: realised by the author

The scientific studies from the academic literature regarding *the effects, both positive and negative, generated by the different types of financial innovation on the stability and efficiency of the financial systems* are varied. Thus, on the one hand, there are a series of studies that highlight *how financial innovation help to increase the efficiency and stability of financial systems*. In this respect, Greenspan (2004, p. 4) argued that: “credit derivatives

and other complex financial instruments have contributed to the development of a far more flexible, efficient and hence resilient financial system”.

In general, the main benefits of the financial innovation (although not the only ones) regarding the increase of the financial sectors efficiency are related to *the possibility of innovative instruments to reduce the financial intermediation costs* (basically this can be achieved in two ways, either by facilitating borrowers the access to a wider range of financial markets which are providing additional lending facilities, or, in some cases, by creating the necessary conditions so that the financial institutions would be able to obtain scale economies which will reduce the costs of the services that they provide), *to enhance the liquidity* (e.g. CDOs enable banks to create liquidity based on their loans, which traditionally represent an illiquid component of their portfolio) *and, most important, to enable risks to be dispersed optimally throughout the financial system* (for instance, a bank could maintain a relationship with a client over an extended period of time without incurring an excessive credit-risk exposure to the customer, in this respect, credit derivatives providing an attractive mechanism for managing risk exposure).

However, we must take into account that one of the financial systems characteristics is represented by the trade-off which often exists between its efficiency and stability (more precisely, the impossibility to obtain them both at the same time). Extrapolating this situation, some analysts considered that this is true also in the case of financial innovation, particularly with respect to credit derivatives. In this context, *the impact of financial innovation on the financial system stability represents a controversial issue*. Thus, on the one side, because the financial innovation enables risks to be dispersed optimally throughout the financial system, it increases its stability, but, on the other side, because, in certain conditions, it allows the accumulation and proliferation of risks, it can have a deleterious impact on the financial system stability.

Hence, there are a number of *ways through which financial innovation can enhance financial system stability*, giving it a higher resistance to shocks:

- innovative instruments spread risks more widely within the financial system, in this way the risks being absorbed by those who are more willing and more able to deal with them, thus emphasizing the stabilizing role of financial innovation.
- in many respects, this type of instruments enable banks to respond more easily to certain types of shocks. Greenspan suggested that “[the stability that has characterized the financial systems until 2007] suggest a marked increase over the two or three decades in the ability of modern economies to absorb unanticipated shocks...this has doubtless been materially assisted by the recent financial innovations that have afforded lenders the opportunity to become considerably more diversified and borrowers to become far less dependent on specific institutions or markets for funds” (Greenspan, 2002, p. 6).
- another dimension to these issues is provided by the Bank for International Settlements, which considers that “The ability to switch smoothly between balance sheet financing and market-based financing contributes to the robustness of a financial system and improves its ability to deal with strain” (Knight, 2004, p. 6).

In conclusion, we can state that *the benefits driven from the development and use of financial innovations are manifold*. Hence, the cost of financial intermediation may be reduced due to the use of financial innovations, offering the entities which seek financing the possibility to enter different markets and allowing different actors from these markets to effectively exploit their competitive advantages. Also, new instruments enable arbitrage between markets in different countries, which lead to the decrease of pricing anomalies, and implicitly to the reduction of market imperfections. Moreover, a number of financial instruments allows the use of diverse hedging options enabling the increase of protection vis-à-vis risk, while another series of innovative financial instruments facilitate the risk assessment, transferring it to those entities that are more capable to manage it efficiently. Nevertheless, these instruments enable different risks to be divided and then separately priced and “sold”. Thus, we can

assert that if these processes are carried out in a correct and professional way, then these innovative financial instruments will have a direct effect of increasing the efficiency of resources’ allocation in the economy.

4. Controversies regarding the effects of financial innovation on the stability of financial systems

The manifestation of the financial crisis which started in 2007 highlighted the existence of a high number of opaque financial products in the international markets, such as: credit default swaps, mortgage-backed securities or collateralized debt obligations. The role that these financial products have had within the financial crisis has triggered a heated debate regarding the value that they bring to the international financial system as well as regarding which would be the correct response from the authorities in charge with the regulation and supervision of these innovative instruments. It is already obvious that from the debate around this subject have emerged two streams of opinion, on the one hand, are those who believe that financial innovation is largely unnecessary (e.g. Krugman (2008): „It's hard to think of any major recent financial innovations that actually aided society, as opposed to being new, improved ways to blow bubbles, evade regulations and implement de facto Ponzi schemes”) and on the other hand are those who believe that financial innovation has both positive and negative parts (e.g. Levine (2010): „Even if the last few years demonstrate that financial innovations can be used as tools of economic destruction, the last few centuries demonstrate that financial innovation is crucial, indeed indispensable, for sustained economic growth and prosperity”).

Thus, there is the possibility that the financial instruments that should increase efficiency, instead, in certain circumstances, may threaten the financial stability. These instruments can as well increase or reduce financial stability, enabling these fluctuations to put into question the overall financial innovation capacity to generate financial stability. For instance, the credit derivatives (one of the most invoked examples of financial innovation over the last years), allow

the banks to improve their image, similar to the process of "window dressing", but this arrangement could hide the reality (Stoica, 2010).

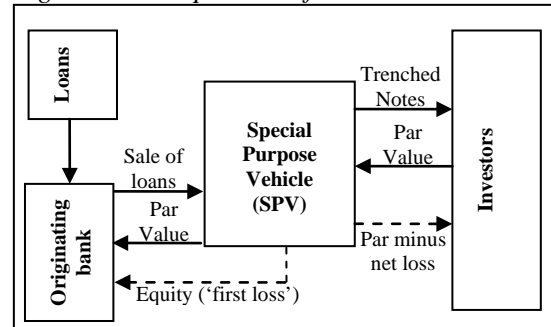
These considerations lead to a preliminary conclusion related to the implications of financial innovation on the stability of a modern financial system. It would seem that *the financial instruments that allow better dispersion of risk and that emphasize the role of markets in financial systems are also reducing the vulnerability of the financial systems to small shocks*, allowing a more effective management of these events. Hence, the capacity of financial systems to stabilize is enhanced by the financial innovation. On the other hand, *the financial innovation can lead to the exposure of financial systems to major and systemic shocks*, enabling the management of this type of shocks to be more difficult. An example in this respect may be represented by the systemic liquidity shock, generated by the decrease of the liquidity from the global financial markets, experienced in 2007. Thus, Rajan (2005, p. 16), for instance, concludes that: "[while] the financial system is more stable most of the time, we may also have the possibility of excessive instability in really bad times (as well as higher probability of such tail events)".

Thus, despite the fact that the derivative products have been created to help dissipate the credit risk of the issuers, they hide a number of risks that have facilitated the emergence and expansion of the financial crisis. This was due to, on the one hand, the lack of transparency and the extremely high complexity of these financial instruments, and, on the other hand, the fact that many of the financial entities involved in the transactions with such type of financial instruments didn't fully understood the risks associated with these transactions.

Basically, we can state that there was a tendency of proliferation of derivative instruments with a high degree of complexity and opacity, as well as of trading such instruments through certain financial entities equally opaque, such as the so-called Structured Investment Vehicles (SIV) (see Figure no 1). Thus, in a typical securitisation transaction where banks transfer the legal rights of the assets to an SPV, CDOs involve the transfer of a portfolio of loans

(collateralised loan obligation: CLO) or bonds (collateralised bond obligation: CBO) or a mixture of the two (CDO), and the tranching of the risk to attract investors. The use of tranching techniques enables the creation of highly structured types of credit risk profiles (Anderloni et al, 2009, p. 254).

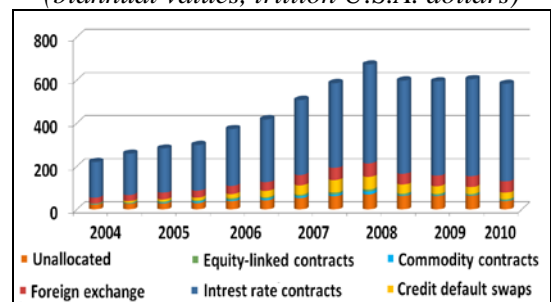
Figure 1 – The process of cash securitisation



Source: Mengle (2007)

Chart no. 1 highlights the proliferation of financial derivatives at the global level, the total value of the swap contracts on the interest rate and of the other types of derivatives reaching in 2008 the amount of 672 trillion dollars, equivalent to 11 times the global GDP, according to the estimations made by the Bank for International Settlements (2010). Just ten years previous, in 1998, the value of these financial derivatives was only 75 trillion dollars, equivalent to 2 ½ times the global GDP. Thus, the global derivatives market has simply exploded in the period 2007-2008, registering an annual increase of about 50%.

Chart 1 – The evolution of the total value of various types of financial derivatives issued in the period 1998 - 2010 at the global level (biannual values, trillion U.S.A. dollars)



Source: realised by the author based on the data provided by BIS

The British Financial Services Authority argued that the manner in which financial intermediaries have used the associated

financial entities, such as the SIVs, represented the main cause of the financial markets negative developments from the end of 2007. During that period, the liquidity of the securities market has mostly disappeared, after a period of several years during which there were significant increases in this market. The lack of liquidity has created major problems especially to certain types of financial derivatives, such as: collateralized debt obligations - CDOs or collateralized loan obligations – CLOs. In general, all the financial markets that have allowed the trading of such financial instruments have been hit hard by the financial crisis.

Despite the issues presented and the fact that the current financial crisis has seriously affected the international financial system, the opinion of the economists and government representatives present at the G20 meetings in 2009 and 2010 was that the financial markets will continue to be interconnected and with a strong tendency of globalization, while the financial innovation will continue to play a key role in the process of economic development (G20, 2009, p. 5). This vision is not only declarative, because the majority of the legislative changes made during this period within the G20 economies in order re-regulate the financial sector were taking into account these considerations. In this context, the president of the Financial Stability Council, Mario Draghi, stressed that regulations should not inhibit financial innovation, because it represents on the one hand the element that its needed in order provide to consumers diversified solutions of financing and on the other hand it's the element through which the lending process can be extended (Tonveronachi, 2010, p. 131).

Thus, we consider that the objectives of the re-regulation process should be represented by the strengthening of the financial system, without affecting the process of markets self-regulation and the process of financial innovation, because they represent some of the main advantages offered by this sector.

Also, we can say that ***the fragility of the financial systems is not given by the widespread use of innovative financial products, but rather by the excesses of the financial markets,*** excesses that the regulations in force and the existing

supervisory systems were not able or did not wanted to inhibit at the right time. Thus, we can consider that the current international financial system is based on correct and solid principles, which make unnecessary its entire redesigning and rather requires a readjustment of the supervision and regulatory framework in order for it to be able to cover the issues highlighted by the financial crisis, thereby increasing the stability of the entire international financial system.

5. Conclusions

The process of financial innovation is influencing directly two key components of the financial sector, namely: its stability and efficiency. If regarding the positive impact that the financial innovation has on the financial system efficiency there is a general consensus, regarding the financial innovation implications on the stability of the financial system, two visions have been crystallized. One of them argues that because the financial innovation enables risks to be dispersed optimally throughout the financial system, it increases the financial system stability. In contrast with this vision, the other view highlights that, because, in certain conditions, it also allows the accumulation and proliferation of risks, the financial innovation can have a deleterious impact on the financial system stability. A possible theory concerning the dual effect of financial innovation takes into account the nature of shocks, starting from the idea that on the one hand, in the case when minor shocks are manifesting, that are less correlated, the use of for example derivative instruments (with particular reference to those who spread risk) may increase the stability of the financial system and on the other hand, in the case when large systemic shocks are manifesting, accompanied by a reduction of the liquidity at the international level (as was the case in the summer of 2007), their use may increase the vulnerability of the financial system.

Under these conditions, *there is a need for caution, because the use of some new financial instruments on a larger scale or on a different background compared with the original one, without proper regulation and supervision, could generate instability.* Thus, the ideal policy approach is in our opinion to

find an appropriate balance between preserving safety and soundness of the system and allowing financial authorities and markets to perform their intended functions, by ensuring, firstly, that the necessary market-framing is in place and, secondly, by establishing a proper method for reviewing financial innovations.

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Knowledge - An Essential Element of Labour Development in the New Economy

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Abstract

Starting from the place and role of work, of social action in general we investigated their changing in contemporary society and especially in the New Economy. Starting from the changing of the society and moving to the changing to the economy, we designed our approach in a deductive way. We also sought to outline the changes in contemporary society, often characterized by the term Knowledge Society and, especially, in the economy having as background the industrial civilization and capitalist economic system.

Key words: Knowledge, Knowledge Economy, New Economy, labour

J.E.L. classification: D83, O15, J01

The complexity of modern economic environment has led some authors to advocate a new approach to the economy - based on a dynamically adaptive system. These economists argue that economies are also following the same basic laws of biological systems. These laws will manifest differently in economics and biology, but if we can improve their level of understanding, then we have the opportunity to get closer to the workings of markets and firms. The difference between the approach of the equilibrium in classical economics and in the New Economy is very suggestive presented by Ilya Prigogine: "Classical economics focuses on stability and balance. Today we observe the existence of instability, the fluctuations and evolutionary trends that occur at virtually all levels. We are facing a universe far more complex and more structured than we could ever imagine".

In this study we have taken as a reference the New Economy and/or global information economy, as the core of the Knowledge Society. We considered that such a society can not be build without a sustained creative effort. The world is changing rapidly and the economic, social and technical developments influence the life and action way. Globalization, technical and technological revolutions in the contemporary economy becomes what is called "Knowledge Economy", where new ways of organizing and governing the business work, requiring accelerated development skills, solid knowledge and a growing responsibility. Contemporary society becomes a society that teaches and that adapts to the new, and in this context, educational systems should seek the training of capable people who can develop their own skills in order to fully integrate into socio-cultural context in which they live.

The most comprehensive definition of the New Economy was developed by the World Bank and the Romanian Academy in the "Position Paper", presented at the 2002 World Bank Conference in Paris. According to this the *New Economy* is defined as *Knowledge-Based Economy* and have as important elements: producing knowledge through continuous innovation, knowledge dissemination to all members of society, intensive use of knowledge in all areas (and especially in technology and organization of human activities), education for this type of economy through education and training system based on innovation and research, the emergence of internationalized and dynamic markets.

Traditional economy is characterized by balance and stability, focusing on the use of traditional factors of production and comparative advantage having as main objectives economic growth, balance and stability, full employment and price stability. **New Economy** is seen as a complex,

dynamic and adaptive system, based on new inputs. New Economy uses e-commerce and other modern tools of e-development. It emphasizes on competitive advantage, multifunctional team, it has as favorite topics imbalance, instability, fluctuations, chaos, assuming the merger of the following phenomena: technological revolution (and rapid technological progress, particularly in regard to new information and communication technologies) and accelerating process of globalization (internationalization of part of the global economy and international financial environment changes).

New business models are based on the new world economic structure, new types of interaction and new technology in a global economic environment characterized by electronic commerce. In *pre-industrial society*, the workforce was employed primarily in the extractive industries and in areas close to nature. In contrast, *industrial society* is characterized by the dominance of the secondary sector, the workforce is employed in manufacturing industries, construction, transport, etc.

Industrial society gives way to the new economy, which is not industrial, but a postmodern economy, capitalist, postindustrial and informational. George Soros noted: "no system is perfect, so that neither capitalism nor communism are not perfect systems. Humanity is now trying to extract and preserve as many positive elements from each of the two systems".

The purpose of this economy will remain the human and his satisfaction of needs. If the human is out of the economy, it has no sense.

As Robert B. Reich considers an organization most important assets "are ingenious and talented people and not the property that can be bought or sold". Even if the past achievements have resulted in goods that could be sold (patents, copyrights, trademarks) and who "may claim a legal right of ownership", their future ideas can not be taken out of possession or sold.

Society as a whole is facing large challenges in terms of changing employment and work organization. New Economy is characterized by increased incorporation of knowledge into new products and services, increasing the importance of learning and

innovation, globalization and sustainable development.

The advance to the information society - knowledge based - is regarded worldwide as a necessary development to ensure sustainable development in the context of the "New Economy", which is based mainly on product and intellectual-intensive activities. Information society based on knowledge is more than the progress of information and communication technology and applications. It also integrates *social* dimension (impact on health care, solidarity and social protection, employment and labour market, continuing education and training etc.), *environmental* dimension (impact on resource use and environmental protection), *cultural* dimension (impact on conservation and development of national and international cultural heritage, promote cultural pluralism, the necessity of child protection, multimedia industry development and production of informational content) and *economic* dimension (to develop new paradigms of the digital economy and new economy based on knowledge, innovation, entrepreneurial culture and management, education of the citizen and consumer).

Unlike some other points of view regarding only the economic (the digital economy, Internet market) the knowledge society is not only the knowledge based economy. This is very important, crucial, essential and includes *the use and management of knowledge* existing in the form of technological and organizational knowledge and in the form of the production of new technology through innovation. This is a **New Economy** where innovation is the process of determining where intangible assets are more important than tangible ones. The knowledge society is much more because it provides an unprecedented dissemination of knowledge to all citizens by new means. Using mainly the Internet, electronic books and electronic methods of learning processes (e-learning), the knowledge based economy seeks to extend and deepen the scientific knowledge and truth about life. It is *the only way that will ensure a sustainable ecological society and will be a new stage in culture* (based on knowledge of culture involving all forms of knowledge, including artistic, literary knowledge etc).

Balance between knowledge and resources has changed now to the idea that knowledge has become perhaps the most important determinant of living standards - more important than land, tools and even work.

If ever the world has forged the riches of the earth's resources now humanity faces a new technological revolution through which traditional factories society gives way to "creative society" where the robots come to replace nearly all the labour by hand; the hand but in any case and nowhere, the brain thinking. This leads to the conclusion that the human spirit, creativity and thinking are a source of wealth, a source of development.

The traditional industrial accumulation can not be a progress, but a setback, even "waste of labour and investment", while computerization becomes an opportunity for production and for full use of creative capacity, of human labour. It is not only the full use of people as numbers (each to be employed) but also the full use of native or acquired skills of each.

Accelerating the pace of life (and in particular speeding up production due to automation) means that every minute of "dead time" cost much more than ever, considering the lost goods. The delay is becoming increasingly expensive. Information must be circulated as soon as possible. At the same time, rapid changes, by raising the number of new unexpected problems, increase the volume of information required. We need *more information* to cope with a new problem than for a problem that we solved by ten or a hundred times before.

Noting some exaggeration in the assessment of the roles of the different categories of work, Georgescu-Roegen stated: "Very likely we will soon find unpleasant consequences of what we, the scholars, tried to sow in people's minds. And the truth that awakens - on which it is now appropriate to focus - is that a world composed only of genius, even only of scientists or university doctors could not survive even one minute".

In the spirit of Roegen thoughts, in the real world, whether in the form of the knowledge society, it is an acute need of productive people: farmers, miners, carpenters, steel worker, drivers, vendors, etc. But all these activities require a different understanding, a different intellect which will enable their

successful employment in another kind of thinking, a different behavior. It is here a fundamental principle of social change, which anthropologists experts have made it so: any social revolution, any transition from one civilization to another requires a different type of intellect than those who initiated and led the previous turn.

If we refer only to work of plant grower and breeder we can say that it remains an extremely useful and productive work in Knowledge Society, too. It is taking place under conditions far different from that in agricultural civilization and/or of industrial civilization. Agricultural workers in economically advanced countries successfully use the scientific achievements in the field without being obliged to become creators of new theories in the field, without going into conceptual analysts' category as engineers, biotechnologists, geneticists.

We think that deserves attention some exaggerations in characterizing Knowledge Society which gives the impression that only *actual society is based on scientific knowledge*, that any kind of work requires general knowledge of high scientific level. In connection with this aspect of the problem, there are two categories of explanations.

The first is to clarify remarks made long ago, that always labour, unlike the animal's instinctual activities, was based on acquiring and applying knowledge of the time. Whatever the historical era in which it held, all kinds of work have assumed the unity of physical and intellectual side and have had consciousness.

The second statement we make is the fact that the knowledge society is based on a particular type of knowledge and a special kind of behavior. We believe that these specifications have been foreshadowed by specialists from the nineteenth century, having as background the strengthening economic and capitalist industrial civilization.

In the mid-nineteenth century, Horace Mann was an indication of the role of knowledge and ways of its transforming into national wealth (as stock) and in economic development and growth (as flow): "Our means of education are the important mechanism by which the 'raw material' of human nature can be transformed into inventors and discoverers, into skilled

artisans and farmers educated scientists and lawyers into founders of charitable institutions, into people able to develop ethical and theological sciences.”

W. Arthur Lewis – even if not very recent Nobel Prize laureate – determine and substantiate a “absorption effect of the masses”, meaning that they must have a minimum level of education in order to become intelligent consumers. An illiterate population - continues Lewis - can not appreciate the technological advances and can not benefit from them. Therefore, education is important not only as direct investment in production but as consumer good as well, to allow more people to enjoy the products and services and to better understand their utility.

In the New Economy, there is a shift of activities that require skills to handle and manage to the activities involving the development and application of knowledge. It speaks more and more about the *knowledge worker*.

Knowledge-based workers are those whose jobs require a good training, a high education level. Nowadays, knowledge and training academic standards for employees and managers are very high, much higher than in the past. Employees’ ability to develop strategic solutions, to apply specialized knowledge and collaborate in terms of contextual chaotic demands represents the new essential capability of the organizations. This new form of organization focuses on two coordinates. First, designing organizational structure that focuses on knowledge skills of employees on achieving company goals and second, shaping the culture and behavior of employees within the meaning of involvement and commitment required by the new type of organization.

With these few aspects of the approach of knowledge - scientific and experimental - I wanted to show both the continuous enhancement of its role in past centuries and especially its new features in the context of the Knowledge Society.

In conclusion, we can say that the information, knowledge becomes crucial driving force in the New Economy. In this context we are witnessing an expansion of the importance of human capital, intellectual and social environment and to enhance the role of creativity as key factors for long-term

sustainable development. Third Millennium organizations are learning organizations having the core competence the ability to coordinate all the powers.

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The New Labour Content and the Sustainable Development

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Abstract

The labour content, its structures and the finality of the social action were always in a permanent relation with the historical type of society and with the manner of producing goods and services. The humanity passing to the global economy, to a new manner of economic growth places in front of the specialists, in front of all the rational individuals the problem of explaining and understanding the new way of interaction between the labour and all the social actions with natural environment, with Earth Planet – unique and indivisible. It is a common understanding already that not only the human welfare but their existence itself is in direct relation with the protecting, non-aggressing of the natural indivisible resources. It is already necessary to globally take action in the sense described above because the postponement of this action with 20-30 years, as specialists say, could have disastrous effects for the humanity.

Key words: labour, new economy, knowledge, knowledge economy, sustainable development.

J.E.L. classification: J01, J24, Q01.

The new society type (knowledge economy, knowledge-based society) that exists already in the economic advanced countries seems to become global and to cover in various shapes all the world countries. Taking into account these new conditions, there was a new way of reporting and assessment of the labour content, social structures, its content and the finality of the social aggregated action. It is the global, planetary parameter.

The planetary natural environment, his 'health' became more important now comparing with the regional or national one and most of all comparing with the business

environment of one or other big corporation. All these organisations and institutional structures, all the people that take part and manage them have now a new challenge: "thinking globally and acting efficient locally".

In these new conditions, the actual type of economic growth, based on the industrial civilisation and the capitalism - that is dominating - is now passing a profound crisis period. It is no efficient response to the new challenges of the XXIth century and it is no adapting to the unique and indivisible character of the natural environment. The labour content and aggregate social actions are dominated by the slim importance of the economic advantage, of the profit. In the new global capital (financial) market - as Davin Karten says - "billions of monetary units can come in and come out from an economy to other in only few seconds". The money force becomes so powerful as some specialists, analysts "consider that those that own hot capitals become a phantom world government, a government that is irreversibly altering the concept of sovereign power of national state" (Karten, 1995, p.217).

We have here an important example of the manifestation of the evil side of the invisible hand of the market that removes the efficient production of welfare.

Some authors consider that atmospheric degradation problem catch too much importance, this problem being for the far future. Two opinions are important:

- first one - considering that the damages will be enormous if, in the near future, the urgent natural environment problems will be neglected;
- the second - considering that those problems could be solved in the future using the modern technology. Many followers of this second idea consider that the humanity has more difficult problems that need concern: wars, epidemics, drugs, unemployment, health, terrorism etc.

At the half of the last century the heart of economic theory was dominated by the economic growth, understood as an absolute increase of macroeconomic indicators. In the early '70s it was understood and demonstrated the idea that the traditional model of economic growth faces real energy problems, environmental, etc.

At the first United Nations Organisation Conference on the development, at Stockholm in 1972, it was used the term eco-development. The same year, The Roma Club Report, "The Limits of Growth", help the humanity to understand that the problems of the economic growth are inseparable from those of the natural environment, of the population growth, resource depletion etc. The expression of this new attitude was reflected in UN initiative to found The World Commission on Environment and Development. The first task was to develop studies and provide recommendations to find the concept for that kind of development which should ensure continued growth (and not its stop, as Roma Report suggested), but also the improvement of living conditions and human-environment relationship. Used in the early '80s at the International Conference on Environmental Conservation, the term sustainable development is launched with the publication of the Brundtland Report (named after the then Norwegian prime minister) of the 1987 World Commission on Environment suggestively titled "Our Common Future" (Our Common Future, 1987, p.4).

The report aims to find a development path to support human progress not only in a few places and for some years, but over the whole planet and the distant future. Sustainable development is that kind of development that meets the needs of the present without compromising the ability of future generations to meet their own.

The new concept resulted from the ample discussions on this event, sustainable development, requires a new attitude towards the natural environment, the changing relationship between man and nature in order to establish a new partnership between the two entities, the balance and harmony between them. The sustainable development can not be limited at economic growth only. It should combine harmoniously achieve economic growth, environmental protection,

social justice and democracy, new attitude toward labour.

Over the centuries, societies and individuals have followed two crucial goals, sometimes consistent, sometimes not. First, it is an economic objective: to survive and for this to find necessary goods, especially for food. Secondly is an ethical objective that through the reactions against the abuse of force and care to protect human life appeared in all civilisations but most of all in the actual one (Sauvy, 1978, pp.2).

To effectively linking the two general objectives it is necessary a concerted human action with a global effect determined by the local individuals actions. Thus, it takes "me" to work towards established, but "we" together to have a single purpose, overall progress.

Human life is a continuous sequence of individual actions. But individual action is by no means isolated. It represents a link in a chain of actions which together form an action on a higher level, pointing toward a distant goal. Every human action has two aspects. On the one hand, it is a partial action, framed by an action that aims at further implementation of a portion of the targets set in the perspective of a long battle action. On the other hand, in relation to its own actions pursued by the parties, it is in itself a whole.

The way to achieve great things must pass through the achievement of partial goals. A cathedral is nothing but a pile of stones fit together. But the only method for building a cathedral is to put one stone upon another. For the architect, entire project is the main objective. To bricklayer, it is the wall considered separately, and for its help, every stone taken part (Mises, 1966, p.44-46).

The individual may recognize a conflict between his behaviour as a decision maker and that particular behaviour, generalized to all individuals, that will lead to better results for him. But, by his inability to influence others, he will do his utmost best to handle any circumstance. If this course of action is for all individuals who interact, the overall result is pollution, environmental degradation, a result that ultimately, it is not wanted by anyone.

Of course, we can ask whether two (or many) can walk together without a previous understanding (Buchanan, 1997, p.41;173).

This went shoulder to shoulder would be possible under conditions in which every individual is aware of its effect on others and the environment, pollution of life, regarded as the ultimate value of its objective.

The fundamental social phenomenon which determines the objective of individual human action is labour division and the co-operation in labour. The experience teaches people that co-operation action is more efficient and productive than human individual action. The natural conditions that determinate the output increase for each labour unit used. These natural conditions are:

- innate inequality of people in their capacity to provide different kinds of work;
- the unequal distribution of the un-human production conditions;
- the success of approaches requires larger forces than those of a single man and requires the combined effort of many people. Sometimes it takes filing a workload that one person is unable, because of its capacity is too low. Other objectives could be achieved by a single individual, but the time he should dedicate to work would be so long that the result would be achieved only later, and would not compensate the effort. In both cases, only joint efforts are possible to achieve the goal. Society is much more than a temporary alliance concluded for a specific purpose and which is terminated once the target is achieved.

Amartya Sen consider that fundamental liberty of using our responsibilities depends on personal, social, environmental circumstances (Sen, 2004, p.347).

Knowledge society having in centre the human, gifted with a good stock of knowledge, competencies and skills according to the values arising from knowledge is able to find "sustainable" solutions for current issues. First it will change the role of raw materials in terms of their contribution to economic performance and thus will reduce the pressure on the environment and natural resources. Secondly the new technology will enable significant reductions in raw materials incorporated in their production and at the same time production processes will increasingly affect the environment less.

In the knowledge economy inventive and creative abilities of people will generate

economic productivity, lower the cost conditions in particular in areas such as energy, natural resources and environmental protection. Existing knowledge can lead to man's reconciliation with nature if the benefits of knowledge are used towards protecting nature, not only for economic purposes only. Science, technology, knowledge should not be used as weapons against nature, the problem is not having a winner and a loser, but to find a match between the two. The purpose that matters and should be taken into account is not the immediate, but the final one, Survival.

If, in general, so far, man has not understand or has not been able to maintain or replace the action for the recovery and purification carried out by nature, his action must now be directed towards behavioural changes and necessary actions for classification of human existence on earth real potential parameters, not the ideal or assumed.

Human work should be in perfect union with nature. Acting upon nature through work in order to obtain supplies necessary to meet various needs, human should not overpower nature, he must adjust to the demands imposed by it and to return to her.

It becomes an obvious reality that all countries are facing today the problem of environmental pollution. This process generalises and transforms into a problem of entire humanity. Process between man and nature must be one-way, which is transmitted from man to nature as a result of human action must not only be negative processes but also processes that aim to preserve and protect the environment. In this sense, the innovation in all the economic areas determines the transformation of human resources and their production capacity in conjunction with environmental needs of economic, social, environmental in which they operate.

Technological innovations are a means of ensuring human development due to the impact they have on economic growth as a result of the contribution of technology to increase productivity. Technological advances in agriculture, medicine, genetics, manufacturing and communications were important factors in human development gains achieved. Comparative studies suggest that technological changes have an important

contribution to development, as elements justifying the differences recorded between the growth rates of different countries. On the other hand, technological innovations are the expression of human creative potential; human development is an important means to support technological development. (Suciu, 2002, p.142).

Scientist Syent-Györgyi Albert stated that "We live in a new world for which man was not ready. Survival now depends on the extent to which he can adjust quickly and well in this world, reshape all his ideas, all his social, economic and political structures" (Syent-Györgyi , 2006, p.266).

Man by his action is able to solve all problems and we have still reason to fear that these problems have not way out. It is the man who created the technological diversity of these paradigms lead at the break and he will be the one who will be creating a new "wealth of nations" through knowledge.

The question about the limits for pollution is due to the labour and human. Until the invention of the internal combustion engine there was no question of restricting the freedom of individuals to disperse the various materials into the atmosphere. In '70s these limits were already necessary. Technological changes are not the only factor of this process, but its amplitude makes it the most important factor to accelerate breaking the balance between man and nature.

The solving of this problem requires co-ordination of technical dimension with the economic one within the general economic system. Economic and social development is driven by technology that creates not only risks, creates a means to control them.

The preoccupation for increasing economic efficiency neglected the costs supported by nature, in all European Union countries, including Romania. That is why we have to take into consideration the costs for nature renewing, for environment protection and development in the new economic efficiency definition. The last one takes economic, social, ecological efficiency dimensions because the society can not develop without a perfect harmony with the nature.

As we shown before, sustainable development merge the interests of protecting natural environment and increase of population with development strategies

(national, regional, global) having as final result a relative and dynamic equilibrium between economic growth, cultural development, science and technology progress, natural environment protection.

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Consumer Behavior Determined by Social Classes

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Abstract

Information on consumer behavior is essential in trade policy decision-making process.

The study of consumer behavior has concerned different subjects: psychology, sociology, economy. In a marketing approach knowledge of consumer behavior is not an end in itself, but only a tool, a means by which business decisions are adapted to the consumer expectations.

Key words: consumers, marketers, social classes,

J.E.L. classification: M31

1. Introduction

Marketing aims to meet the needs and wishes of consumers and satisfy them. But consumer knowledge is not a simple thing. It is possible that they express their needs and desires and act in a totally opposite way; sometimes may not even know his real motivation which drives them to buy, or to react to factors modifying their purchasing decisions in the last minute.

Marketers have the task of analyzing desires, the perception, preferences and purchasing behavior of consumers concerned. This analysis will allow the creation of products, with new features, price formation, the choice of distributions channels, development of advertising messages and other elements of the marketing mix.

2. The analysis of the consumer behavior

One of the most popular definition of consumer behavior is given by the American Marketing Association: "a dynamic interaction on the impression and perception,

behavior and natural events policy, which directs human beings changes in their own lives." ("American Marketing Association", in BLYTHE J.-work.cit.p.10-11.)

A more concise definition belongs Engel J.F, Kollat D.T and R.D. Blackwell: "all acts of individuals directly related to the purchase of good and services, which includes all decision-making process that precedes and determines the acts." (Engel J.F., Kollat D.T., Blackwell R.D.-Consumer Behavior, Holt, Rinehart and Winstone, Inc. New York, 1968, work cit DOBRE, C. Comportamentul consumatorului, Orizonturi universitare Publishing, Timisoara, 2000, p.14.)

Consumer behavior refers to "mental decisions and actions of people involved, primarily in purchasing goods and services." (Ristea, Ana-Lucia (coordinator) –work.cit. p.174)

Consumer behavior can be seen in the narrow sense- about goods and services in a broad sense- in the fields other than business: faithful behavior, voter behavior, the behavior of union members .

Factors that determine consumer behavior can be grouped into: internal factors (individual explanatory variables) and external factors(sociological variables).

In our view, we chose to talk about social classes and their implication in determining consumer behavior and training. Social classes are part of the external factors.

„Social classes. These are defined as groups of persons, who hold a position close in the company, in terms of behavior and opinions as a powerful differentiating factor in the bosom of society.

Social classes can not be sighted by a single indicator, but must rely on many factors such as: income, occupation, education level, type of dwelling, how leisure, etc.

Typology of the best known is the one proposed by Warner, which distinguishes six classes:

- upper/upper;
- upper/lower;
- middle/upper;
- middle/lower;
- lower/upper;
- lower/lower.

For example, in developed countries, upper class is the lowest (0.5% of the population) and consists of the old family (at least three generations in the same class) whose places of residence are international. It is, for example, the big industrialist or bankers. Their consumption structure differs significantly from that of other classes. In fact, they consume fewer goods and use in a decisive measure to the market. This is because goods are passed from one generation to another.

Warner proposed classifications is less used in some countries such as France, Spain, Italy, where people prefer to distinguish four classes:

- A, class of the rich people which represents up to 15% of the population;
- B, 30% upper middle class;
- C, 40% lower middle class;
- D, modest grade of 15%.

Another classification takes into account socio-professional categories: farmers, working, their own land, artisans, merchants and business owners professions educations, officials workers, pensioners, other people without employment.

Distinction in social classes is an essential criterion of market segmentation, but two points should be made:

- lack of opportunities for measurement, income is often the only criterion used to define membership in a class, which can lead to masking the real membership;
- there is a very clear distinction between a class and another, all individuals being placed on the same axis, but some elements are significantly changed" (Meghisan Gh, Nistorescu T, Adrian Serban Comanescu, Bazele, Marketingului, Universitaria Publishing, Craiova, 2008, work cit p 95-97)

3. Conclusions

Information on consumer behavior is essential in trade policy decision-making process.

The study of consumer behavior has concerned different subjects: psychology, sociology, economics etc.

In an approach placing marketing, knowledge of the consumer's behavior is not an end in itself but only a tool, a means by which business decisions are adapted to consumer expectations so much.

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A Relationship between the Degree of Search and Evolution of Assets

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Abstract

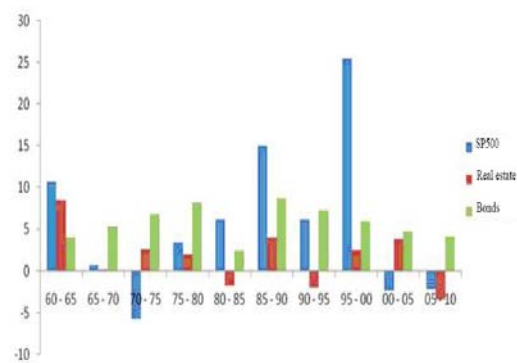
In the first part of the article is described the evolution of the major financial assets in recent years. Further are analyzed the "most wanted" financial asset classes in 2010 with a study done on Google Trends. At the end of the presentation is evaluated the evolution of these assets in 2011, is this way we are trying to make a connection with their search volumes.

Key words: optimization; investing; asset classes; evolution.

J.E.L. classification: G01, G10, G11

Note that U.S. dollar can buy now only 10% of goods and services that could be purchased in 1950. In what is better to preserve capital? To find an answer, we follow the benchmark of three asset classes: stocks, bonds and real estate. We analyzed performance in real terms, given the SP500 index, the average price of new houses and U.S. government securities with a maturity of 10 years. In the chart below we can see the performance (adjusted for inflation) in each asset class year period from 1960 to 2010.

Figure 2: performance of financial assets between 1960 and 2010

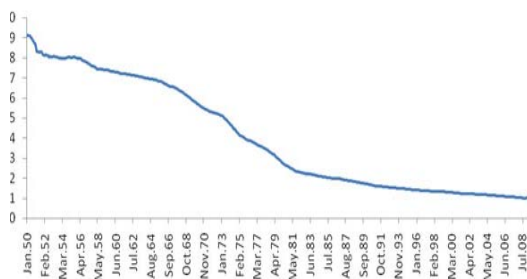


source: www.primet.ro

1. Where do we put our money?

Many times, when the investments have a reduced time horizon, the effect of inflation is neglected and negligible. If the investment is made in order to preserve the capital so that it will be used at some point in future (as if saving for retirement), the effect of inflation becomes evident. The graph below tracks the real value of a dollar, cash retained from 1950 to 2010.

Figure1: Evolution of a US dollar kept cash between 1950 -2010



source: www.primet.ro

Table1: performance of financial assets between 1960 and 2010

5 years	S&P500 (%)	Real estate (%)	Bond (%)
1960 - 1964	10,79	8,5	4,05
1965 - 1969	0,68	0,15	5,35
1970 - 1974	-5,70	2,64	6,82
1975 - 1979	3,41	1,96	8,20

1980 - 1984	6,21	-1,71	2,43
1985 - 1989	15,05	4,02	8,76
1990 - 1994	6,15	-1,95	7,27
1995 - 1999	25,48	2,51	6,00
2000 - 2004	-2,41	3,86	4,74
2005 - 2009	-2,21	-3,35	4,10
1960 - 2009	7.1	1.34	4.78

source: www.primet.ro

Remarks:

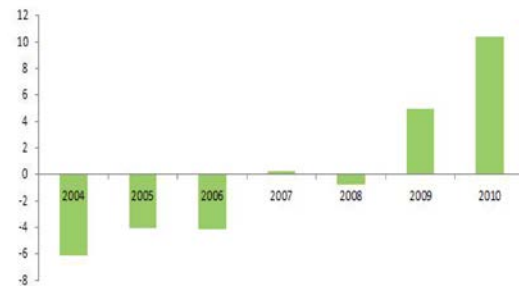
1. Investing in S&P500 had the highest annualized average return (adjusted for inflation), followed by investment in bonds, and only then the real estate, which is consistent with value-added and with characteristic of each investment risk.
2. Return of the real estate investment is minimal because they do not produce added value, but the performance is less than inflation due to the constant rise in demand.
3. Due to the intermediary costs (state or bank) and the risk premium, return on bonds is with 33% lower than of the return of the stocks.

2. The most "wanted" asset classes in 2010 and their yields.

Until recently, gold and oil were less active demand by individual investors. Bankruptcy of the Lehman Brothers and the ensuing economic instability has created the need to invest in something tangible, such these assets are returned as the attention of investors. Investors' interest in different asset classes was very difficult to quantify or measure. With the advent and widespread adoption of search engines, such estimates have become much easier. In this case, a good indicator of investor interest would be the volume of searches performed on Google for that asset class. The tool used for this study is Google Trends (<http://www.google.com/trends>). There were taken into account the search volumes for "gold ", "oil", "stock" and then the evolution of the share of each word in 2004-2010.

Gold: Of the current analysis, most wanted was gold. Its share in total search volume has increased over the 2004-2010 average, something that could be explained and presented it an attractive yield (25% in 2010).

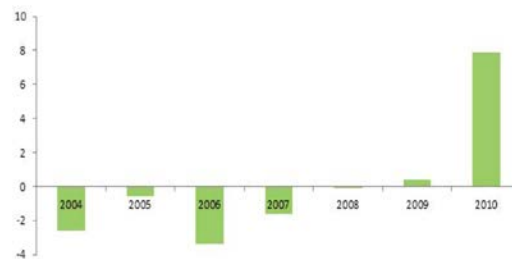
Figure 3: share of searches of the word 'golden' in 2004-2010.



Source: www.primet.ro

Oil: Although oil yield in 2010 is very close to 0, the share of search volume has increased significantly compared with the average of the years 2004-2010. It is possible that this will be significantly materialized by a good performance in 2011.

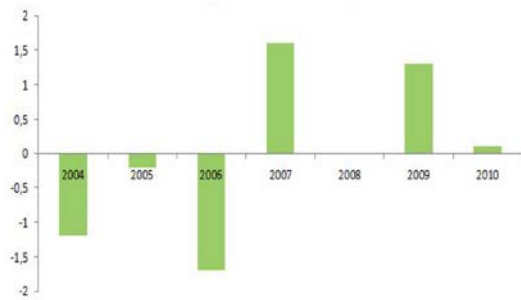
Figure 4: share of searches of the word 'oil' in 2004-2010



Source: www.primet.ro

Stock: If in 2009 the interest for stocks came back, the year 2010 did not indicate a significant appreciation of investment interest for this asset class. The about 15% yield in 2010 (SP500) is not evidenced too much .

Figure 5: share of searches of the word 'stock' in 2004-2010



Source : www.primet.ro

Conclusion: Whatever the asset, or combination of assets chosen, it should be noted that a simple Google search can greatly assist us in taking the decision.

3. Evolution of assets in 2011

Gold: considered a "reserve asset", to which investors withdraw to protect themselves from either a high inflation or financial market turbulence. Thus, the gold price fluctuation is mainly given by investor's sentiment data from what is happening in the world economy.

Evolution: yield + 1%
03.01.2011, P₁=1.414; 22.03.2011, P₂=1.424;

Figure 6: Gold price evolution in 2011

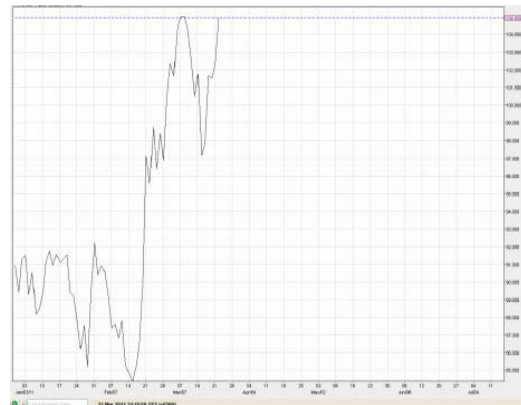


Source: www.forexfactory.com

Oil:

Evolution: yield +14 %
03.01.2011 Price: 91.520;
22.03.2011 Price 104.290;

Figure 7: Oil price evolution in 2011

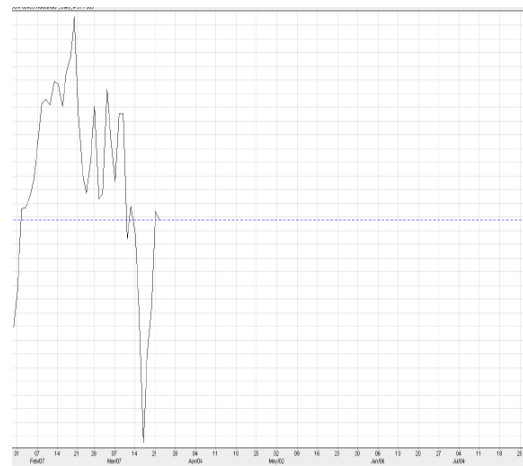


Source: www.forexfactory.com

Stocks:

Evolution: yield +1.65 %
03.01.2011, Price: 11.826;
22.03.2011, Price 12.022;

Figure 8: Dow Jones price evolution in 2011



Source : www.forexfactory.com

4. Conclusions

It may be established a directly proportional relationship between the amount of an asset search and its evolution (for oil and stocks). However, in an investment, is better to keep track of the account and politico-economic context (for oil and gold).

5. Acknowledgment

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The Management of the Translation Services

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Abstract

Managing translation services' have become buzz words in translating across cultures. Nowadays, translation agencies are faced with numberless problems. The usual assumption is that, unless a specific purpose is specified by the customer, a translation is provided for information purposes only. The translator is a negotiator and a mediator between two cultural systems. S/he attempts to naturalize a different culture, to make it conform to what the target readers are accustomed to.

Key words: *intercultural, competence, negotiator, mediator, gap*

J.E.L. classification: F50, F51, D83

It is common knowledge that the ability to speak a foreign language immediately implies the ability to translate into that language. Thus, the translator needs to have the command of both the SL (source language) and the TL (target language). The word 'translation' may refer to:

- both the translating process and its product
- the product of the process of translation (the translated text)
- the process, the activity performed by the translator

It is an established fact that translation as a profession has become a cost-led industry though it should not be viewed as such. Nowadays there are numberless companies dedicated to the provision of the translation services. Generally, such companies have their own staff translators that have been assessed and tested to ensure that they have appropriate skills for this purpose.

Seen in another light, translation is a craft, a science that implies a creative process. If one regards translation as an art, things begin to change because creation implies effort, a struggle to find the right words, to obtain the atmosphere desired and to share interest.

There are different opinions regarding the (un)translatability of a text. Translators put forward two extreme views: *either everything can be translated without loss or that nothing can be translated without loss*, as in the Italian expression *traduttore/traditore*/'translator/traitor.

In Peter Newmark's view (1995: 6), "everything without exception is translatable; the translator cannot afford the luxury of saying that something cannot be translated". Following Newmark's principle, the translator will understand that every problem has a solution. The translator should attempt somehow to create the same atmosphere so that the TT (target text) may have the same impact upon the TL (target language) speakers as the ST (source text) has upon the SL (source language) speakers. Moreover, P. Newmark (1995: 6) emphasizes that "translation has its own excitement, its own interest. A satisfactory translation is always possible, but a good translator is never satisfied with it. It can usually be improved (...). A translator is always trying to extend his knowledge and improve his means of expression".

1. On defining Culture

Culture is an important factor in the translation process. Translators should be aware of the cultural element because it is central to a theory of translation. We share Susan Bassnett's opinion (1991) that culture becomes the operational unit of translation.

The term 'culture' is very hard to define. Fons Trompenaars and Charles Hampden-Turner (qtd. in Katan 2004: 25) have been studying the ways culture affects business. They admit that:

"In twenty years, we have seldom encountered two or more groups or individuals with identical suggestions regarding the concept of culture". Moreover, they put forward a model of culture comprising three rings or 'layers of culture': the outer layer (artefacts and products), the middle layer (norms and values) and the core (basic assumptions about life that have been handed down unconsciously from generation to generation). This model of culture comes from some of the major influences on training in culture for the business community.

The English anthropologist Edward Barnett Tylor (qtd. in Katan 2004: 25) formulated one of the oldest and most quoted definitions of culture: "Culture is that complex whole which includes knowledge, belief, art, morals, law, customs and any other capabilities and habits acquired by man as a member of society".

Compiling a list of 164 definitions, the American anthropologists Alfred Louis Kroeber and Clyde Kluckhohn (qtd. in Katan 2004: 25) formulated their own definition as follows:

Culture consists of patterns, explicit and implicit of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artefacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values. Culture systems may, on the one hand, be considered as products of action, on the other hand, as conditioning elements of future action.

According to Katan, culture is not visible as a product. It is internal, collective and acquired rather than learned. Katan (2004: 26) also mentions that the word 'culture' derives from the Latin words *cultus* ('cultivation') and *colere* ('to till'). Moreover, he mentions that as seeds continually absorb elements from the land to ensure their development, so do people. They absorb vital elements from their environment

which influence their development within the human system.

2. The Translator as a Cultural Mediator and Negotiator

The words 'culture' and 'translation' are being increasingly linked. As mentioned above, the cultural horizon is a general requirement for a translator involved in the translating process. This is a problem of great complexity if we consider that the negotiators of international economic affairs act in different cultural environments.

Translation is the exploration of a gap between cultures. The translator will mediate between two language cultures in converting LC1 (language culture) into LC2. The translator's cultural competence and knowledge is very important as s/he does not simply search for an "equivalent". His/her intention is to express the same reality through LC2.

The concept of cultural mediator was introduced by George Steiner (qtd. in Katan 2004:16) who believed that "the translator is a bilingual mediating agent between monolingual communication participants in two different language communities". The translator is also a negotiator, that is to say, he has to make choices according to the situation of translation. The focus is on effective communication and understanding between the service provider and client while respecting the client's cultural and language needs.

If translators do not include culture as part of the translating process, they will be classified as mere transcribers, copiers, stuffers and sealers. As Ronald Taft (1981: 53) puts it:

A cultural mediator is a person who facilitates communication, understanding, and action between persons or groups who differ with respect to language and culture. The role of the mediator is performed by interpreting the expressions, intentions, perceptions, and expectations of each cultural group to the other, that is, by establishing and balancing the communication between them. In order to serve as a link in this sense, the mediator must be able to participate to some extent in

both cultures. Thus a mediator must be to a certain extent bicultural.

In the chapter entitled *The Translator as Mediator*, Basil Hatim and Ian Mason (1990: 128, 223-24) discuss the following:

The translator is first and foremost a mediator between two parties for whom mutual communication might otherwise be problematic and this is true of the translator of patents, contracts, verse or fiction just as much as it is of the simultaneous interpreter, who can be seen to be mediating in a very direct way.

According to the authors, there are two specific ways in which a translator is a mediator:

- bi-cultural vision

Hatim and Mason deem that the translator's role is to identify and resolve the discrepancy between sign and value across cultures.

- critical reader

They also argue that the translator is a 'privileged reader' of the SLT (source language text). In other words, s/he will have the opportunity to read the text carefully before translating.

Mary Snell-Hornby (qtd. in Katan 2004: 21) describes the translator as a cross-cultural specialist. She assumes that the translation process can no longer be regarded as being between two languages but between two cultures implying 'cross-cultural transfer'.

Lance Hewson and Jacky Martin (1991: 133-155) view the "Translation Operator as a Cultural Operator. Their aim is to "underline once again the [Translator Operator's] social-cultural identity as being one of the many factors which account for translation being what it is"

Hatim and Mason (1990: 11) sustain the same idea: "inevitably we feed our own beliefs, knowledge, attitudes and so on into our processing of texts, so that any translation will, to some extent, reflect the translator's own mental and cultural outlook, despite the best of impartial intentions"

With regard to the competencies a mediator must possess in both cultures, Ronald Taft (1981: 73) mentions the following:

- Knowledge about society: history, traditions, customs;
- Communication Skills: written, spoken, non-verbal.

- Technical skills: the skills required by the mediator's status, e.g. computer literacy
- Social skills: knowledge of rules that govern social relations in society and emotional competence, e.g. the appropriate level of self-control

The most important factors of translation are intention, meaning, tone, the impact, the texture and function of the translated text (in our case the play translated to be read or to be acted), the text as a unit. We share Peter Newmark's opinion that "there is continuous tension between the maximal unit - the text and the minimal unit - the word". The translator has to make his or her own choices as to which meaning(s) he has to transfer depending on what he/she considers to be the writer's intentions.

As Dollerup (2006: 57) puts it, "translators are not perfect (...). However, in the real world, the sending side involves not only an individual author, but frequently also a client who also has some reasons for having a translation done".

In other words, the translator's competence is proved by his/her ability to analyse, compare and convert two cultural systems, at the same time respecting both the conflicting forces within one LC (language culture), and the interplay of these forces as the language cultures are brought into contact.

The translator's cultural competence and knowledge is very important because s/he does not simply search for an 'equivalent'. Lack of knowledge will affect the translator's competence. The cultural elements are considered to be the ground of a potential distinction, difference and tension. Basically, the text is situated in the middle and represents the centre, the main preoccupation of all factors involved. What a translator should do is to establish a balance between all of them or to make them equivalent. Equivalence in translation and absolute synonymy may never be achieved not even among words belonging to the same language, not to speak of those belonging to different languages.

To conclude, the mediator has to be flexible in switching his cultural orientation. Hence, a cultural mediator will have developed a high degree of intercultural sensitivity, and will have reached the level of 'contextual evaluation'.

3. The Customer-Service Provider Relationship

In the translating process, quality gaps may arise unless there is clear specification of the customer's needs. There may be instances in which gaps may arise between what the customer expects and the project manager's understanding of what the customer desires. In this case, the communicative purpose is misunderstood in the process of translation. The customer may expect an edited translation whereas the project manager deems that the translation has a mere informational purpose. There are other instances in which the project manager does not clearly specify what is required. Quality gaps may also arise when the translation is longer than expected. In this situation, the delivered translation does not correspond to what was specified by the customer.

As an outcome of these situations, the main quality objectives in translation should be mentioned:

- to understand the customer requirements so that no quality gaps arise and the customer requirements are met.
- to provide the resources to meet the requirements of the work.
- to provide the appropriate linguistic skills and experience.
- to provide an accurate translation.
- to use terminology appropriate for the intended use.

It is an established fact that conceptual terms are becoming easier to translate. For instance, translating new technology across cultures will certainly not create problem. At the technical level, communication is explicit, and ideas are consciously conveyed. It is the dictionary denotative meaning that needs to be translated. This form of culture is indeed now global, with business and industry working to the same standards throughout the world.

At the technical level, negotiation of meaning is reduced to the minimum. In this respect, Peter Newmark (1988: 6) states that: "No language, no culture is so 'primitive' that it cannot embrace the terms of, say, computer technology". Thus, at the technical level little or no loss of meaning may occur due to the fact that communication at this

level has no extra-linguistic context. That is to say, the text is the authority, and the message is clearly conveyed. Anthony Pym (2000: 189) calls translation at this level NANS or rather "no-addition-no-subtraction". It is also at this level that the business community is most aware. A translator without the technical language skills will clearly not be effective. In these cases, a successful translator will not only need to have a native command of both languages but will also need to know where to find technical information efficiently: from dictionaries, encyclopaedias, glossaries, thesauruses, on paper or on the Internet. The Internet has become a useful tool in providing on-line translation assistance in a variety of forms.

The fact should be mentioned that understanding the meaning of the ST is crucial in the translating process. Federica Scarpa's (qtd. in Katan 2004: 82) surveys on specialized translation treats topics of polysemy, (partial) synonymy and concludes with the following warning: "There is then, the constant danger that a translator will confuse the specialized use of a word with the more common". It is generally known that software programs make these translations as good as the native human translator-and require only minimum post editing.

Technical concepts, such as satellite communications technology, have to be discussed, negotiated and implemented by people working within their contexts of culture. People, as representatives of their culture, do things in different ways, and usually out-of-awareness. Newmark (1988: 156), in fact, cautions about "the possible cultural and professional differences between your readership and the original one", and explains that these will need to be taken into account when approaching a technical text.

In the discussion about the provision of translating services to the customer it is best to assume that the latter has little knowledge about the requirements. The customer should not be treated in a patronizing manner but be offered advice and guidance. The customer may be informed about translation needs with a degree of diplomacy. As a rule, the majority of customers are informed but a customer education is always needed. It is an established fact that translation has become a

cost-led business. A number of situations may occur regarding the service provider-customer relationship.

One of these problems may be that the customer has little knowledge about what is involved in the provision of the end product. The situations in which a customer may verify the quality of a translation are rare. What the customer should be informed about is that the least expensive translation is not likely to be the best quality translation.

The customer-service provider relationship should be based on communication and translation needs should be an integral part of it. Nonetheless, the customers are exposed to some risks. They are in danger of accepting lower prices from less qualified translators. This situation may result in the fact that the customers may not use the product appropriately which leads them to additional costs.

There are, however, typical misconceptions regarding the customers' expectations:

- The translator can work in numberless languages
- The translator is able to tackle all subjects
- The translator is available at any time
- Checking the translation takes no time
- The translator may accept any reward
- The translator can produce a perfect translation

The fact must be mentioned that the perfect translation is a chimera. The notion of perfect translation presupposes that both the ST and the TT are comparable in all respects. Moreover, it is presumed that both the source and the target cultures have identical cultural and economic systems. Since languages are not stable, one expression will not always mean the same. Therefore, the notion of perfect translation is tackled by people who do not know anything about translation.

As a conclusion, translators should not be seen as mere photocopiers or walking dictionaries but perceived as agents in creating understanding between people from different cultures. This implies the fact that cultural mediators need to be aware of their cultural identity and understand how their own culture influence perception.

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New Directions for Businesses in Recession and Recovery

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Abstract

The impact of Internet services in the economic field is huge and has generated new forms of performing typical activities in the new e-way: e-commerce, e-banking, and so on. The paper focuses on the impact of Internet, more generally, of ICT (information and communication technology) facilities, upon the economic activity. The aim of this paper is to highlight the limitation and opportunity of electronic environment analyzing some important elements that can stimulate the economy at community level, national level and mostly on the global level too.

Key words: e-business, electronic environment, information society

J.E.L. classification: L81, M21

1. Introduction

According to Oviatt and McDougall, in 1994, it is recognized that many firms are „born global” and initiate international business from inception or shortly thereafter. They have been influenced by both globalization and the impact of new ICT technologies.

Clearly, new Information Communication Technologies (ICT) and the Internet, in particular are providing firms with new ways to conduct business and to exchange and communicate ideas and information [1].

These technologies enable such firms to improve their efficiency and develop new ways to co-ordinate their activities often in an international context [2]. Many authors contend that the Internet offers firms an

invaluable resource for use in internationalization activities, as at a stroke they may have global reach via a website [3].

As Kobrin [4] comments, “cyberspace and e-commerce are intrinsically international”. Web access is available to all firms regardless of size, offering benefits which include: the reduced importance of economies of scale, lower marketing communication costs, greater price standardization, reduced information float time, temporal asynchronicity, increased contact between buyers and sellers, and changes in intermediary relationships. Eastern Europe can take advantage of Internet, more than other part of Europe did. The Internet offers a new means of maintaining and developing relationships with clients, channel partners, suppliers and network partners[5].

While the economic slowdown is still affecting the most markets, there is evidence so far that the online retail market has remained steady due mostly to the lower prices and convenience offered via e-commerce. According to Emerging Europe Monitoring the spending on online advertising also continues to grow in the face of economic uncertainty and in 2010 online advertising should account for around 13% of overall ad spending worldwide.

The primary objectives should be to reduce risks identified in electronic environment, to enhance the trust in this e-markets, to improve the tradability of money market instruments, and generally to ensure compliance with world best practices. The intention is that the above objectives will be achieved by the creation of an advanced technical infrastructure, and a integrated legislative market which will enable the e-business process.

2. Features for resourceful online, e-business and e-commerce

The world e-commerce is now in the adult period, of internal stability. It has overcome a few major crises (the unjustifiable collapse of the dotcom unwarranted multi-sites and the multiannual crises arising from losses/thefts of millions of complete data cards, now a global economic crisis), it is trying to change its appearance by adopting some new universal standards (from 3D Secure, Verified by Visa MasterCard Secure Code up to SmartCards and others) and tends towards efficiency and normality.

Also on the 13th of November 2006, the National Association for E-commerce (ANEC) was founded, whose purpose is to promote and develop e-commerce industry in Romania. Following the dialogue with the representatives of this new industry, ANEC already comes to their support with 5 main projects aimed at:

- helping newly established virtual stores to overcome the initial problems, by obtaining special conditions from the collaborators,

- to make the benefits of online shopping known to the general public and to present the recommended steps in Internet shopping under safe and comfortable conditions,

- to rate e-commerce sites, depending on meeting certain standards, in order to increase the confidence of the purchasers in online businesses,

- to provide both online stores and end users a tool for real time monitoring and reporting of online fraud/complaints and to start a program

- to educate the market, to inform the end consumers in order to increase the usage of online electronic payment.

To develop the e-business you need high-quality information society services. The definition of information society services already exists within the EU law (ANNEX 1: Directive 98/34/EC and Directive 98/84/EC). This definition covers any service normally provided for remuneration, at a distance, through electronic equipment, of data processing (including digital compression) and data storage at the individual request of the service recipient.

The information society services cover a wide range of economic activities carried out online. These activities are able to, in particular, consist of selling goods online. Activities such as delivering goods as such or providing off-line services are not covered. The information society services are not only restricted to services which result in online contracts, but, to the extent they represent an economic activity, they extend to services not paid for by those who receive them, such as services providing online information or commercial communications or those providing data search, access and retrieval tools.

These directives only apply within the European Union, to the service providers established here and cover all services of the information society: services provided between businesses, services between enterprises and consumers, services provided free of charge to consumers which are financed, for example, by revenues from advertising services enabling on-line electronic transactions (interactive Telesales of goods, online shopping). This Directive also applies to other activities, such as: online newspapers, online databases, online financial services, online professional services (law, medicine, accounting, real estate agencies), online entertainment, marketing and direct online advertising and Internet access services.

The information society service providers are subject to the national legislation of the state in which they reside. The place of establishment means the place where an economic activity is actually performed, using stable headquarters, on an indefinite time period. Using technical means and technologies necessary for providing service for other areas does not in itself constitute provider's headquarters.

The obligation of following a procedure for opening a website, with the exception of sites regarding regularizing activities (ex. e-banking services) is contrary to the directive. Member States are also prohibited from imposing regime of prior authorization concerning the information society services, other than those applicable to similar services provided in other ways.

Member States should legislate the providers' compulsoriness to enable an easy, direct and permanent access of the service

recipients and competent authorities, at least to the following information: provider's name, geographic address where the service provider resides; service provider details, including the electronic mail address where he can be quickly contacted, if the service provider is registered in a trade registry or similar public register, the trade registry where the service provider is registered and the registration number, or the equivalent identification means in that registry; if the activity is subject to an authorization regime, the details of the relevant supervisory authority. The Directive obliges Member States to remove any prohibition or restriction on the use of electronic contracts.

Member States shall ensure that in case of a disagreement between an information society service provider and the recipient of the service, their legislation does not prevent the use of extrajudicial dispute settlement mechanisms, available within internal law, including that through appropriate electronic means.

Yet, the Directive provides three types of exceptions:

1) Member States may adopt measures limiting the free movement of services originating from another Member State for reasons relating to the protection of minors, health or consumer's protection.

2) Certain defence activities, such as defence in front of justice;

3) The country of origin clause does not apply to specific areas (ex. copyright rights);

The attention given to the on line services, mostly from the part of the banks but from all of the other companies too, is being determined by the innovative effects that are being felt due to the expand of information society and the internet and also of the electronic networks on the increase of receipts for those who enlarge the economic activities on the internet. For examples we can highlight here the economical impact of Facebook in this information society.

If in Western Europe Facebook has a great impact for economy, in Romania we are at the beginning of the road. We do not have enough Romanian online shops on Facebook to be able for measuring profitability. There are opinions according to which Facebook is much more suitable to promote or trade just some products not all types of products or services. The more exotic they are, more

passionate, more interesting, they will better sell on this new environment. This is supported by information society too. On the other side, in countries that have a great number of users with access to the internet, the way the normal online commerce is well developed, could be a reason why online shops migrated on Facebook have been more successful than in Romania. As any environment, newly won territory by the users, Facebook still has a long way until it becomes a favourite environment for shopping. Users who enter Facebook are more open to activities within entertainment than activities linked to the electronic commerce. But this thing is evolving and as Facebook becomes the second internet it will surely become an adequate environment for shopping.

Facebook is a social, friendly environment where the actions of the users are being interpreted mostly towards entertainment, personal space, relationships with friends. If there are products that can improve these relationships, products discussed inside the social groups or products that raise controversies, then they will be better sold on the Facebook. The good and tasteless, grey products will be sold much harder, at least at this moment of time. When we will use Facebook as a main environment of accessing the internet, then the array of products sold will enlarge and will become as large as the unsocial internet.

But there is an old saying in commerce that goes like this: "you must be present there where your clients are". If almost 3 millions Romanians have accounts on Facebook this means that traders must be there too, at least to try that the brand they represent be present for the users of the Facebook. We think that this moment of the Internet development and the use of Facebook the online shops will have in the near futures high turnovers by using this kind of commerce, the Facebook commerce.

The online environment is evolving and the coming year announces the increase of its impact. For the year 2011, specialists in online marketing anticipate the increase of the role of public opinion, of socializing networks, the necessity of developing sites dedicated to the intelligent phones as well as the appearance of motors of visual search.

The online commerce is changing rapidly,

and this makes the consumers have great expectations too. The adopting of the newest technologies can re boost business and of course increase sells. It is obvious that we enter a new era where the internet makes the rules. Now, at the beginning of 2011 most specialists in online business make an assessment of the efficiency of techniques used last year and come with forecast for the following year.

Adam Audette sees as general tendency for 2011 the change of the internet in a deal frontier where price is the king and the comparison of the offers is instantaneous. The consumer is mainly preoccupied by the price of the product or the service. No longer devoted to the brand, but to the best price! Today the online consumers hunt for discounts, vouchers and free transport. ComScore shows us that the third quarter of 2010 as compared to the third quarter of 2008 the sells of non brand products or the generic ones have increased in a percentage of 10-12%.

Those who want to be in front next year must follow the advice of Ann Donnelly and plan their whole activity in time. Also they must make sure that the site totally allows them to add, edit and improve the pages with novelties, special offers, and advertisements any moment. To have headlines and unique descriptions of the web pages in order to ease the SEO activity and to be present in socializing networks. To make sure that the searching items access the complete content of the sites, that they use key words in most relevant places and that the download speed is high. Maybe most important is that they use the language of the consumers [6].

These tendencies come into being within the international context of the economic development, mostly of the appearance of the developing economies. According to the studies of trendwatching.com cited in marketingcharts.com the developing economies become a continuous source of innovation with the consumers, an attitude that is more and more developing at a global scale.

The growing middle class that has been formed in these countries has special needs and high demands and this leads to a continuous innovation of services and products. The great entrepreneurs direct their attention towards these markets and tally to

their demands.

Last year 2010 we applied a questioner in our town Sibiu on a representative sample of 950 persons. This study aims to interpret the answers to the questionnaire presented to a representative sample of people, whose interpretation will provide valuable information to e-business players looking to expand their online market, to traders and also to the consumers of this kind of trade.

An important aspect resulting from our study is building up the profile of the person who makes online purchases. This person has a higher income and higher education. The average income of non-buyers is 925 RON / month, whereas that of the buyers is 1.892 RON / month.

The lack of an educated and well defined middle class leads to a clearly lower number of Romanian online buyers than that of the foreign countries, yet the current phase of economic recession combined with a more affordable Internet access and better prices in electronic trade have led to an increased interest in online acquisitions.

An important fact observed due to the study is the high percentage of customer loyalty. 77.25% of those who have shopped online a year before they went to buy new products from the same shop on the Internet, becoming loyal customers. This is one reason we are seeing for more and more business to go online and develop electronic business if they intend to have profits despite this economic crises we are passing through.

3. Conclusion

The Internet has redefined how businesses operate and has changed the way people work, with both Internet hardware and software prices' dropping to such a level that fast Web access is not only affordable but essential to business activity. Case firms reported that they were using the Internet and associated technologies to varying degrees in order to reshape business processes, including, manufacturing, marketing and sales and human resource functions as well as administration.

The internet and www have inspired the entrepreneur of the world and have entailed a wave of creativity and the technology of information has allowed a series of new business models.

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The European Union as an Answer to Global Challenges

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Abstract

The question is whether Europe wants to actively shape globalisation and wants to proactively address global problems that also have repercussions on European polities. The EU is an endeavour to pool national sovereignty in order to gain political clout at the international level. Global risks and opportunities need to be managed, and the EU will be increasingly expected to act. International development is one of the important strands of the EU's external relations, as it addresses root causes of conflict and includes work on global public goods. Given this context, this briefing paper will outline the background for policy-making in EU development policy. We will be going to explore three areas in more depth: (i) engaging with new actors, (ii) combining energy security, democracy and development and (iii) addressing climate change.

Key words: globalization, European cooperation, climate change development

J.E.L. classification: F02, F15, F43

1. Recent evolutions in international development cooperation

Over the transition period following the end of the Cold War in the 1990s, Western donors and numerous recipient states came to an agreement on a consensus for international development co-operation. Europe actively engaged in this consensus seeking and embraced its core principles in its policies:

- International goals as enshrined in the Millennium Declaration (particularly the Millennium Development Goals, MDGs), with a timeline to 2015.

- Financing targets for development (Monterrey) until 2015.

- Aid delivery modes, donor harmonisation and alignment (Paris Declaration) with a timeline to 2010.

At the latest around 2015, there will have to be a stock-taking of how far the aid system has come with the instruments defined in Paris and Monterrey to reach the MDGs. If substantial progress towards the MDGs can be demonstrated, they are likely to establish themselves as the development co-operation leitmotif even beyond 2015. But the closer to 2015 the donor community comes without being able to meet a substantial part of the goals, the more this consensus will come under pressure and will be challenged. There are two scenarios for failure. The first is that the policies were right but the money or the management were not forthcoming. The second is that the world and thinking about development has changed. Can European co-operation successfully manage persistent challenges in the area of international development in a changing global environment?

2. Newly emerging challenges to 2020

Beyond some global progress and persistent problems in meeting the goals on the international MDG agenda in many regions, new issues arise that will impact on global development:

- The importance of China, India and other emerging powers in the world economy and with respect to global economic growth will likely continue to increase. China and India's combined GDP is expected to account for more than 10 % of global wealth by 2020.

These *new actors in international development* include state as well as non-state actors – and just like the EU, they have an impact on development prospects of others, whether they like it or not. In some sectors, these emerging powers are out-competing economic actors from other

developing countries and their economic rise increases pressure on global resources.

- The linkage between various goals is often complex. *Energy security, democracy promotion and development*, for instance, come with considerable potential for contradictory agendas. When resources become scarce and energy needs are not decreasing, it might prove even more difficult to establish a coherent vision of balancing Europe's policy on energy security with the value-laden aspiration to foster democracy and development at the same time. Political commitments by the EU read well. Yet, self-interests might become less enlightened, after all, as the world is moving quickly and unprecedentedly into a situation of possible global energy shortages. This affects Europe and also other development actors.

- A number of global challenges may well lie beyond the framework for development, but are crucial to address in order to advance development prospects. Ecosystems are changing rapidly through human activities. Scarcity of resources, whether fresh water or arable land, in some regions is likely to increase. Environmental and consequently *developmental challenges resulting from climate change* will be significant. The countries least responsible for CO₂ emissions, such as the least developed countries, are in fact the most affected by climate change and will require – and demand – support to cope with consequences. Scenarios that go beyond the projected rise of global temperatures up to 2 or 3 degrees are more threatening and often described as the tipping point, the collapse of entire ecosystems representing one dire potential outcome.

In brief, the international system has come under pressure. The overarching question of EDC2020 is the role for development policy in the policy mix of the multilevel system of the European Union, explored in the three thematic areas outlined above.

Besides that, Some trends are actually 'good news' at global level:

-The number of the world's poor is declining, mostly in China and, to a lesser degree, in India.

- There has been progress in education in many parts of the world and overall, literacy is likely to increase for all regions by 2015.

- Global life expectancy is rising.

-World merchandise exports are increasing, not least due to the expansion of markets in East Asia, but also due to recent accelerating growth rates in many Sub-Saharan African countries.

- Net capital inflows have increased to developing countries, including Africa, even though inflows continue to be spread unevenly across the developing world.

However, these pieces of good news reflect global averages. Poverty in Sub-Saharan Africa and South Asia will remain a problem and vulnerable populations will be particularly hit by increasing food prices and the effects of climate change. Coping with malnutrition remains a major challenge in many places. Diseases like malaria, HIV/AIDS or tuberculosis represent threats to lives of poor people in developing countries and global warming might expand the area with Malaria prevalence. And the world's population is set to expand to around 7–8 billion people by 2020; almost all of this population growth will take place in the developing countries. In addition, globally more people are now living in cities than in rural areas: 2007 was a global turning point. These trends point to multiple development challenges in numerous locales.

3. Challenges for international development co-operation

When discussing future challenges to international development and how Europe addresses them in its external relations, two general questions are emerging which press all European donors for clear answers:

- *Which issues can and should be tackled by international development policy?* Is the specialisation / compartmentalisation of aid in external policies the solution or the problem? Should development co-operation focus on the poorest countries only? What does development policy's mandate and expertise embrace – and where should it end, leaving tasks to other experts in external relations? Shifts in various external agendas such as security or trade policy are likely to influence development co-operation prospects. Due to the difficulty in managing competing interests, however, policy

coherence for development remains a challenge.

- *Who does what? The question of the international aid architecture* Who should tackle which issues in international development? Or rather: with whom should we tackle them? More actors are entering the international arena, both state actors and private foundations, as well as an increasing number of global funds. The EU is one likely force for cohesion and donor coordination, but at the same time it is a factor in proliferation of donors. The EU continues to consist of 27+1, and future enlargements (Western Balkans, Turkey?) are likely to increase the numbers.

4. One set of goals and instruments for co-operation?

The delivery of aid can at best assist countries in mobilising their efforts to address challenges. Development cooperation should thus not be regarded as the one and only silver bullet to global problems. It is somewhat like providing risk capital: aid will work in some cases and not in others. And official development assistance (ODA) is, indeed, only a tiny fraction of global financial flows, additional to private capital flows. Developing countries are increasingly differentiating; some countries are new stars, others are starting from a completely different basis due to conflicts or failed government policies. Accordingly, donors will have to think how to differentiate goals and instruments in international co-operation. These vary across different types of countries (cf. Faust / Messner 2004), for instance:

- the poorest countries (Least Developed Countries, LDCs) with substantial capacity constraints;
- fragile or failed states, with de facto non-existent internal or external sovereignty;
- emerging powers (the 'BRICS' - Brazil, Russia, India, China and South Africa).

With regard to goals, discussions range between e.g. poverty reduction in the LDCs, establishing basic security in fragile / failed states, and jointly managing global governance with the emerging powers. Instruments also vary: from capacity building over nation building to co-operation on global issues. Hence, the policy mix towards

partner countries is necessarily different from country to country.

5. The EU in international development over the next decade

Since the beginning of the 21st century, Europe has embarked on a renewal of its development co-operation. The EU will now have to turn to new global issues and challenges in order to even just maintain its role in the world and to work for international development. The architecture of aid and modes of delivery in this fragmented system appear to be a problem.

The major argument surrounding the future of EU development co-operation actually stretches beyond the scope of development cooperation as a policy area: Europe can only increase its influence at international level if it stands together. Decisions taken now within the EU will impact on European development co-operation for the next decade or so. As one of the key decisions to be taken, the Lisbon Treaty offers a number of changes in the area of international relations that are bound to have repercussions on development co-operation. It will be important to retain a voice for development at the highest level of political decision-making. How will a possible European President position him- or herself in external relations? How will the not-so-called EU Foreign Minister fill the position? And how will development co-exist alongside or become integrated in European external policy making and possible institutional changes (namely: the External Actions Service)? Structures can facilitate or hinder certain debates – thus structures are important and solutions to the stalemate over the Lisbon Treaty will need to be sought. They will determine if the EU is capable to manage global challenges to 2020. Specialisation of agencies is one way to keep actors in and relevant. Specialisation can be on countries / regions or on specific topics or on both, as the EU Code of Conduct for a Division of Labour of 2007 has rightly concluded. Reforms will not necessarily have to result in centralisation in Brussels. It will be a key issue in the EU – and not an easy one – to make a better division of labour work amongst Member States and the

Union's institutions. This will be a crucial opportunity to reform the system from within and to achieve progress on better aid effectiveness, in order to avoid the risk of irrelevance. Emerging powers have a strong bias for bilateral cooperation, thus cooperation schemes with some of them will become even more important. But how can these actors effectively be engaged? Options range from 'business as usual' over coordination/harmonisation to a greater emphasis on multilateralism. Questions remain over the appropriate forum for dialogue with these emerging powers and other actors as well as with respect to what mechanisms should be used to enhance cooperation with them. The United Nations are important to obtain global legitimacy. They are thus one suitable forum to address issues of global public goods. Other setups, like the G8, are also pointing towards a potentially increasing role of the EU as a medium for European states to retain a meaningful role at the international level and to work for the protection and / or creation of global public goods. Europe will be expected to act; global impact comes with global responsibilities.

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Morale and Ethics in Taxpayer Behaviour

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Abstract

Taxpayer behaviour represents a subject of great interest for many research fields (economy, sociology, psychology etc.) and the studies that have been made until now have emphasized its importance and its complexity.

This article creates a theoretical frame around two important factors of influence of the taxpayer behaviour that have been studied in the speciality literature, the morale and ethics of taxpayers.

The majority of the studies have shown that morale and ethics have an important influence on the tax compliance behaviour, and their analysis still represents a strategic point in understanding this type of behaviour.

Key words: taxpayer behaviour, morale, ethics, compliance.

J.E.L. classification: M31.

1. Introduction

On the basis of decisions that individuals make in their purchasing process (in this case, the process of making payments to the state), is the need. An urgent need that is causing the individual to take measures to reduce or virtually eliminate the tension caused by the need to satisfy that need. Thus, each person or company needs an incentive to make expenditures.

Of course, the motivation may be very different depending on the needs felt by the individual. Basic needs, food, clothing etc. will always stand above the rest (in some cases). However, the state debt, taxes and fees can not be classified as needs, but can be included in the category of social obligations. As long as the individuals live in society and use the services it offers to them, they must fulfil their tax obligations to ensure the proper functioning of the economy, and

hence of the society.

The analysis of the behaviour of individuals in relation to the payment of taxes and fees cover both items related to the description of the process and factors that can influence this behaviour. Because the behaviour that people are somehow forced to adopt is brought into discussion, at a first analysis, things appear to be easy to understand, but as we get into the depth of the subject, the details are much more varied and complex than they seem at first sight.

This article aims to create a theoretical introduction in explaining taxpayer behaviour and two of the most important factors to influence it.

In the second part of the article, the behaviour of taxpayers it is briefly described, along with influencing factors and in part three the discussion focuses on tax morale and ethics, two crucial concepts in studying this topic.

2. Taxpayer behaviour and its influences

Most theories that have tried, in a lesser or greater extent, to explain the behaviour of individual taxpayers have focused on describing the tax compliance behaviour.

Compliance with the payment of taxes is the voluntary submission to the rules and laws of the tax system in order to contribute to overall economic welfare.

Taxpayer behaviour occurs depending on the action of factors which come from the external or internal environment. The internal environment factors are essentially psychological factors acting within the taxpayer, are those closest to him, and therefore the most sensitive.

The factors from the external environment refer to the state and its actions in the tax

system, economic opportunities, reference groups etc.

Each influencing factor is important and cannot be left aside, but there must be made a differentiation between them, to better understand each one.

Alm and McKee make a listing of key factors influencing tax compliance, in one of their papers [1, p. 264]:

- Audits and audit selection rules;
- Punishment;
- Perception of fairness;
- Overweighting of low probabilities;
- Fiscal uncertainty and complexity;
- The burden of compliance;
- Government services;
- Fiscal institutions and political decisions rules;
- Social norms;
- Reputational effects;
- Tax amnesties.

The diversity and complexity of all factors emphasizes the importance of studying tax compliance. In most of the studies that have been made, tax morale and ethics stand as two of the most important factors of influence.

3. Morale and ethics. Influences on taxpayer behaviour

In several studies, tax compliance is associated with concepts of "tax morale" or "tax ethics."

Morale in general is the ability of people to have confidence in an institution in a particular purpose, or even in themselves. Ho and Wong believe that morale represents a system of rules of conduct that are meant to guide behaviour in social or interpersonal manner [6].

The concept of morale in terms of taxes and duties relate to the individual's intrinsic desire to pay taxes [2] or actually measures individual attitudes towards the tax system. Another definition shapes tax morale as "a moral obligation to pay taxes, moral faith in contributing to the society" [12, p. 444].

The concept has been previously studied in detail by the School of Psychology from Cologne [2].

Torgler believes that tax morale may be the answer to several questions related to the behaviour of taxpayers [10].

Dell'Anno studies taxpayers' morale with the help of two of its components [4]: moral rules (which refer to the psychological cost felt by the taxpayers) and social stigma (the cost of the reputation). The author has shown that when the social stigma increases, also the degree of compliance of taxpayers increases. Besides this phenomenon, the social stigma is positively influenced if people perceive the behaviour of the government as fair and effective.

Tax morale is modelled also as a internalized social norm of compliance. Traxler thinks that, when taxpayers declare only a part of their income, they overlook the social norm, and in the end tax morale [14].

Ethics is based on a branch of philosophy that seeks to address questions about morality. For centuries it has been the attention of philosophers the antithesis between good and evil and how people can live by doing what is right. Ethics is defined as being a belief system that supports a particular vision of morality and involves research on the tendency of doing right or wrong [6].

Often the concepts of morale and ethics are used as synonyms, although they are different in their nature by what they are trying to explain.

Tax ethics refers to the belief that is a moral imperative to be honest in the conduct of paying taxes [14]. Alm and Torgler perceive it as a set of moral principles or values that taxpayers hold [2].

The probability that an individual does not behave ethically as taxpayer depends on [6, p. 370]:

- The gain expected from this behaviour;
- The perception of the chance of being caught;
- Attitude towards risk;
- The level of ethical thinking.

In studying the behaviour of taxpayers, the notions of "morale" and "ethics" are often analyzed in the same context. Their introduction in this field of study is somewhat in contrast with the approach of taxpayers as rational actors pursuing the maximization of personal gain [15].

Wenzel discusses about a "personal" ethics of the taxpayers, saying it can be almost one of the best predictors of tax compliance [16]. Also Wenzel, but in another

article, has shown that ethics has a significant influence on tax compliance, and vice versa, compliance can influence tax ethics [15].

Blanthorne and Kaplan propose a new model for the study of compliance, which concentrates on the taxpayers' ethical beliefs on tax evasion and highlight the fact that they occur independently of economic considerations, but are influenced by the opportunity of the taxpayers to avoid paying their taxes [3]. In their opinion, the opportunity to avoid paying taxes influences the formation of ethical beliefs of individuals about tax evasion and the beliefs, in turn, influence the compliance behaviour, a fact which has been previously analysed by Reckers, Sanders and Roark [8]. Therewith, ethical beliefs will have less influence on people already prone to tax evasion.

Morale is brought into discussion also when considering the relationship with the authorities. It is closely related to the confidence of taxpayers in fiscal institutions, in the government etc. [2]. The link created between taxpayers and authorities is regarded as the "centre of gravity" of the individual tax morale [5].

Torgler and Schneider believe that the positive actions of the state grow in a positive way the attitude and commitment of taxpayers to the tax system. On the contrary, if the state is perceived as being unfair, this increases people's willingness to act against the system [12].

Schmölders thinks that the basis of successful taxation is the development of a civic sense and a minimum of commitment from taxpayers [9]. The same author points out that sense of taxation and the awareness of the tax burden have a direct impact on tax morale.

Another study analyzes the importance of local authority relations with the taxpayers, with an emphasis on decentralization and its connection with the morale of taxpayers [13]. According to the authors, decentralization allows a better connection at the local level with people. Thus, they demonstrated that there is a strong positive correlation between local autonomy and tax morale. The trust in the state's institutions, even locally, is again highlighted as a stimulating factor of morale; the more the confidence grows, the more taxpayers' morale grows.

Among the factors of influence of tax morale are socio-demographic characteristics, personal financial experience (income level, employed or self-employed, etc.) and political attitudes (satisfaction with democracy, trust in politicians, measures to reduce differences in income) [7]. Morale is positively correlated with age, religion, income, satisfaction with democracy and trust in politicians, and negatively with education and employment status. The same study revealed that people who live in wealthier regions are less likely to comply to the payment of taxes because, by redistributing state revenue to poorer areas, those in wealthy areas tend to see redistribution such as incorrect and to refuse or avoid paying taxes.

Torgler adds a new contribution by making a connection between tax morale and religiosity [11]. The more religious the taxpayers are, the higher the degree of tax morale is. Effects of correlation between morale and religiosity are highly visible to those who have benefited from a strong religious education or those who engage in church-related activities. Catholics, Hindus, Buddhists and those with other faiths have shown a higher morale, while Orthodox and Protestants have shown a lower tax morale.

People that see the tax issue as a moral goal will present a greater degree of tax compliance [8].

However, there are some contradictions in the speciality literature. Schmölders asserts, moreover, that studies made by psychologists have shown that the obligation to pay taxes has very little to do with the moral part of human consciousness [9].

4. Conclusions

Even though morale and ethics seem not to be related to the issue of taxpaying, they are two very important factors of influence of this behaviour.

Different studies have demonstrated that a positive relation is formed between tax morale (or ethics) and tax compliance. Therefore, a taxpayer with high tax morale will also have a high degree of compliance in relation with the taxes or the tax system.

The importance of studying tax morale and ethics derives from complexity of the human being and the many behavioural characteristics he/she shows. Another direction comes from the institutional point of view. Although paying taxes comes as a social obligation and the process can be very simple, those interested in the subject should enter in the depth of the issue, in order to better understand it.

The issues presented in this paper may be useful to both theorists and practitioners, especially those directly interested in the field of taxpayer behaviour. Also, the information offered may offer a good research starting point and also some insight to the fiscal authorities.

As further directions of research, an analysis on the morale of more specific categories of taxpayers or maybe on the connection of morale with the cultural setting would be useful to the taxpayer behaviour literature.

5. Acknowledgement

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Tax Compliance Behaviour

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Abstract

To every state it is essential to ensure that the public budget copes with the public expenditure, in other words, to make sure that it collects sufficient revenues in order to have a stable economy. These revenues come especially from the collecting of taxes and fees.

In order to have a functional fiscal system, it is important to understand both the fiscal component and the behaviour of its contributors. That is why the taxpayer behaviour has grown as a subject of research, in many fields besides economy (psychology, sociology etc.).

In the specialty literature, taxpayer behaviour has perceived as the compliance behaviour of taxpayers, in relation with the declaration and/or payment of the income tax. The main conclusion draws attention to the complexity and importance of this behaviour, to both theoreticians and authorities.

Key words: Taxpayer, compliance behaviour, income tax.

J.E.L. classification: M31

1. Introduction

The subject of tax payment is one of major concern especially for economists and became the focus for numerous studies over time. But studying the fiscal phenomenon cannot be complete without entering into the analysis of both parties involved in the collection process, the tax component and the human component, those who contribute by paying taxes and duties. The second direction, the analysis of taxpayers, has been addressed in order to broaden the spectrum of specialist knowledge and can improve the tax component when necessary.

Analyzed from various perspectives, the component related to taxpayers brings its contribution specifically by trying to describe their behaviour in relation to the tax system, which could be a topic of interest to many disciplines, not just the economy.

Globally, it is known the so-called "tax aversion" of people [13], and as the taxes are more numerous and larger, the general aversion is growing. This aversion is emerging as the dissatisfaction created by the duty of paying taxes. In Romania, this aversion may reach very large proportions, being one of the countries with most taxes.

Taxpayers' behaviour is captured in the specialty literature under the form of tax compliance behaviour.

The purpose of this paper is to make a theoretical "portrait" of the concept of individual taxpayer compliance. In the next part, the concept is defined and the third part the dimensions of compliance are described, as found in the specialty literature.

2. The concept of tax compliance

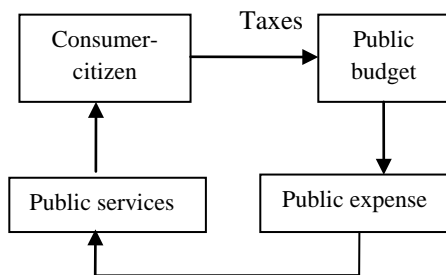
Compliance, in general, refers to the act of subordination, obedience to rules, desires, activities, laws, even if they are not welcome or wanted. This subordination is not forced, however, individuals act voluntarily, even if they do not feel particularly drawn to that direction.

Tax compliance behaviour has been extensively studied in economics literature, but its importance has grown especially in the last 10-15 years, when, in fact, the consumer, generally, has become one of the most important topics of study.

Compliance with the payment of taxes could be defined as the voluntary obedience to the rules and laws of the tax system in order to contribute to overall economic welfare. However, it might be associated with the idea of fulfilling the role of the consumer-citizen within a state. By

complying, the consumer-citizen contributes to the public budget by paying taxes and fees and, on the other hand, he uses public services (health, education, etc.), funded by these contributions precisely.

Figure 1: The relationship between contributors and the public budget



Kirchler and Wahl [10, p. 333] consider that compliance is the most neutral and inclusive term that describes people's willingness to pay taxes.

3. The dimensions of tax compliance

Compliance was first studied more in psychology. Then, sociologists began to be interested in the analysis of taxpayer compliance behaviour, transforming the area into one interdisciplinary study. Wentworth and Rickel [15] believe that the common trunk of the early studies consisted of an analysis of attitudinal and psychological variables, joined later by the sanctions from the state.

Regarding the various approaches in the literature, most scholars have chosen the direction of compliance behaviour analysis in relation to income tax. This topic has gained importance also due to the American specialists, whom have a very solid research base because the U.S. income tax system is extremely important and the rules are more stringent than in many European countries. But also the interest in data collection about taxpayer behaviour, in various forms, was higher.

However, the study of tax compliance behaviour has gained considerable proportions worldwide, in the past years, by the implementation of various comparative studies between countries on different continents, relating them or not to the

behaviour of American taxpayers [9; 11; 12].

The view that dominates the speciality literature captures compliance as a function of the rational pursuit of self-interest contributors [16]. From this perspective, taxes are costs that taxpayers seek to avoid or reduce them.

The main direction in the economic literature on compliance has been drawn by Allingham and Sandmo, in 1972 [1], in an earlier study that continues to be the starting point for many other research studies. According to their theory, taxpayers are faced with a choice: declare their income entirely or less. In their model, the authors were concerned primarily, if higher levels of tax increase or decrease the level of compliance. However, the assumptions made by Allingham and Sandmo are based on standard microeconomic concepts, such as: individuals seek to maximize the utility of their actions, the utility increases as the wealth grows etc.

The Allingham-Sandmo model is based on a simple function of expected utility. The decision to pay or not taxes relies on the likelihood of being caught and the fine taxpayers could receive if they are caught by the authorities. If penalties are proportional to the size of avoided taxes, then the model could predict that evasion is reduced when the level of taxation increases. But this model only focuses on the income tax, and other authors have extended this model for other types of taxes, adding the risk aversion to the influences of compliance, but also how it can be treated subject in relation with neuroeconomics (an interdisciplinary field that seeks to explain human decision making, the ability to process multiple alternatives and to choose an optimal course of action. It studies how economic behaviour can shape our understanding of the brain, and how neuroscientific discoveries can constrain and guide models of economics) [5].

Yitzhaki [17] continued development Allingham-Sandmo model by highlighting the fact that the penalties, in most tax systems, are not calculated according to the size of undeclared income, but rather to the amount of unpaid taxes. Other studies took into account other variables such as:

introducing a more robust tax structure, expanding the number of items that the taxpayer should report, the role of morale etc.

Alm et al. [2] make some criticism regarding the classical Allingham-Sandmo model. Thus, they believe, on the one hand, this model addresses decision to declare. On the other hand, traditional models assume that people know, with certainty, the true tax liability; in reality, a country's tax code can be quite complex, leaving enough room for interpretation. Chorvat [5] also sustains the "simplicity" of these models, but points out an important feature of standard economic models: people feel a large aversion to penalties.

Ashby et al. [3] make some observations about the individualistic vision of education as that of Allingham and Sandmo, considering that the payers of taxes and duties have been characterized as pursuing their own interest to maximize utility, so they avoid paying taxes out of pure greed, this being a relatively small view in the opinion of the authors.

Torgler [14] sees compliance as a function of opportunity, tax level, the likelihood of being caught, also the individual's willingness to comply or to avoid paying taxes.

Taxpayers are viewed from multiple perspectives, and one of them refers to the differentiation between them, based on compliance [10, p. 334-335]:

- Compliance by commitment (people pay their taxes willingly, without complaint);
- Compliance by capitulation (people who started the uprising, but eventually give in and pay their taxes);
- Resistance to compliance (a negative attitude towards tax authorities);
- Disengagement (keeping a social distance);
- Game playing (taxpayers view their behaviour and the relation with the authorities as a game).

Torgler [14, p. 124-125] brings into discussion four types of taxpayers:

- Social taxpayer (who is influenced by social norms, feels guilty when reported as actual, is influenced by what happens around him, so if others pay their taxes, tends to do the same);

- Intrinsic taxpayer (for him, the motivation includes the sense of obligation, is sensitive to institutional factors, so the way people are treated by the authorities represents another factor for him; he has an internal motivation to pay taxes);
- Honest taxpayer (does not avoid the payment of taxes, in any circumstances);
- Tax evader.

Another classification of taxpayers divides them into [7]: honest, susceptible or evaders.

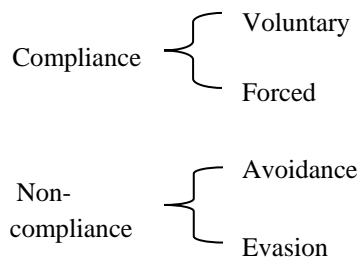
Carroll [4] differentiates taxpayers by way of choosing strategies to pay taxes or avoid them and by the way they address the issue of taxes (they show interest from the beginning or leave everything to the last moment). Strategies may be high-level (involving a good plan in place: looking for information, registration of information, keeping records, etc.) or low-level (copying someone else's statement, less the amounts). The author points out that tax avoidance can be planned in advance.

Compliance cannot be brought into discussion without taking in account its opposite, non-compliance. It represents the process of paying fewer taxes than it should be done, in other words, the taxpayers' attempt to avoid their tax obligations in their entirety.

From the analysis of the specialty literature, two forms of non-compliance result: tax avoidance and tax evasion. Avoiding taxes by legal forms is subject to the law, unlike tax evasion which is illegal. Avoidance may mean paying a minimum amount, taking advantage of a time when authorities plan to increase certain fees and purchasing products before the increasement etc. Evasion represents the taxpayers' refusal to pay taxes.

Compliance may be, in turn, voluntary (in the case of honest taxpayers, who know their role in society) or forced (when authorities through various forms of taxation, oblige taxpayers to pay, even if this is not their wish).

Figure 2: Compliance and non-compliance



Kirchler and Wahl [10], in their study, emphasize that voluntary compliance and forced compliance cannot be correlated, but between voluntary compliance and non-compliance may be drawn a negative relationship. However, they also demonstrate by analysis that there is no correlation between the two types of compliance.

An interesting perspective on compliance is provided by Feld and Frey [8], who see compliance as a "psychological contract" between taxpayers and the government. This fictional agreement, however, works about the same as a real one (the provision of services, for example), the taxpayer must pay taxes in order to benefit from public services and the state should support contract with incentives (bonuses or penalties).

In the opinion of the authors, the concept of a contract between the state and taxpayers has more advantages than other concepts of the traditional theory [8, p. 106-107]:

- Works on the idea that paying taxes is a semi-voluntary act;
- Stresses the role of fair procedures;
- How taxpayers are treated is a very important point taken in account.

The way how taxpayers are treated is divided into two parts. The first relates to procedures and that they must be "transparent" and clear. The second focuses on the respecting taxpayers, a dimension that has a more personal connection, by focusing on respecting their personality (treating them as full partners).

The concept of contract has been approached by other authors in advance. For example, Riah-Belkaoui [12] analyzed the concept of "social contract". The social contract concerns, as the psychological one, the exchange between the state and the people. The author emphasizes that it is a special contract under which the taxpayer

trusts the government and complies in bearing the tax burden in certain circumstances, by what the government gives back [12, p. 137]:

- Effective competition laws;
- High economic freedom;
- An important role accorded to the equity market;
- Moral norms.

Carroll [4] sees the payment of taxes as a sequence of decisions and actions that involve economic transactions, record-keeping and completing statements. He also believes that in the case of taxpayers, the theory that they adopt certain strategies in the decision making on taxes and fees, is applicable (whether to hire an accountant, whether to keep certain records, etc.). People, in his opinion, focus on two approaches that define the choice they will make: norm-processing rules (what they should do) and outcome-processing results (which direction will bring the most benefits).

Although the traditional economic theories rely on the idea of rational human behaviour, especially in the case of taxpayer behaviour, as in the case of general behaviour, these theories can not be applied. Human behaviour is too complex to be only rational. In particular, given the many tax forms available, the observed degree of compliance with the payment of taxes can not be related to a purely rational economic behaviour [6].

4. Conclusions

Tax compliance is a very complex and important field of study, due to the importance of understanding how taxpayers act in relation with the process of declaring and payment of taxes.

No matter what methods of research the specialists use, the main difficulty rises from the wish of obtaining reliable data. As the subject, from the taxpayer's perspective, is a sensitive one, the sincerity of the answers may be questionable and that is one of the weak points in this research.

The different approaches on tax compliance have, mainly, the same conclusion: taxpayers are either compliant or

noncompliant. But the reasons of choosing one of these directions are in the attention of most researchers.

As future directions of research, a closer look on the typology of taxpayers may give interesting results or even a more detailed approach on the concept of "social contract".

5. Acknowledgement

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Linguistic and Cultural Interferences in Translating Economic Texts by Means of Borrowing Words from the Source Language-Culture

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Abstract

Within the present social, economic, and political context, we have increasingly become translation consumers. At the same time, any translation refers to certain national cultures, thus revealing the specificity and the identity of each language. In this respect, a translation should be considered as a work of re-creation, with its strengths and weaknesses. A translator's activity is creative beyond theory, as they rebuild an edifice without using architectural skills.

Key words: specialized translation, borrowed words, source language-culture, target language-culture

J.E.L. classification: ZOO

A translation, may it be literary or specialized, is often partial, since it is defined by a certain degree of entropy, as any communication act is. Therefore, a translation becomes practically synonymous with loss of information. Thus, a translator should permanently distinguish between what is essential and what is mere appendage and take into account the outcome of the translation act, which should always be oriented towards the target public, as far as its cultural awareness and its familiarity degree with the text being translated and the source language are concerned.

The cultural component of translation is defined in terms of competences with a view to creating a homogeneity between linguistic level (where a complex of competences is involved, i.e. interactional, comprehension, discursive, textual, lexical competences) and cultural dimensions (i.e. knowledge and education).

Thus, a translation may sometimes aim at obtaining local colour, and then, according to G. Mounin, "the translator's spectacles will have either coloured glass or transparent glass" [1]. Following the developments achieved in the fields of information and technology, both teachers and students of a foreign language need to adapt and deliberately resort to various learning methods in which translation is involved, in order to cope with everyday life requirements defined by "speed" and performance.

Faced with a lexical gap in the target language (a word difficult to translate), the translator can proceed in two ways. He can either resort to the desperate solution of borrowing by barely importing the foreign source word as such (*signifié* and *significant*) or use a calque (a borrowing of the *signifié* into the *significant*). One can also approach the semantic aspect of textuality (textual coherence based on relationships pre-existent in the reality that it reproduces). It is also worth mentioning the problem of referential and intratextual relationships, and the one of retrospective (*anaphora*) and prospective (*cataphora*) categories.

For example, the word *best-seller* has become an expression used in French to the same extent as in Romanian. If we want to literally translate this compound word, we should not say *best-sellers*, but *cele mai vândute, les plus vendus* respectively, nevertheless a translator will undoubtedly use the English compound word, since it is already and frequently used by everybody.

Similarly, the word *mass media* is used in French with a minor spelling variation - a sharp accent and a final *s*: *medias*. Given the fact that *medias* is the plural of the Latin word *medium* – *mediu*, the spelling without an accent (Latin does not use accents) and without a final *s* becomes possible, since *media* is a form of plural. Consequently, the spelling *masse-médias* (with *e* at the end of

the word *mass* and a hyphen) is possible and does occur in French.

Mass medias, a phrase that originates from American English, is used with reference to mass media such as radio, television, printed press, books, cinema, advertising. Specialists in the field of translation theory acknowledge that the phrase *mass media* is not the most appropriate one since it does not necessarily include an exchange of ideas, and that *mass spreading* should rather be used in this respect. For this reason, they still hesitate to include the word *telephone* in the same category among other media. The same holds valid for *Minitel* which provides the requested information only and which may be at the origin of some quality information exchanges.

In both cases, both the word and its referent are imported from the source language-culture. The borrowing may add stylistic value in terms of "local colour": in French as a target language, *feed-back* may prevail over his belated counter-part *retroaction*. [2].

Another means of translating texts is the literal, word for word translation which resembles the trans-coding.

Besides these three "direct" solutions, J. Darbelnet and J.P. Vinay suggest four procedures of "oblique translation".

Transposition replaces a "part of discourse" with another: thus, where French uses the verb *aimer* (*aimer se baigner*, *aimer le chocolat...*), the translator will often make up a modalized sentence. [2]

Modalization involves the replacement of a synonymic expression, the same idea being rendered differently in the source language and the target language: the English *forget it* becomes in French *n'y pensez plus*.

Equivalence considers the source-statement as a whole and suggests a target-equivalent which corresponds to the same non-linguistic referential situation. Therefore, the French *j'ai une faim de loup* will become in Spanish *tengo un hambre canina*.

Adaptation merely designates a translation method, but rather a source-message which does not exist in the target-culture. In the biblical language, translation proves to be difficult sometimes when various parables are involved (such as that of the fig tree, which does not exist as a word in the languages that do not designate this tree).

In this category we can include two frequently used terms, i.e. *interprétation* and *interprétariat*. [3] Regarding the first term, D. Seleskovitch mentions that: "We currently use the term *interpretation*. It's a more 'trendy' Anglicism; moreover, it is a more or less known label change (as we can see in all professional media). *Interprétariat* rhymes with *secrétariat*. At present, *interprétation* designates a conference interpreter's job, whereas *interprétariat* refers to subordinate (and in general preliminary) 'contact' tasks" [2].

A special emphasis should be placed on the fact that adaptation uses the same translation mechanisms; first of all, the analysis of the complex lexical meanings and the consideration of its specific socio-cultural load (civilization component, language level, socio-cultural allusions). [4] Translation is made afterwards through the intermediary of the intensity degree rendered by the intensifier in functional interconnection with the basic term.

"The variety of pertinent information needed in order to properly translate a sentence depends on the functional relations and the semantic and referential properties of the constituents involved in the sentence construction". [5]

The next step is represented by choosing the appropriate equivalent, with the recovery, at least partial, of the peri-linguistic load by means of compensation techniques.

Sometimes, this type of translation can be seen as a linguistic oddness since these associations should be rendered within an intra-linguistic communication in which the metaphor that contributes to information flow has also a psycholinguistic function. What should be done, for example, with a newspaper feature that contains an allusion within a phrase?

"*Mais la journée de vendredi a montré qu'au sud des Pyrénées il était imprudent de vendre prématurément la peau de l'ours*". It should be mentioned from the beginning that the adverb *prématurément* is unnecessary, because *vendre la peau de l'ours* means an action which is taken in advance. On the other hand, the question may arise: Should the translator simply use the Romanian equivalent or should he search for an expression which could render the text's idea in a journalistic way? In fact, this phrase has

already become famous and originates from La Fontaine's fable "*L'Ours et les deux compagnons*".

The story of the fable says that two companions were selling the skin of a bear which they had not killed yet, but which they were going to kill very soon, in their opinion. When they meet the bear, they get scared; one of them climbs up a tree, while the other pretends to be dead. The bear whispers in the pretended dead body's ear: "*You should never sell the skin of the bear which you couldn't lay down*" [6].

When reading the expression *you should never sell the skin of the bear* (without being necessary to add *before having it killed*), one usually understands the allusion to the danger of committing a sin through false optimism. Consequently, there are several options for translating this part:

- a) a literal translation through the use of the same adverb *prématurément*: *However, Friday proved that in the south of the Pyrenees it was imprudently to sell the bear skin in advance.*
- b) a translation through modulation: *to sell in advance was an imprudence.*

Such phrases are being used nowadays by the media and, unless they are properly understood with all the references they imply, a complete understanding of the text is almost impossible. Two further examples are given, as follows: „*Les Polonais qui ont vu ces subventions gouvernementales se réduire comme une peau de chagrin sans bénéficier d'un meilleur approvisionnement des magasins d'Etat, se débattent encore*". [6]

The term *chagrin* has nothing to do with *emotional pain* or *sorrow*, since here the real meaning is that of a sort of leather. *Chagrin* is in that specific context "a granulated leather, originating from the East, which is obtained from the skin of various animals (donkey, goat, horse, shark), and which is used especially in the field of bookbinding".

The phrase *réduire comme une peau de chagrin* is actually inferred from Balzac's novel *La Peau de chagrin* (1831). The main character in the novel, Raphael de Valentin, has in his possession a magical piece of *sagri* leather, that is shrinking every time when fulfilling a wish of its possessor, whose life would become thus complicated and confused. Balzac infers the idea that an

intense life could only be a short life, as if everybody would dispose of a certain amount of vital force to spend.

Therefore, the phrase *peau de chagrin* renders the idea of contraction, narrowing, or reduction. We can always describe for instance the powers of a politician as shrinking as "a piece of *sagri* leather". The same idea is retained by the above-mentioned text: the granted subsidies are unrelentingly being reduced in the way the piece of leather from the Balzac's novel shrank.

The second example can be included in the language of both politics and journalism.

„*En choisissant M. Uno, les caciques du parti libéral ont fourni une preuve éclatante de leur refus de nettoyer les écuries d'Augias de la vie publique, de tirer un trait sur des pratiques qui ont achevé de déconsidérer leurs chefs de clan...* ». [6]

The phrase *nettoyer les écuries d'Augias* originates from the 12 labours that Heracles, the greatest of the Greek heroes. The labours were almost impossible to perform and have been assigned to Heracles as a penance for killing his wife and children after a madness crisis. The fifth labour consisted in cleaning the vast Augean stables in a single day. Heracles succeeded by rerouting two rivers to wash out the filth.

Therefore, the allusion to Augean stables is being made when a re-establishment of order, especially a moral cleansing, within an organization is needed, as the case is in the above-mentioned text.

A list of words that also exist in Romanian language can be included in the same category of loans. A first example would be the adjective *itératif*, mostly used in the field of medicine, which refers to a repetitive occurrence.

A further example is the word *périodique*, which originally and scientifically designated "the periodical movement of a pendulum", implying the idea of recurrence. The word transgressed to the common language to describe an event that occurs more or less regularly. In Romanian, the translation *periodic* bears the same meaning as in French.

The Romanian word *bilateral* originates from the French word *bilatéral*, mostly used with *accord*. In French, and in Romanian too, *un accord bilatéral* is an agreement between two sides (signalized by the prefix *bi-*). It

opposes a „unilateral” decision (taken by one side only), as well as a ”multilateral” agreement (completed between more signatories).

Another approach is the one that regards English words whose correspondents in French are being used in Romanian both in their French and in their English version. We have already mentioned that the commutation is not always possible, although specific synonyms or phrases do exist in French. The above-mentioned list of words can be extended with further examples. Chances are, for instance, that *penalty* cannot be replaced by „coup de pied de réparation”, whereas in Romanian we find the correspondent *penalti*. Similarly, *juke-box* does not become, as one scholar once wished, „tourne-disque a sons”. Moreover, against all attempts, the word *parking* resists as such in both Romanian and French.

A certain number of words are being used according to the linguists’ suggestions, but this is the case of a relatively reduced number of borrowed words. For example, the French word *ingénierie* seems to have succeeded in replacing the English word *engineering*, with the meaning of ”a global study of a project, conducted by a specialized office”. Engineering implies studying the many types of project impact by various teams of specialists, whose work will be consequently included in certain syntheses.

A special category of words that should be carefully considered are the (false) twin words, where the distinction between the two is carried by so few elements that confusion easily occurs. Thus, *induire* (to deceive) should not be confused with *enduire* (to paint a wall), as well as *coasser* (the loud calls of frogs) should not be confused with *croasser* (crow calls, croaking). There are many word couples in French, that distinguish themselves through one letter only. For example, the couple *conjecture-conjoncture*. *Une conjecture* means an opinion solely founded on suppositions and is mostly used when referring to the future as a space of probabilities. *La conjoncture* designates the entire phenomena describing a certain situation. Phrases like „en raison de la conjoncture”, „pour tenir compte de la conjoncture” are often heard in French. DEX (the Explanatory Dictionary of Romanian Language) emphasizes the fact that

Romanian language has borrowed both words from French: *conjectura* (trans. verb) = to judge from appearances, whilst the second word became *conjunctură, conjuncturi* = the complex of characteristics defining a certain moment in the process of economic development. [7]

Another problematic couple of words is the pair *précepteur / percepteur*. The word *précepteur* designates a specific office held by a person who levies taxes and revenues, while *percepteur* is a synonym for *prédateur*, i.e. beast of prey, predator. The term *précepteur* also designates a private teacher hired by a family to teach their children. These two words also exist in Romanian, *preceptor* (masc. noun) designates the person hired to educate and teach private lessons to a child (within a wealthy family), and *perceptor* (archaism) indicated a clerk who collected taxes and revenues. [7]

An example among economic terms is given by the word *exode*. *L'exode* stands for a massive emmigration, and is often mistaken for *exorde*, that actually means the beginning of a speech. An influence of the word « desordre » may be possible here, because an exodus is often synonym with a sort of haste and disorder. *L'exode* is also metaphorically used in the language of finance: *l'exode de capital*.

Finding correspondents for the various types of retribution is also problematic because of the terminology fluctuation, especially in the language of economy, which complicates the translation. For example, *salaire*, the Romanian *salariu*, is being used for workers and labourers only. For other categories, other words equivalent to the word *venituri* occur, even though the translation into Romanian does not cover all meanings. In French, the clerks’ income is called *traitement*, while artists and performers receive a *cachet*. Medical doctors receive *honoraires*, but that applies especially to freelance physicians. An MD who owns a consultation room receives *honoraires*. The term also exists in Romanian, *onorariu*, and designates the payment for services offered by an intellectual (freelance lawyer, medical doctor, etc.). [7]

Another word with various synonyms is *gages*, that means the salary received by a servant. The play *Don Juan* ends with

Sganarelle's amusing lamentation „Mes gages! Mes gages !”, as he realises his would lose his master, the one who provided for him. The word is still being used in some circles, but with a rather negative connotation, whereas *salaire* seems to prevail, as servants are assimilated to workers. The Romanian word *gaj* bears the meaning of a security deposit against a debt, and it usually implies objects or goods. [7]

An expert receives *vacations*, a word that is being used in connection with ministerial clerks, which confirms the terminology fluctuation once again. The amount of a *vacation* depends on the clerk's competence level and the task complexity. Similarly, whereas freelance journalists receive a *pige*, so they become *pigiste*, and are getting paid *à la pige*, i.e. in accordance with their published work. Journalists attached to a certain newspaper receive a *salaire*, whereas those affiliated to a public journal receive *traitement*. The words *vacation* and *pige* have no correspondents in Romanian.

Therefore, in order to accurately respect the meaning of the original text, translators should often "borrow" words from the source language and simultaneously distinguish between easily mistakable words. Translators' main task merely consists in finding equivalents, but rather in enriching their own language, not only by lexically mastering the translation process, but especially by considering the whole system of thought that both source and target languages imply.

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Dimension and Directions of the "Brain Drain" Phenomenon

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Abstract

Starting with the half of the XIXth century, the labour force migration from the disadvantaged areas towards other states, more developed, can be seen as a mass phenomenon, where people wanted, overall, a better life. The labour-importing countries offered, at least at a conceptual level, a high quality life, from all points of view: socially, culturally, politically, and last but not least economically. Those who couldn't benefit of the advantages of emigrating into another state were the ordinary citizen of the socialist states from that period, which didn't have the right to leave the country of origin but in special conditions, and then, usually, the exits were allowed in general in the socialist, neighbour countries.

Nowadays, beside the more pronounced interdependence tendency of the world states and the liberalization of the borders, we can consider the brain drain phenomenon as a natural consequence of a more grasping globalization.

Key words: migration, labour force, brain drain

J.E.L classification: F22

1. The birth and development of the "brain drain" phenomenon

Skilled migration is a major trend among current migration patterns, being fuelled by the development of knowledge economies and by the emergence of a global labour market for skilled professionals. Brain drain is therefore a major concern for the international community, and there is a need to innovatively think about the way in which people's aspiration toward mobility and

migration can be reconciled with states' right to development.[1]

The "Brain Drain" term was used for the first time at the Royal Society of London to describe the emigration of scientists and people of culture towards USA and Canada at the beginning of 1950. The brain drain is the migration's component with high and very high degree of qualification in the field it activates in.

The "human capital flight" represents the emigration phenomenon of the educated or talented persons due to various reasons: social or political conflicts, lack of opportunities, etc. The investment in education is lost once the person leaves into another state, that person having relatively small chances of ever returning into the country of origin. [2] In this context it is difficult to realise a statistical report regarding the migration share of the labour force with a high level of qualification, reported to the entire labour force movement, because in the statistical reports the training or high training of the respective labour force isn't taken into account. [3]

The drain is expressed freely, it is limited, or at least it should be, by the countries of origin and encouraged by the receiving countries. Depending on the perspective, the term was translated in different ways in Romanian, by different authors such as: "scurgerea creierelor", "migrația creierelor", "furt inteligent", "racolare de cadre", "exod de competențe", "hemoragia creierelor" (that is brain drain, brains migration, intelligent theft, specialists recruitment, skill drain, brain haemorrhage,) etc. [4] All these interpretations are made under the influence of the countries which are only "brain suppliers", and underline only the negative part of the phenomenon. But there are optimistic approaches as well., obviously from the receiving countries, which name the

highly trained persons, at a general level, as being specialists and associates the term "brain drain" with „capital flight”.

Specialized labour force migration is practiced nowadays in the entire world, phenomenon specific to the capitalism, which, inside a real market economy, offers the possibility to the strong ones to become even stronger through the development of the quaternary sector represented by the top scientific research. For this purpose, USA, can constitute a perfect example in terms of variety of the populations and ethnic groups that live on its territory, through the fact that occupies the first place in the world classification regarding the sums assigned for top research development and inovation.

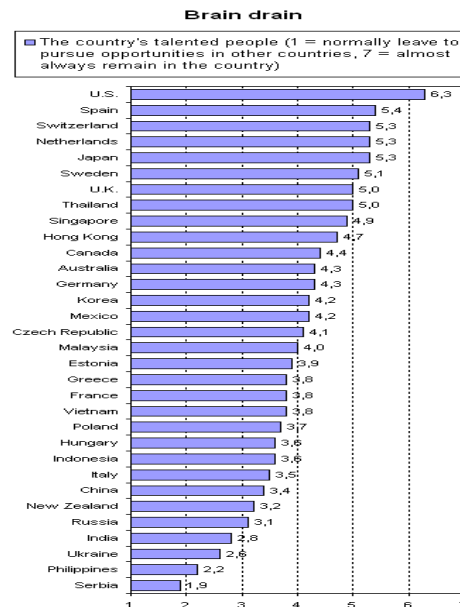
The emigration phenomenon of the great personalities, of the great scientists has an old history, starting from the antiquity: Thales (624 – 547 BC) mathematician, astronomer, philosopher migrated towards the Asian area to continue his studies and to study thoroughly his fields of interest; Pythagoras (582 – 507 BC) mathematician, philosopher, astronomer, left Samos (Asia) and arrived in South Italy, Crotona, to escape Polycrate’s leadership, also called “The tyrant of Cratos”.

On the Russian territory, different campaigns for the foreign scientists recruitment and enticement were promoted and applied, during the XVIIIth – XIXth centuries, essential actions in the Russia’s battle for the world supremacy against USA.[5]

The proper brain drain phenomenon appears after 1950, when the emigration of the specialists from all areas : science, art, culture, towards potent countries from an economico – financial point of view, becomes a general tendency (USA, USSR); the stress is laid upon the development of the quaternary sector: the scientific research.

The chart presented below represents the evaluation of the measure in which the specialists from different states are or are not tempted to emigrate towards other areas of the globe. The emigration degree is noted from 1 to 7 (1 meaning emigration and 7 excluded emigration).

Chart no. 1. Level of „brain drain” phenomenon



Source:<http://www.cap-lmu.de/fgz/statistics/brain-drain.php>

Analysing the chart presented above, one can notice how the temptation to emigrate from the state of origin towards another state, is low in the countries powerfully developed (USA, Japan, Switzerland, Netherlands, Sweden, Great Britain) and is progressively growing as the state development degree is decreasing (Mexico, Czech Republic, Vietnam, Hungary, Ukraine, etc .) However, several states that behave differently from the rule presented above can be noticed (as more developed the state of origin is as lower the specialists emigration is, and reciprocally). Thus, countries such as Malaysia or Estonia have a smaller specialists emigration risk than countries such as Italy, New Zealand. Here a series of factors interfere beside the economic one, such as the native attachment of certain people to the country of origin or the political, linguistical, cultural, social, religious barriers, etc.

2. Forms of the human capital migration

In this context of a more increased development of the highly skilled labour force circulation, various forms of this one appeared. The Human Resources Development Ministry together with the Education Department from India elaborated

and developed a study regarding the forms of specialists emigration: [6]

- **Brain overflow:** represents the overproduction of specialists on the territory of a state. Because there are too many specialists in a certain sector, a supersaturation of the job market takes place and the market can no longer absorb the excessive afflux of the highly skilled labour force in a certain domain, leading to a growth of the unemployment rate. This surplus of the labour force emigrates towards other countries where the especially skilled labour force demand is very high and obviously the work conditions are superior to those from the country of origin. Some of the countries in this situation are China, India, Pakistan, South Korea, Iran, Nigeria, Philippines and Columbia. Regarding the exporting country point of view, this emigration is perceived as a positive one, reducing the unemployment rate in the respective country, and in the same time, it's favorable for the importing countries which "buy" a well trained labour force, but whose remuneration is, in general, below the local specialists's remuneration.

- **Brain export:** this phenomenon appears when the exporting country state receives from the importing country state some material benefits concretized in a tax when the specialists leave the country, or a cumulation of taxes echeloned during the specialists stay in the importing country. It is difficult to say if the received sums by the exporting state cover the costs for the tuition and instruction of the specialists as well as the possible incomes brought by these ones, on the country of origin territory, during their professional life. A true "school" to prepare the specialists deliberately for their export is placed in Barbados and Philippines.

- **Brain exchange:** implies the mutually advantageous exchange of specialists between two or more countries. The partner countries are in general developing countries, but there are cases in which one of the partner states is a developed country. This type of exchange is seen in a positive manner by both the participant countries, both benefiting from an advantageous change of experience, professionally and socio – culturally.

- **Brain drain:** the emigration of the superior skilled labour force from a weaker developed country into another state with a

superior development level. For the exporting country this is a negative phenomenon, because the state of the respective country doesn't acquire any benefit from the specialist's leaving, but it actually loses the knowledge and the experience of those who leave. From a statistic out of the context could result that this departure is positive, as concerning the reduction of the unemployment rate, even though this is not the case, especially on a long or medium term. It's a proper loss for the exporting country [7]. From the importing country perspective it is an absolutely benefic phenomenon, this one benefiting of a well trained and educated labour force which, usually, accepts a lower payment comparative to the local specialists from the same domain.

As a general conclusion, one can observe that the winner state is the state importing a superior skilled labour force, this one benefiting of quality and professionalism at low costs comparing to the costs regarding the formation and payment of the indigenous specialists.

3. Causes that determine the „brain drain” phenomenon

Overall, one can observe that the main cause is represented by the natural desire of any man to achieve a better living standard, to adequately and naturally satisfy his own needs. Of course, these thresholds can vary from the desire to assure oneself a minimum subsistence level, in the case of low developed countries, up to the pursue of a more luxurios and complex living, professionally and personally, in the case of the superior skilled labour force migration.

Starting from this premise, one can identify the general causes of the labour force migration as well as the particular causes, specific to a certain geographical area, social class, culture, ethnic origin, etc.

General causes

As the labour force migration phenomenon got more accentuated, small statistics could be made regarding the general causes that stimulate or on the contrary, limit the phenomenon's expansion. For this purpose, one can speak about two types of

factors that "attract" and respectively "reject" the so called 'push-factors' și 'pull-factors'.

Factors that determine the "brain drain" phenomenon:[8]

- Push-factors: lack of jobs, poor economic development, low level of salaries, excess and absorption incapacity on the market of specialists, lack of investments in research and development, discrimination in the case of employments and promotions, insufficient material and technical conditions, lack of a leading scientific research culture, insufficient endowments, migration towards the urban areas, the desire to recognise the superior qualifications, old educational systems, old and rudimentary technology.

- Pull- factors: rich labour force demand, developed economy, attractive salaries, jobs specially created for specialists, favorable conditions for research/development, promotion and employment opportunities, adequate material base, well sedimented development and research culture, top endowments, great urban centers attraction, superior labour force exploitation, foreign educational systems prestige, top technology.

Starting from these considerations, generally in antithesis, one can visualize comparatively the representative images of some labour force exporting countries, generally low developed countries and the developed states that attract superior skilled labour force.

In this context, the natural question regarding the insufficient number of specialists from the developed countries appears, or regarding their preference of these states to choose specialists from the developing countries.

Thus, factors such as the following appear:

- the costs necessary to train the specialists in the country of origin are high reported to the number of those who can afford those costs even in the conditions when the purchasing power is superior to the purchasing power from the exporting countries, and thus it is more profitable for the importing countries to use the labour force from other states, the costs for the basic instruction of the specialists being already realized, these ones needing just some trainings in order to accomodate and eventually to overspecialize.

- the high degree of civilization from the importing countries, which is reflected by a more stable labour force market, capable to absorb better the labour force, thus being no major discrepancies between labour demand and labour offer on the developing countries markets.

Particular causes

Being a complex phenomenon, this must be seen in detail, in order to observe a series of factors that influence the labour force migration. The ethnical factor has a strong influence. For example, going back to Israel for the jews from all over the world especially from the countries of Central and Eastern Europe. But beside all that, there are jews who decide to stay in the host country, due to the better living conditions and to the fact that they integrated and were accepted religiously, culturally, politically, as for example the jews from USA or even from Germany. Other particularities can be found in the fact that the official language of a country is an international language (English, French) and this way the emigrants are more willing to come in the respective countries than to a country more developed economically, but with a more difficult language, such as Germany, Sweden, nordic countries in general. A special characteristic can be found in the Japanese system of the labour force market, where it is mandatory to pass through all the formation stages as specialist to reach a leading position and implicitly to have a certain age, comparatively to the American system where there are young and very young top managers, the access system being much more freely. Of course, the main difference in this case is represented by the society and its culture, the Japanese culture being a more particular one, which couldn't be easily applied to another society.

4. Contemporary tendencies of the „brain drain” phenomenon

Within the current society where the globalisation phenomenon is more and more accentuated as the the borders between the states open for the free circulation of marchandise and human capital, one witnesses a general tendency namely the brain migration, which is no longer one way

as several decades ago, but a real „brain circulation.” The new economies, found in a continuous and rapid development, from India, China, South Korea, Taiwan attract new specialists which return to the country of origin after they had a great success abroad, practicing in top domains such as: IT, medicine, constructions, scientific research. Once returned to the country of origin, these ones bring their contribution to the domain they practiced in externally, through the experience they gained, but also with their own capital. In this context, the state plays an extremely important role. Firstly, it's about the initial role of the exporting country state, which can intentionally and deliberately support the emigration for a certain period of time on the territory of another state with the precise purpose to return to the country of origin and to contribute to the development of the studied domain. The second important role of the exporting state is the one of integrating in the work field those who came back, and to offer them the necessary conditions to practice and develop the knowledge obtained abroad.

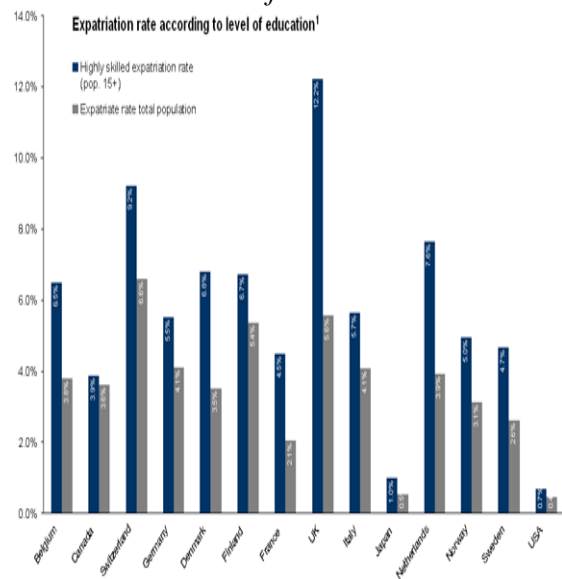
Unfortunately, in the states with a lower living standard and especially the states in a transition period as well as the states poorly developed (the African continent), brain emigration isn't made willingly but rather due to the wish of a better life, in a system that appreciates values and offers them the possibility to develop on all levels. In these states, in case the specialists come back, most of the times, they hit a wall of unclarities and indifference from the system they came back into, comparative to the system they worked and developed in. But in the states that are emerging, such as India, for the returned specialists better conditions are created, or at least they are trying to do so, taking for example Bangalore – India, the so called Silicon Valley, where the explosion of the soft industry was made by the specialists returned from USA.

The more pronounced development and the entrance of the multinational companies on new markets also represent a current tendency and in the same time a form of brain circulation. Therefore, one can observe that the accentuation of the globalisation process has many nuances depending on the country in question, in terms of brain circulation globally. Thus, the powerful

states can afford to pay a superior skilled labour force which they can continue to train at the highest level and implicitly to profit from this investment, while the countries of origin, highly skilled labour force exporting states, most of the times, can't afford to offer decent living and working conditions in general, in case the specialists would like to return.

To observe more exactly the highly skilled labour force share reported to the labour force total migration, one can analyze the chart below:

Chart no.2 Expatriation rate according to level of education



(1) OECD, Directorate for Employment, Labour and Social Affairs, 2005
(2) NatWest International Personal Banking (NatWest IPB) Expat Wealth Ranking Survey, Sept 2007

Source:<http://www.justlanded.com/var/storage/images/media/images/expatriates-expat-rate/4941641-1-eng-GB/Expatriates-expat-rate.png>

One can observe that in Great Britain, on average 5.6% from the population lives abroad, and 12.2% represents the proportion of emigrants with a higher education reported to the total population with a higher education on the Britain territory. In other words, more than one British specialist out of ten works outside the borders. Also, the emigrant specialists income average is about 43% above the income average of specialists working in Great Britain. More than 30% from the expatriated specialists have annual salaries above 100.000 euro, to which different benefits are added such as: relocation bonuses, trainings paid by the

company, house, etc. At the other extreme one can observe USA, where only 0.7% from the American citizen live outside the borders and only 0.4% from the total of specialists chose to work in other states. This can be explained by the fact that USA is a world leader regarding top research and technological development, and the American capitalism sustains and promotes the values in all fields, absorbing the specialists from all countries of the world, in order to accentuate the progress. Also, at a short distance from USA the case of Japan can be noticed. Here only 1% from the Japanese population works outside the state and only 0.4% from the total of specialists work in other countries. Of course, here it's all about another perspective, another point of view regarding the culture and civilization of the Land of the Rising Sun based on consistency and loyalty, fundamental characteristics on the job market.

The emigration directions are traced mainly after the level of development of the two countries, the exporting and the importing country. Thus, the main geographical routes globally are: from East to West (Europe to North America; Asia to Europe, North America and even the Middle East and North-East of Africa) and from North to South (Latin America to North America; Africa to Europe and North America).

One can observe that the majority of routes lead to North America, a phenomenon easy to understand due to the work and living conditions offered to the specialists that emigrate in that area. Also, Canada is a magnet with a strong influence on specialists, this one giving in its turn advanced work conditions, and the official languages (English and French), being world languages, represent an advantage. But, the most important advantage for the immigrant specialists, by comparison with North America is the fact that work visas are more easy to obtain for Canada, the main decisive factor for granting the visa being for the emigrant to have previously found a Canadian employer. From these perspectives, not only the specialists from the developing countries are tempted to emigrate in Canada but also those from the developed countries from Central and Western Europe, and even from USA. Australia is also a very searched

host country due to the fact that the visa is obtained more easily than the work visa for the USA. For the destination Australia, for the specialists there is a certain visa dedicated to them, called the "Skilled Migration Visa", which allows the stay and work on the Australian territory indefinitely.

„Brain circulation" takes place in the easiest way on the EU territory, being practically about a liberalization of the labour force on the EU territory. Thus one cannot speak about a proper migration, in the context of borders liberalization, but more about a huge common market of the labour force.

5. Conclusions

The globalisation can be seen as a process that created vital interdependencies between the majority of the world states, but which deepens even more the discrepancies between the living standards among them, as the powerful states can afford to exploit the cheap labour force from the poorly developed countries.

At the first sight, this could seem a totally beneficial phenomenon for all states, but this is far to be true, being more an emerging capitalist market (i.e. the ex socialist states), where the strong become stronger, and the lower class deepens even more.

On the overall, in the actual context of a more emphasized globalisation, soon, it won't be about an emigration/immigration, but about the free circulation of the labour force, on a free market. Concretely, in the case of multinational companies activity expansion and implicitly the superior skilled labour force migration (top management), from the mother company country of origin to the host country, the migration of the labour force is not in question, but the free circulation of the labour force.

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Analysis of Regional Disparities in the European Union Regional GDP per Inhabitant in EU

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Abstract

Normally, the main causes of cyclical fluctuations in economic activity are related to changing levels of investment and government spending. This is because a large proportion of consumer expenditure is financed from loans more than current income. As a result, consumption begins to be increasingly influenced by interest rate. Also size reduction policy interventionist government spending led to different effects on the overall level of economic development. Cyclical changes may thus alter the macroeconomic conditions and regional supply, with direct influence on the level of potential output in two ways:

- by increasing or reducing prices of primary goods;
- the impact of technological innovations on the level of economic activity.

In terms of historical changes in the level and quality of energy sources or means of transport are significant examples in this regard.

Key words: regional disparities, GDP per inhabitant, recession

J.E.L. classification: R 11

With the start of a particular stage of economic cycle, economic impacts are cumulative, as a result of acceleration and multiplication mechanisms.

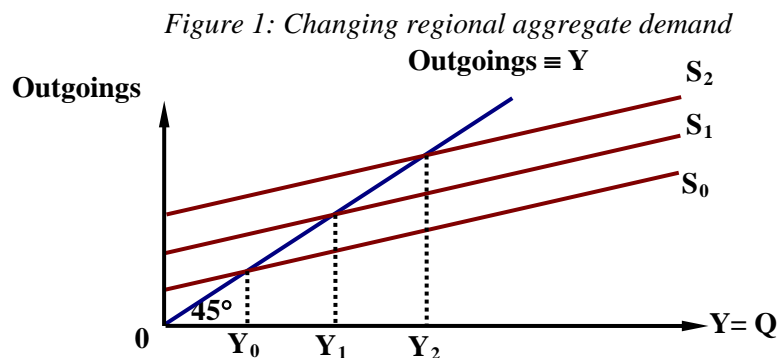
Multiplier concept is introduced taking into account that the revenue can be used for: Current consumption of goods and services produced within the regional or national economy (C), savings (S), consumption of imported goods (M) and pay taxes (T)

Accordingly, the multiplier can be highlighted:

$$Y = C + S + M + T$$

$$k = \frac{1}{1 - c'} \quad \text{sau} \quad k = \frac{1}{s' + z' + t'}$$

At regional and national level, the multiplier is determined by the value of marginal propensity to consume. The higher the multiplier value, the greater will be its effect on production levels, according to a modification of the aggregate expenditure data (see Figure 1).



Multiplier effect is that any change in the level of expenditure will have an effect greater than the regional's output will help to increase or decrease the level of cyclical economic activity.

Accelerator concept shows that an accelerated growth of production is required when the investment increases. On the other hand, investment must cover the need for goods and services and depreciation of assets.

During the recession, investment is so low that the stock of capital at the regional and national decreases. This is because the replacement rate of physical capital is lower than the rate of depreciation of such capital.

Formally, the effect is evidenced by an accelerator investment equation of the form:

$$I_t = v \cdot VN_t + d \cdot K_{t-1}$$

where :

I - investment;

K - capital stock;

VN - national income;

v - capital consumption per unit of product;

d - replacement investment;

t - current time;

t - 1 - previous period.

Since capital consumption per unit product varies greatly among different industries and economic activities, a region whose economy is dominated by industries with a high rate of capital per unit of product (steel, chemicals, high volume), will need by as much capital.

Conversely, regions that have economic activity rates of capital consumption reduced product (textile industry) will be able to develop a much smaller investment.

When the regional economy through the recession phase of the economic cycle, some workers become unemployed and will not pay, inter alia, income tax. Others will voluntarily reduce costs, due to lower their income, which attracts a decrease in income taxes that they pay. As a result, the flow of revenues derived from tax revenues at the regional level will be reduced.

On the other hand, the recession the unemployment rate increases and the government will be forced to pay larger sums into the account of unemployment. So the financial flow, coming from central government and headed to the region affected by the recession, will increase.

Combined with the reduction in income from fees, the government cash flow - the region will increase the volume of public expenditure at regional and national levels.

If, however, the economy is in the phase of recovery, unemployment will be reduced while reducing government spending related to the payment of unemployment benefits. In addition, more economic activity will require additional work factor, which will result in an increase in workers' incomes, and hence an increase in taxes on their income. In this phase of economic cycle, net government spending will decrease.

If a zero growth may be seen an increase in regional unemployment. This could mean that: income of a region should be increased by an annual rate of more than 3% to maintain the constant use of factors of production. To ensure that the utilization rate to increase by 1% per year will be the level's output to increase by at least 5%.

Largest European Commission document on regional development in 2010 as an essential element of the analysis considers intra and inter-regional disparities in GDP development community, whose average value was calculated to be 24,900 PPS. Community Areas with the highest GDP per capita are in the southern United Kingdom and Germany, northern Italy, Belgium, Luxembourg, Netherlands, Austria, Ireland and Scandinavia. The regions capital Madrid, Paris and Prague also fall into this category. Regions with the lowest GDP per capita is concentrated in the south, west and south-eastern periphery of the European Union, Eastern Germany, the new Member States and Candidate Countries for membership (Croatia, Former Yugoslav Republic of Macedonia and Turkey). Within the EU27, GDP per capita varies from 6400 PPS (EU average 26%) in the region Severozapaden (Bulgaria) to 83 200 PPS (334% of EU average) in the region of Inner London (United Kingdom). The ratio between these two extremes is 13,1:1 development.

Other highly developed regions are: Luxembourg with 68 500 PPS (275% of EU average), with 55 000 PPS Bruxeles (221%), Hamburg with 47 800 PPS (192%), Prague 42 800 PPS (172%) and Ile de France (169%).

125% of the 41 regions exceeding the growth rate of the Community. Of these, nine are in Germany, five each from the Netherlands and the United Kingdom, four from Austria, three from Spain and Italy, 2 each from Belgium and one from Finland and Czech Republic, Denmark, Ireland, Greece, France, Slovakia and Sweden and Luxembourg.

Prague is actually the region with the highest GDP per capita in the new Member States. Bratislava (Slovakia) with 39 900 PPS (160%) holds the 12th position among the most developed regions.

Prague and Bratislava regions are exceptions to the new Member States as the next best-placed regions of these countries occupy 94 seats (Zahodna Slovenija - Slovenia with 26 600 PPS - 107%), 111 (Közép-Magyarország - Hungary 25 600 PPS - 103%) and 146 (23 300 PPS Cyprus - 94%) With the exception of four regions

(Bucharest-Ilfov Romania, Mazowieckie Poland, Malta and the Czech Republic Střední Čechy), all other regions of the 12 new EU Member States have a GDP per capita less than 75% of EU average. The less developed economic regions are located in Bulgaria and Romania. It has a negative record Severozapaden in Bulgaria (26% of the EU27 average), followed by North-East of Romania, and Yuzhen tsentralen Severen tsentralen in Bulgaria (all 27% of the EU27 average).

Of the 66 regions with a lower growth rate of 75% of the EU27 average, 15 are from Poland, Greece and Romania by 7, 6 each from Bulgaria, the Czech Republic and Hungary, four each from Italy and Portugal, three in Slovakia , 2 from France, 1 from Spain, Slovenia and the United Kingdom and throughout Estonia, Latvia and Lithuania (see Table 1).

Table 1: Regional GDP per inhabitant in the EU27

Regions with the highest rates of growth (in PPS, EU27 = 100)			Regions with the highest rates of growth (in PPS, EU27 = 100)		
1	Inner London (UK)	334	1	Severozapaden (BG)	26
2	Luxembourg (LU)	275	2	Nord-Est (RO)	27
3	Bruxelles-Cap. / Brussels Hfdst. (BE)	221	3	Severen tsentralen (BG)	27
4	Hamburg (DE)	192	4	Yuzhen tsentralen (BG)	27
5	Praha (CZ)	172	5	Yugoiztochen (BG)	31
6	Île de France (FR)	169	6	Severoiztochen (BG)	32
7	Southern & Eastern (IE)	166	7	Sud-Vest Oltenia (RO)	33
8	Groningen (NL)	165	8	Sud-Est (RO)	34
9	Oberbayern (DE)	165	9	Sud-Muntania (RO)	34
10	Stockholm (SE)	165	10	Podkarpackie (PL)	37
11	Wien (AT)	163	11	Lubelskie (PL)	37
12	Bratislavský Kraj (SK)	160	12	Észak-Alföld (HU)	39
13	Bremen (DE)	159	13	Észak-Magyarország (HU)	40
14	Berkshire, Buckinghamshire & Oxfordshire (UK)	156	14	Nord-Vest (RO)	40
15	Darmstadt (DE)	156	15	Podlaskie (PL)	40
16	Utrecht (NL)	155	16	Warmińsko-Mazurskie (PL)	41
17	North Eastern Scotland (UK)	153	17	Dél-Alföld (HU)	42
18	Hovedstaden (DK)	150	18	Swietokrzyskie (PL)	42
19	Noord-Holland (NL)	150	19	Centru (RO)	42
20	Åland (FI)	143	20	Dél-Dunántúl (HU)	43

Source: Eurostat, Newsrelease, Regional GDP per inhabited in 2007, no.25, 18/2/2010.

As a result, in 67 EU regions, GDP per capita is less than 75% of the EU average, three quarters of their number being in the new Member States. On the other hand, regions with a GDP per capita less than 125% of the EU27 average covering 20.6% of Community population.

Most EU population (55%) live in regions with a GDP per capita of between 75% and 125% of the EU27 average. In 28 regions, with a population representing 9.9% of total EU GDP per capita is less than 50% of the EU27 average. With the exception of French Guiana, all other regions are in the new EU member states.

Of the 30 NUTS2 regions of the candidate states, only two (Sjeverozapadna Hrvatska Croatia and Istanbul) have a GDP per capita close to 75% of the EU27 average. Nine regions in candidate countries for accession to the EU 27 have a GDP per capita less than 50% of EU average.

The lowest levels of GDP per capita in the 27 Member States and three candidate states you have regions Van (15% of average EU-27) and Agriculture (18.2%) located in eastern Turkey. There are significant regional differences even between EU27 Member States and between the candidate. The largest such differences are manifested in Turkey, where the ratio between the developed and least developed region is 4,9:1 in the United Kingdom (4,6:1) and Slovakia (3,5:1).

The smallest regional disparities are found in Slovenia and Sweden (1,5:1) and the Netherlands (1,6:1). Moderate regional differences related to GDP per capita (less than 2:1) shall meet, except Slovenia and Croatia, only in the EU15.

In all EU 12 Member States, Croatia and some 15 member states, an important part of economic activity is concentrated in the capital. Often, these capitals have the highest GDP per capita. As is the case of capital: Bruxelles, Sofia, Prague, Athens, Madrid, Paris, Lisbon, Budapest, Bratislava, London, Warsaw and Bucharest. If it makes a comparative analysis between the extreme values of 2000 and 2010 reveals that the evolution of the EU15 states was very different from that of the EU 12 states. While this gap has decreased in all EU15 Member States, in several EU 12 Member States and Croatia, has widened.

An interesting aspect is related to the mitigation of regional disparities in the EU27. This situation has advantages those regions that have managed to obtain an average annual growth rate of 3% higher than average. These regions are considered dynamic.

In contrast, some regions in the EU15 undergoes characterized by loss of growth rate. Developments in both directions, this process leads to extreme differences whose values range from 52% for the region Bratislavsky kraj (Slovakia) and 35% for Bruxelles.

Following the most dynamic community are those in peripheral regions west and north east. Economically dynamic regions are also found in Croatia and Turkey. For the EU15 recorded strong economic growth, Spain, Ireland, Greece, United Kingdom, Finland and Sweden. On the other hand, the growth trend has flattened in most EU15 Member States.

Some regions of Italy, Belgium and Austria could not reach EU average growth during 2000-2010. In France, however, the period, all regions except Guadeloupe and Martinique, have recorded a higher growth EU27 average. The same positive trend they had two thirds of the regions of Portugal.

In the EU 12, EU economic growth above the average were recorded in the Baltics, Romania, Czech Republic, Slovakia and in most regions of Poland. Croatia, Former Yugoslav Republic of Macedonia and Turkey have achieved many of the region's economic growth above EU average for the period 2000-2010.

36 EU regions have exceeded the EU average by more than 10%. Of these, 20 are in the EU 12. Top 10 regions with the fastest growth coming from nine Member States. Capital regions continue to have high growth rates in all EU states. EU 12 region which had the greater economic growth in 2000-2010 is the Western Region (Romania), an increase of 21.4%.

At the same time, of the 31 regions had lower growth than the EU27 average of 10%, 15 are from Italy, 4 in Belgium and three in France, which shows a certain concentration of this phenomenon.

In the EU 12, the period examined, only three regions have experienced an economic decline from the Community average: Malta (-7.2%), Nyugat-Dunantul Hungary (-1.3%) and Zachodniopomorskie Poland (-0.2%).

Trend growth in Turkey during 2000-2010 was heterogeneity. The process of economic approximation (catching up) ran well in the western regions of the country, particularly in Istanbul and Bursa.

Eastern regions and islands, especially Kayseri and Agriculture, received an above average growth.

In contrast, other regions of the eastern Mediterranean coast, particularly Adana, have substantial economic contraction.

Catch-up process in the EU 12 reached 1.5% annually during 2000-2007, compared with the EU27 average. This process was much faster than developed in the 90s. GDP per capita in the EU 12 states increased from 45% of the EU27 average in 2000 to 56% in 2007. The economic crisis has caused a gradual decrease in growth rate of EU 12, but to a lesser extent than in the EU15 Member States. In fact, EU regions hardest-hit have been those with a GDP per capita and very dependent on exports.

According to this conclusion, the regions should participate actively in inter-regional trade if they want to become prosperous in economic terms - social. More prosperous regions tend to achieve balance of payments surplus, while the less competitive regions have a long-term deficit. At regional level, analysis of international trade is extremely difficult, simply because a region achieved commercial operations to other regions in the same state as operations such as foreign trade. It is nevertheless undeniable that a combination of global trade freer and more developed regions can help to open for import and export. To understand why some regions were more successful than others from their exports and specializing in manufacture and export of certain goods, we use the theories of international trade.

As long as the regions trade done directly with the world, items that affect international trade can easily be revealed at the regional level. This is particularly so since the traditional trade theory was initially developed based on inter-regional and then international.

Ricardian theory and, later, Heckscher - Ohlin tried, in turn, explain the importance of regional trade has on economic growth. The current economic research, however, exceeded the limits imposed by the classical theories, now there are at least five performance models.

The first two relate to the technological gap theory and the theory of the production cycle. Both models highlight the role of innovation and technical progress. Other models are those relating to industrial location theory (Hay and Harrigan), Inter-sectorial trade and trade within firms.

Technological gap theory argues that a region that may generate an increased flow of innovations and new products will gain an advantage from this production. This advantage will not be permanent, but will create a gap of imitation and other regions until they can accomplish the same products. This gap covers two aspects of imitation: original, innovative region will make the new product but it will not export, because there still exists demand for it, consumers in other regions, not knowing it yet;

Then, the region will start exporting a new product in other regions. This stage is the goal of creation. With time, taking over the production and to other parts of the good, innovative region will gradually lose the export advantage and domination. Because regions are open in terms of commercial time that widespread production of a new good will be quite short. The only viable obstacle to the movement of information between regions is the law on copyright, patents and innovations from each country.

Production cycle theory shows that some regions may be the most favourable place for the location (location) to the production of an asset at a certain stage of his life, while other regions may benefit in other stages of the life cycle of the good. Several stages have been identified:

- early stage: early stage is that region that is most capable of providing scientific research and development inputs, and a special skill labour, to ensure a monopoly of production.

- the high level of wages and demand at regional level will also promote, develop new products. At this stage, the high cost of production is a particular problem, as long as other regions cannot yet produce the good;

- second stage: second stage, the production becomes more standardized and production technology is becoming more common. These processes allow other regions to compete for export with the initial region. Over time, new producers, having the advantages of lower wages and fewer workers will make it hard for innovative region;

- the final phase: the final stage, the regions receiving the lowest salary levels and semi-qualified labour abundant factor will be favoured in the standardization process of production. Initial innovative region can become progressively unable to compete in the local market.

A third model, which explains the regional trade specialization is based on the analysis of industrial location. Classical location theory argues that the branches are placed in office by minimizing costs. Most important categories of costs are related to transport and work factor. In addition, economic agglomerations and economies of scale are particularly important location costs.

Inter-sectorial trade known phenomenon of attention lately. In the theory of corresponding regions are considered distinct focus their products on which export them in exchange for other products. It appears, therefore, a substantial quantity of goods Inter-sectorial, which is the subject of trade between regions.

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Grid Concept in Business Application

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Abstract

Grid is a centerpiece of the "utility computing" marketing drive taken up by nearly every vendor. Load balancers, clustering solutions, blade servers—just about any product can come to market with a grid label. The grid technologies, like smart grid, and services will help companies to be winners in the acerb competition. This paper presents an overview of grid's technologies, services and application and try to preview the direction's trend.

Key words: grid computing, OGSA, OGSI, services.

J.E.L. classification: L86

1. Introduction

The technology behind grid isn't new. Its roots lie in early distributed computing projects that date back to the 1980s, where scientists would connect multiple workstations to let complex math problems or software compilations take advantage of idle CPUs, dramatically shortening processing times. For years, vendors and IT departments eyed this opportunity to dramatically increase processing power by employing existing resources. But only recently have the tools arrived to put general business applications to work on a grid.

By many accounts, average system utilization across organizations is 15% to 20% today, while obviously the ideal would be around 80%. What's more, some 20% of IS budgets go to operations, marginally less than the 25% earmarked for capital investments. We've created large, underutilized, complex environments that are costly to maintain. So there is a huge need to do this better, and the prevailing thinking at this point seems to be that grid is the answer.

The smart grid cleantech industry is estimated to hit \$11.8 billion by the end of 2015 and the companies must to find out how to be at the forefront of this rapidly growing market.

Grid computing joins together many individual computers, creating a large system with massive computational power that far surpasses the power of a handful of supercomputers. Because the work is split into small pieces that can be processed simultaneously, research time is reduced from years to months. The technology is also more cost-effective, enabling better use of critical funds.

The best candidates for grid are applications that run the same or similar computations on thousands or millions of pieces of data, with no single calculation dependent on those that came before. These so-called embarrassingly parallel applications—which include numerous scientific tools, cryptography, and the actuarial and derivative examples mentioned earlier—are ideal for grid, as they scale almost perfectly with the applications able to take advantage of every new processor you throw at them.

2. Grid applications and type

A Grid platform could be used for many different types of applications, like:

- distributed supercomputing (exp. stellar dynamics);
- high-throughput (exp. parametric studies);
- on-demand (exp. smart instruments);
- data intensive (exp. data mining);
- collaborative (exp. collaborative design).
- service-oriented computing (exp. application service provides and the users' QoS requirements driven access to remote software and hardware resources).

Grid computing continues to evolve. Analysts and vendors now identify at least three types of grids: computational grids, data grids and collaborative grids.

While most people think of computational grids, enterprises are looking into data grids that don't share computing power but instead provide a standardized way to swap data internally and externally for data mining and decision support (music sharing systems like LimeWire and Kazaa are examples).

Collaborative grids, meanwhile, let dispersed users share and work together on extremely large data sets. (The NEESgrid, for example, allows earthquake researchers to share data and even research equipment as virtual teams over the Internet.) Clabby of Clabby Analytics also notes that subgenres such as utility grids, enterprise optimization grids and others continue to develop. In short, grid isn't going away.

Grid projects, such as NASA's Information Power Grid, The GriPhyn, and NeesGrid, are mostly created and operated by universities and government research institutions. One of the earliest and most popular public examples of grid computing is SETI@home. This project uses the processing power of more than 500,000 personal computers from around the world in its quest to search for life in the galaxy.

The most important grid players and their application, are:

- Ascential (*ascential.com*): Enterprise Integration Platform that supports data integration grids.
- Avaki (*avaki.com*): Avaki Data Grid creates a unified catalog of data across a network.
- DataSynapse (*datasynapse.com*): GridServer lets customers move existing applications to grid environment.
- Dell (*dell.com*): Partnered with Platform Computing (see below) to provide grid-enabled systems for CPU-intensive computing purposes.
- Enterprise Grid Alliance (*gridalliance.org*): Group formed by Oracle, HP and others to create enterprise-oriented grid standards.
- Global Grid Forum (*ggf.org*): Standards body that creates and publishes grid computing standards.

- The Globus Alliance (*globus.org*): Group offers open-source development kits based on Global Grid Forum and Oasis. Will likely include other standards.
- Hewlett-Packard (*hp.com*): Utility Data Center provides rapid reallocation of computing resources. Works on a variety of corporate grid products and services.
- IBM (*ibm.com/grid*): Grid is a central part of IBM's autonomic computing model. Numerous products and partnerships in place.
- Oracle (*oracle.com/grid*): Released Oracle 10g database early this year. Built-in support for grid computing resources.
- Platform Computing (*platform.com*): Software that consolidates computing resources and provides an architecture for grid-enabled applications.
- SAP (*sap.com*): Currently piloting a project to grid-enable SAP applications.
- Sun Microsystems (*sun.com*): N1 Grid engine combines grid and clustering.
- United Devices (*ud.com*): Offers enterprise grid software and hosting service for grid-on-demand.

3. Standards and forums

Creating tools that work in distributed, heterogeneous environments is a field ripe for standards, something both grid vendors and customers realize. Understanding that concern, vendors and researchers are involved in several standards bodies, like: the Global Grid Forum (GGF), the Enterprise Grid Alliance (EGA) and the Globus Alliance.

- The GGF—whose members include Ascential, DataSynapse, Hewlett-Packard, IBM, Microsoft, Oracle, Platform Computing and Sun—works to develop standards intended to create a wide range of interoperable grid-computing environments and applications.
- The EGA— whose members include Oracle, HP, Sun and others (though notably not Microsoft, IBM or Platform Computing)—has set goals of providing standards aimed at grid-enabled

enterprise applications—what it claims will be a subset of the GGF's work.

- Globus was formed by a group of research organizations, including Argonne National Laboratory and the University of Chicago and sponsored by the Defense Advanced Research Projects Agency and the National Science Foundation. The group implements standards through its Globus Toolkit, an open-source development suite that lets software makers jump-start their grid development. Current standards include the Open Grid Services Architecture (OGSA), the Open Grid Services Infrastructure (OGSI) and—most recently—the Web Services Resource Framework, which will supplant OGSI later this year, according to GGF, and allow grid software makers to use common Web services standards to identify and utilize grid-computing resources.

4. Designing a Grid

An ideal Grid environment will therefore provide access to the available resources in a seamless manner such that physical discontinuities, such as the differences between platforms, network protocols, and administrative boundaries become completely transparent. In essence, the Grid middleware turns a radically heterogeneous environment into a virtual homogeneous one.

The following are the main design features required by a Grid environment.

- *Administrative hierarchy* - is the way that each Grid environment divides itself up to cope with a potentially global extent; determines how administrative information flows through the Grid.
- *Communication services*- are diverse, ranging from reliable point-to-point to unreliable multicast communications. The communications infrastructure needs to support protocols that are used for bulk-data transport, streaming data, group communications, and those used by distributed objects. The network services used also provide the Grid with important QoS parameters such as

latency, bandwidth, reliability, fault-tolerance, and jitter control.

- *Information services*. A Grid is a dynamic environment where the location and types of services available are constantly changing. A major goal is to make all resources accessible to any process in the system, without regard to the relative location of the resource user. It is necessary to provide mechanisms to enable a rich environment in which information is readily obtained by requesting services. The Grid information (registration and directory) services components provide the mechanisms for registering and obtaining information about the Grid structure, resources, services, and status.
- *Naming services* - are used to refer to a wide variety of objects such as computers, services, or data objects; provides a uniform name space across the complete Grid environment. Typical naming services are provided by the international X.500 naming scheme or DNS, the Internet's scheme.
- *Distributed file systems and caching*. Distributed applications, more often than not, require access to files distributed among many servers. A distributed file system is therefore a key component in a distributed system. From an applications point of view it is important that a distributed file system can provide a uniform global namespace, support a range of file I/O protocols, require little or no program modification, and provide means that enable performance optimizations to be implemented, such as the usage of caches.
- *Security and authorization*. Any distributed system involves all four aspects of security: confidentiality, integrity, authentication and accountability. Security within a Grid environment is a complex issue requiring diverse resources autonomously administered to interact in a manner that does not impact the usability of the resources or introduces security holes/lapses in individual systems or the environments as a whole. A security infrastructure is the key to

the success or failure of a Grid environment.

- *System status and fault tolerance.* To provide a reliable and robust environment it is important that a means of monitoring resources and applications is provided. To accomplish this task, tools that monitor resources and application need to be deployed.
- *Resource management and scheduling.* The management of processor time, memory, network, storage, and other components in a Grid is clearly very important. The overall aim is to efficiently and effectively schedule the applications that need to utilize the available resources in the Grid computing environment. From a user's point of view, resource management and scheduling should be transparent; their interaction with it being confined to a manipulating mechanism for submitting their application. It is important in a Grid that a resource management and scheduling service can interact with those that may be installed locally.
- *Computational economy and resource trading.* As a Grid is constructed by coupling resources distributed across various organizations and administrative domains that may be owned by different organizations, it is essential to support mechanisms and policies that help in regulate resource supply and demand. An economic approach is one means of managing resources in a complex and decentralized manner. This approach provides incentives for resource owners, and users to be part of the Grid and develop and using strategies that help maximize their objectives.
- *Programming tools and paradigms.* Grid applications (multi-disciplinary applications) couple resources that cannot be replicated at a single site even or may be globally located for other practical reasons. A Grid should include interfaces, APIs, utilities, and tools to provide a rich development environment. Common scientific languages such as C, C++, and Fortran should be available, as should application-level interfaces such as MPI and PVM. A variety of programming paradigms should be supported, such as

message passing or distributed shared memory. In addition, a suite of numerical and other commonly used libraries should be available.

- *User and administrative GUI.* The interfaces to the services and resources available should be intuitive and easy to use. In addition, they should work on a range of different platforms and operating systems. They also need to take advantage of Web technologies to offer a view of portal supercomputing. The Web-centric approach to access supercomputing resources should enable users to access any resource from anywhere over any platform at any time. That means, the users should be allowed to submit their jobs to computational resources through a Web interface from any of the accessible platforms such as PCs, laptops, or Personal Digital Assistant, thus supporting the ubiquitous access to the Grid. The provision of access to scientific applications through the Web (e.g. RWCPs parallel protein information analysis system) leads to the creation of science portals.

5. Services

From the end-user point of view, Grids can be used to provide the following types of services.

- *Application services* – offers application management and provides access to remote software and libraries transparently; there are implementing with Web services technologies; they build on computational and data services provided by the Grid. (exp.: NetSolve).

- *Computational services* - provides secure services for executing application jobs on distributed computational resources individually or collectively. Resources brokers provide the services for collective use of distributed resources. They formed a computational Grid, like: NASA IPG, the World Wide Grid, the NSF TeraGrid.

- *Data services* – provides secure access to distributed datasets and their management. To provide a scalable storage and access to the data sets, they may be replicated, catalogued, and even different datasets stored in different locations to create an illusion of

mass storage. The processing of datasets is carried out using computational Grid services and such a combination is commonly called data Grids. Sample applications that need such services for management, sharing, and processing of large datasets are high-energy physics and accessing distributed chemical databases for drug design.

- *Information services* - provides extraction and presentation of data with meaning by using the services of computational, data, and/or application services. The low-level details handled by this are the way that information is represented, stored, accessed, shared, and maintained. Given its key role in many scientific endeavors, the Web is the obvious point of departure for this level.

- *Knowledge services*. These are concerned with the way that knowledge is acquired, used, retrieved, published, and maintained to assist users in achieving their particular goals and objectives. Knowledge is understood as information applied to achieve a goal, solve a problem, or execute a decision. An example of this is data mining for automatically building a new knowledge.

6. Web Services

Grid computing makes it possible to dynamically share and coordinate dispersed, heterogeneous computing resources. Flexibility and ubiquity are essential characteristics of Web services technologies such as WSDL (Web Services Description Language), SOAP (Simple Object Access Protocol), and UDDI (Universal Description, Discovery, and Integration).

The Open Grid Services Architecture (OGSA) combines technologies to unlock and exploit grid-attached resources. OGSA defines mechanisms to create, manage, and exchange information between Grid Services, a special type of Web service. The architecture uses WSDL extensively to describe the structure and behavior of a service. Service descriptions are located and discovered using Web Services Inspection Language (WSIL). By combining elements from grid computing and Web services technologies, OGSA establishes an extensible and interoperable design and development framework for Grid Services

that includes details for service definition, discovery, and life-cycle management.

7. OGSA

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OGSA defines and standardizes a set of (mostly) orthogonal multipurpose communication primitives that can be combined and customized by specific clients and services to yield powerful behavior. OGSA defines standard interfaces (portTypes in WSDL terminology) for basic Grid services.

Grid applications use grid tools and middleware components to interact with the fabric.

OGSA introduces several service concepts that need to be adopted in order to qualify as Grid services. Necessary components are *factories, registries, and handle maps*. Additional mechanisms that can be used to build our data grid are *notification* and *lifetime management*.

From a software-design perspective, a grid can be viewed as a collection of self-contained computing services that can be described, published, located, and invoked over any type of network. Services are location-independent and dynamic, span multiple computing architectures, and reach across administrative domains. The design principles of OGSA reflect a combination of elements from Web services and grid computing:

- *Resource virtualization*: each grid component is considered a service.
- *Standard interface definition mechanisms*: enabling multiple protocol bindings and transparency between local or remote services.
- *Standard foundation services*: defining service semantics, reliability and security models, and core functions such as life-cycle management, or discovery.
- *Implementation independence*: support for multiple development languages and hosting environments including Java, COBOL, C, J2EE, CICS, and .NET.

Since a grid consists of both existing and new hardware and software, multiple variations of communication protocols, security schemes, and transaction management systems exist and cooperate at the same time. Today's grids tend to be a patchwork of protocols and noninteroperable "standards" and difficult-to-reuse "implementations." The OGSA uses Web services technologies like WSDL, SOAP, and WSIL to abstract platform and implementation differences, giving transparent access to grid services.

Fundamental to OGSA are WSDL and interfaces for dynamic discovery and life-cycle management for a specific type of Web service - a Grid Service. WSDL conventions and extensions are used to describe and structure services, while core service activities are expressed using WSDL interfaces and behaviors. Every Grid Service instance has a unique and immutable name called the Grid Service Handle. Lifetime management is provided by mandatory support for the operations Destroy and SetTerminationTime.

8. Conclusion

Grid technologies represent a significant step forward in the effective use of network-connected resources, providing a framework for sharing distributed resources while respecting the distinct administrative priorities and autonomy of the resource owners. A grid can also help people discover and enable new ways of working together — providing a means for resource owners to trade unused cycles for access to significantly

more compute power when needed for short periods, for example, or establishing a new organizational or cultural paradigm of focused investments in common infrastructure that is made available for broad benefit and impact.

The combination of the confluence of developments:

- the maturation of grid technology
- general consensus that the future of computing is about networked, low-cost components
- the emergence of service oriented architectures, or Web services seems to add up to a potent force, a sensible image of the future.

We have new applications on the horizon that will give us further impetus, one being efforts to instrument anything and everything of value - sensors in/on everything in every field, from medicine to military and manufacturing. This will create a flood of raw, real-time streaming data.

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E-Commerce Protocols: Overview, Trend and Verification

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Abstract

Many researchers have looked at the problem of verifying e-commerce protocols, but much work remains to be done. On the final, I present the trends for the utilization of formal methods for the verification of modern complicated protocols and protocol suites for the real commercial world.

Key words: E-commerce, protocols, SET, AADS, 3D Secure, SSL.

J.E.L. classification: L86

1. Introduction

Electronic commerce requires protocols of great complexity. To make a purchase over the Internet, the customer typically submits his credit card number to the merchant, protected by a protocol such as SSL. However, many potential customers are uneasy about revealing their credit card number over the Internet. The SET protocol has been proposed by a consortium of credit card and software companies.

SET aims to protect sensitive card-holder information, to ensure payment integrity and to authenticate merchants and card-holders.

The paper provides a review of the existing e-commerce protocols, making an analysis of their most important characteristics. The purpose is to determine the trends and to present a formal method for verification of these protocols.

2. Overview of existing protocols

All existing protocols use *cryptographic functions* like: message digest (integrity), secret key encryption (privacy), public key, encryption (privacy and authentication), digital envelopes (integrity and privacy),

digital signatures (authentication), digital certificates (authentication).

E-commerce protocols that were developed and some of them, used, more often or less often, are:

- **SET** (Secure Electronic Transaction)- in 1996 it was developed by Visa și Mastercard, with the assistance of IBM, Microsoft, Netscape, GTE, SAIC, Terisa and Verisign;
- **iKP** (Internet Keyed Payments Protocol) – it was developed by IBM, the Research Center T.J.Watson in collaboration with Zurich Research Laboratory; is a protocol based on public key to making payments on the Internet, involving at least three parties.
- **Secure Courier** – it was proposed by Netscape, to create a secure electronic commerce on the Internet. It wants to be a protocol for the next level of SSL.
- **OPT** (Open Trading Protocol)- it was created in 1997 by the consortium of 28 companies (IBM, Oracle, Sun Microsystems, Netscape, Nokia, HP, AT & T, Fujitsu, etc..) to create a trade on network completely unprotected;
- **SNPP** (Simple Network Payment Protocol)- it was proposed by M.I.T., Laboratory of Computer Science, in 1992;
- **IBS** (Internet Billing Protocol)- it was developed by Carnegie Mellon University in 1994; is inserted into SET; first variant of this protocol is based on Kerberos, using a private key and batch invoices to ensure services both traders and buyers.
- **JEPI** (Joint Electronic Payment Initiative) – it was developed by W3C and CommerceNet
- **EMV** – it was developed by EuroPay and use the chips technology on credit / debit cards;

- **E-Check** (Electronic Checkbook)-working on a SmartCard of FSTC – USA (Financial Services and Technology Consortium);
- **SEPP** (Secure Electronic Payment Protocol) – accepted by MasterCard, IBM and Netscape;
- **STT** (Secure Transaction Technology) – developed by Visa and Microsoft;
- **TLS** (Transport Layer Security) – it's a secure protocol for simple task, who's coding information on credit cards, sent to the Web and ensure that transactions are not intercepted by a third party. It is developed by IETF (Internet Engineering Task Force) and is similar to SSL (Secure Socket Layer of Netscape). It is an open protocol, high level, which allows the addition of new technologies for authentication and encoding / decoding;
- **P3P** (Platform for Privacy Preferences) – developed by W3C and provide a platform for online transaction, allowing different preferences, the cultural norms and environments to various legislative;
- **OPS** (Open Profile Standard) – it's a complement of P3P and provides a secure storage of user profile information. Ensure the protection of individual data and the exchange of data on-line and may establish specific consumer marketing environment.

3. The most important e-commerce protocols

The e-commerce community can choose from a wide range of protocols when designing new applications, but SET distinguishes as the most popular. Companies such as Hitachi, IBM and VeriSign are currently testing SET-based products (for example, Microsoft *Wallet*). Some security experts feel that, for various reasons, SET will never gain widespread acceptance. Whether it does or not, we can be certain that new e-commerce protocols will be developed. Unlike SSL, they will not require the customer to trust the merchant. These new protocols will probably share much of SET's architecture.

SSL (Secure Socket Layer)

SSL protects the communication between a client and a server and provides authentication to both parties. SSL (TLS) resides below application protocols and above transport protocols. Most common use of SSL is to secure web protocol HTTP, TCP/IP and others Internet applications, like e-commerce.

Most Internet merchants use the SSL protocol to prevent eaves droppers from learning customers' account details, adopting the classical idea that bad persons are always outsiders. This arrangement has two major limitations:

- customers must trust merchants to keep these details secure, and merchants may be dishonest or, more often, incompetent.
- merchants must trust customers, who do not sign anything, and have little protection from stolen cards or from customers who repudiate their purchases.

Visa and MasterCard designed the SET protocol to solve these problems by keeping sensitive information confidential and by authenticating Cardholders and Merchants.

The SET Protocol

The overall architecture of SET is based on a rooted hierarchy of *Certification Authorities* (CAs), whose task is to provide customers with digital certificates for signature and encryption. Customers must generate and safeguard their private keys.

A normal run of the SET protocol consists of *five phases*. The first two phases — *Cardholder Registration* and *Merchant Registration* — are used by the protocol participants to register their keys and to get the appropriate certificates. The remaining three phases — *Purchase Request*, *Payment Authorization* and *Payment Capture* — constitute the electronic transaction itself. To accomplish these tasks SET uses numerous combinations of hashing, public key and symmetric key cryptography based on the PKCS#7 standards from RSA Laboratories.

Problems with SET

- significant changes in the existing payment infrastructure
- changes in the business model

- it is slow: banks need 750 transactions per second, and SET offers 1 transaction per second
- the sheer size of the documentation which takes over 1000 pages.
- more substantial obstacle is the protocol's complexity. Academic protocols are typically short, straight-line programs; they seldom go beyond two levels of encryption and generate few secrets.

SET has many features that make its verification hard:

- Multiple nested encryptions and duplicate message fields require abbreviations.
- Ubiquitous generation of random numbers and keys cause a state-space explosion in model checking.
- Many alternative protocol paths make it hard to single out the few key roles used either by manual analysis or by model-checkers to restrict the search space.

SET was based on X.509 certificates with several extensions and was intended to become the *de facto standard* of payment method on the Internet. Despite heavy publicity, it failed to win market share. Reasons for this include: network effect - need to install client software (an e-wallet); cost and complexity for merchants to offer support and comparatively low cost and simplicity of the existing SSL based alternative; client-side certificate distribution logistics. SET needs to be revived by introducing an emerging, alternative technology: AADS - Account Authority Digital Signatures.

AADS (Account Authority Digital Signature)

The most important objective of AADS is to incorporate strong authentication into existing business infrastructures, with public key digital signature. Neither a PIN nor a password is required to be transmitted to the receiver for validating the identity of the sender.

An AADS transaction eliminates the need to append a certificate to a digitally signed transaction. The transaction/document with appended digital signature is all that is necessary for an AADS transaction (with no appended certificate). At the receiving party, the appended digital signature is

authenticated by retrieving the public key from the associated account record (not from an appended certificate).

There have been some early electronic commerce pilots that have relied on certificate-based bindings which minimize the software changes to existing business implementations. Benefits from small pilots would typically be less than expense of modifying existing business process implementations (especially if it hasn't yet been determined exactly what the changes should be long term).

3D Secure

The basic concept of the protocol is to tie the financial authorization process with an online authentication. This authentication is based on a three domain model (that is the 3-D in the name). The three domains are: *Acquirer Domain* (the merchant and the bank to which money is being paid), the *Issuer Domain* (the bank which issued the card being used) and finally the *Interoperability Domain* (the infrastructure provided by the credit card scheme to support the 3-D Secure protocol).

The protocol uses XML messages sent over SSL connections with client authentication (this ensures the authenticity of peers, the server and the client, using digital certificates).

4. The ideal e-commerce protocols

Researchers have identified a number of desirable characteristics that must be satisfied by e-commerce protocols:

- should ensure fair exchange,
- should not require manual dispute resolution in case of unfair behavior by one party,
- each party should be assured that the item he is about to receive is indeed the correct one,
- should not require the active involvement of an online trusted third party,
- should ensure anonymity for the customer and optionally for the merchant.

Fair exchange: Ideally fair exchange requires that either both the parties involved in the transaction receive each other's items or none do. However, researchers have often

used the term in a weaker sense: the protocol gathers enough evidence during execution so that, in case one party behaves unfairly and obtains the other's item. If a dispute occurs, a judge looks at the evidence and delivers his judgment. The dispute resolution is performed after the protocol execution, that is, after the customer has obtained his product or the merchant his money. However, such "after-the-fact" protection may be inadequate in an e-commerce environment where the customer and the merchant may be unreachable after the transaction.

Avoiding manual dispute resolution:

The need for manual dispute resolution, when one party behaves unfairly, does not arise if protocols provide *true fair exchange* – under all circumstances either both the parties receive each other's items or none do. Protocols providing true fair exchange typically use an online trusted third party. The third party receives the information from each party involved in the e-commerce transaction and then forwards it to the other party. As a result if any party misbehaves or prematurely quits, no harm is caused to the other party.

Ensuring correct item will be received:

Before exchanging the items, each party must have the confidence that the item he is about to receive from the other party will indeed be the correct one. The use of an online trusted third party helps to meet this requirement as well. Although using a trusted third party helps meet some requirements, the third party is a source of bottleneck for these protocols. Not only is the performance of the third party an issue, but also its vulnerability to denial of service attacks.

Reducing involvement of the third party: Several protocols have been proposed that do not use the third party unless a problem, such as, a party misbehaving or prematurely aborting, occurs. Such protocols are termed optimistic. Most of these protocols do not ensure true fair exchange.

No existing e-commerce protocol that we know of satisfies all of these requirements simultaneously. There are a lot of things to develop in the e-commerce protocols. This is why the research community works with de software companies to obtain the ideal protocol, accepted by all.

5. Protocol's Verification

In the analysis of conventional communication protocols, three kinds of techniques have been applied to this problem:

- *Inference-construction methods* are utilizing modal logics similar to those that have been developed for the analysis of the evolution of knowledge and belief in distributed systems. These methods are widely used and a number of specific problems are associated with them, related to: the analysis of zero knowledge protocols, the detection of parallel session multi-role flaws, the transformation of messages and prepositions to idealized messages, the fact that there is no complete semantics for the logic, and the modeling of freshness.
- *Attack-construction methods* construct probable attack sets based on the algebraic properties of the protocol's algorithms. These methods are targeted towards ensuring authentication, correctness, or security properties; they are not dependent on the correctness of a proposed logic. Their main disadvantage lies in the big number of possible events that must be examined and the exponential searches. They can be divided into three sub-categories based on their theoretical foundation: methods based on general purpose validation languages, algebraic simplification theoretic model methods and special purpose expert system, scenario based methods.
- *proof-construction methods* a recent approach, which has the potential of being as thorough as attack construction in finding possible attacks, while avoiding exponential searches by replacing them with theorems about these searches. It is complementary to inference-construction methods, since they are also based on the problem formalization through hypotheses and authentication properties, but rely on problem-specific properties and a specification at a finer level of precision.

The robustness principles are therefore helpful, in that adherence to them contribute to the simplicity of protocols and avoid a considerable number of published confusions and mistakes: be very clear about the security goals and assumptions; be clear about the purpose of encryption (secrecy, authenticity, etc.); do not assume that its use is synonymous with security, be careful that your protocol does not make some unexamined assumption about the properties of the underlying cryptographic algorithm; be sure to distinguish different protocol runs from each other; do not assume that a message you receive has only a particular form, even if you can check this; sign before encrypting; the identity should be mentioned explicitly in the message.

6. Trends

Several researchers believe that in the near future, more effort will be spent on designing secure protocols and less on formal verifications. As expected, this trend has received criticism similar in nature to that expressed towards the use of formal methods in program design and implementation.

Other researchers argues that design specifications do not guarantee that protocols will meet security goals that were not foreseen by the design approach, that the protocols designed are sometimes impractical, and that — due to the imprecision of design principles — flawed protocols may in any case be designed.

A protocol analysis toolkit-based can be described as follows:

- initially, use an inference-construction method, like BAN, to determine what the role of each message of a protocol should be and to ensure freshness properties;
- then, use an attack construction method, like NRL Protocol Analyzer, for finding simple attacks quickly;
- and finally, utilize a proof-construction method to investigate deeper properties with a modest amount of effort.

Furthermore, some areas where current research is conducted have emerged.

Another interesting research direction is the investigation of the potential integration of methods (like the NRL Protocol Analyzer) and the Interrogator model within the methodology of fail stop protocols in the cases of protocols that do not satisfy the fail-stop requirements. To ease and extend the use of these it would be useful to achieve automatic translation of a higher-level protocol specification language, using exhaustive finite-state analysis and formal logic methods.

The research community is also working towards developing tools that take easy-to-write specifications of protocols and the expected properties and quickly perform formal analyses checking for failures of these protocols to achieve their desired properties.

An interesting research trend lies in the fact that many current activities use formal methods for analyzing and verifying modern protocols and protocol suites to be used in the commercial world. These suites consist from a set of single protocols which interact with each other causing, previously unknown, potential vulnerability.

7. Conclusion

The research community, working towards developing more effective techniques to design protocols that are guaranteed to be reliable and correct in the first place, has implemented the synthesis approach. Most of the recent research in this area is focused on the application of the notion of channels in order to effectively implement the layered approach.

Researchers have identified a number of desirable properties of e-commerce protocols: should ensure fair exchange, should not require manual dispute resolution in case of unfair behavior by one party, each party should have the assurance that the item he is about to receive is the correct one, should not require the active involvement of a trusted third party.

These properties must be introduced in the next generation of e-commerce's protocols for having secure e-commerce world.

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Knowledge Based Economy Strategies and Policies in Romania

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Abstract

In recent decades, knowledge is increasingly viewed more as a driving force of economic growth, which has generated a growing interest to information, technology and learning and their role in economic growth. Specialists consider that this new economy, knowledge-based economy, implies permanent products sold through virtual markets which determine much lower transaction costs and new business strategy is centered on exploiting niches. This type of economy is emerging in Romania and this paper aims to present the main national strategies and public policies for the development and implementation of information society knowledge economy in Romania

Key words: knowledge, knowledge based economy, strategy

J.E.L. classification: O29.

1. Introduction

Today, knowledge is seen as a driving force of economic growth, which generated a growing interest to information, technology and learning and their role in economic growth. "In the last few decades many of the most developed countries have moved from industrial economy to knowledge-based economy which is based on knowledge creation, information and innovation." Knowledge-based economy means constantly updated products, customized to the uniqueness in some cases, sold through virtual markets providing much lower transaction costs. Knowledge-based economy also means new business strategy, focusing on niches and exploiting economies of scale. Dynamics that take place at individual and business level determine changes to which governments are called upon to respond to

the application of legal and institutional frameworks as well as new policies with the use of specific incentives.

In this paper we adopted an approach to issues related to knowledge-based economy meant to underline the major facets of the phenomena analyzed: "A knowledge-based economy is the type of economy where the generation and exploitation of knowledge play a predominant role in national wealth creation. This implies the existence of several characteristic elements and processes of the knowledge economy:

- Knowledge- intensive production through continuous innovation;
- Efficient and effective dissemination of knowledge by all members of society.
- Intensive use of scientific knowledge in all areas (particularly in technology and business organization).
- Creation of flexible learning methods for this new type of economy, including various forms of public private and flexible partnerships, adapting systems to ensure continuous supply of work force to an economic system based on innovation and research;
- Implementation of government policies adapted to the new economic dynamics, policies supporting the creation and dissemination of knowledge, while avoiding distortions of market introduction, that the use of an appropriate mix of measures address both the present and future.

2. Knowledge based economy in Romania

This type of company is emerging in Romania, but Romania has yet to recover substantial backlogs in many socio-economic development sectors. The role of knowledge-

based economy vectors in this case must be carefully defined so that society's response to the dilemma of "Bread or Broadband" is one that maximizes the social utility on the medium and long term, with small short-term costs. Achieving this objective requires in-depth knowledge of economic and social environment, a commitment from policy makers, involvement and support from civil society, and programs consistent with elements of motivation and implementation of all social ladders.

Romania's government programs and strategies for the knowledge-based economy must be viewed from a multiple perspective; there are several categories of factors that make them.

The first category of factors is given by the correlation and structural harmonization of Romanian socio-economic development resulting from Romania's accession to the European Union. This scale requires strategies focused on knowledge-based economy correlated with:

- European strategies and programs- in this case the correlation with the Lisbon Strategy;
- National strategies and programs-in this case, harmonization with the National Development Plan for 2007-2013 is the dominant context;

A second category of factors is given by specific features related with the development and growth of the knowledge economy in Romania at the beginning of XXI century. They impose on the one hand:

- Accelerating the development of processes where there is lagging behind the European level and generally the developed countries;
- Broadening the spectrum of action, to focus on developing basic conditions, on developing the knowledge economy pillars: development of communication infrastructures; developing of processes to generate knowledge capital; developing human capital;
- Avoid adverse effects of multiple disparities that manifest in the Romanian society: between geographical regions, between rural and urban areas, between different categories of people (like income level, in terms of culture, etc.).

- Keeping alive the values of specificity and Romanian culture and civilization (the essential traditions);

As we can see from the above, the complexity of strategic issues for the development of knowledge economy in Romania is great and this is reflected in many policy documents and action plans have been developed in recent years.

In Romania has been decided, developed and launched in implementing the following strategies and programs that impact on the development of knowledge-based economy.

National Development Plan (NDP) 2007-2013 provides the strategic conception for the development and application of national and regional policies. This document sets out five priorities that should be considered at all levels: national, regional and local levels. Of these, two are particularly important for developing knowledge-based economy, namely [1]:

- Priority 1 - Enhancing economic competitiveness and development of knowledge-based economy;
- Priority 4 - Development of human resources, employment, social inclusion and strengthening administrative capacity.

The overall objective of Priority 1 - Enhancing economic competitiveness and development of knowledge-based economy is to increase the productivity of Romanian companies to reduce average productivity gaps with the Union. It seeks to achieve by 2015 the average productivity growth of approx. 5.5% annually, which will allow Romania to reach a level of approximately 55% of the EU. Associated with this general objective the following specific objectives were established:

- SME contribution to GDP growth by 20% by 2015;
- Increase the value of total R & D expenditure to 3% of GDP in 2015;
- Increasing the number of Internet users - business / population - from 52% / 19% in 2003 to 70% / 55% in 2015;
- Reduce primary energy intensity by 40% by 2015 compared with 2001.

Sub-priorities that will focus on the measures under this priority are:

- Increase competitiveness by improving market access for businesses, especially small and medium enterprises;
- Developing knowledge-based economy by promoting innovation and accelerating research and development of information society;
- Improving energy efficiency and use renewable energy.

Taking into account the Lisbon objective of stimulating innovation as a competitive basis for economic development through the National Development Plan 2007-2013 states that in Romania it is necessary:

- Incentive measures for the systematic application of innovation and technology transfer, including funding for research, product development and /or acquired companies;
- Encourage private R & D expenditures both directly through increased public spending for research and development and procurement of high technology, and indirectly, through actions such as hedge funds, indirect tax measures, campaigns, etc.;
- Start research projects and development infrastructure that will provide genuine public goods in the competitive development;
- Supporting the innovative capacity of firms;
- Protecting intellectual property and brand development and market promotion;
- Strengthen cooperation with universities and companies with research institutes;
- Promote the use of information technology;
- Extension of broadband networks;
- Developing and improving electronic public services through the deployment of e-government;
- Ensuring availability of services and educational resources on the Internet;
- Developing a safe and dynamic e-business, by increasing the number and extent of exploitation of e-business opportunities to companies in general and in particular by SMEs;
- Increasing security of electronic communications networks, the adoption of ICT solutions and promoting anti-fraud contribute to the development of smart cards, e-business environment, e-

government to better use by companies of information and communications technology environment.

The overall objective of the Priority 4 - Development of human resources, employment, social inclusion and strengthening administrative capacity development of human capital and increase its competitiveness on the labor market by ensuring equal opportunities for lifelong learning and developing a modern labor market, flexible and including who will lead, by 2015, the sustainable integration on the labor market of 900,000 people.

Another strategy with importance in the development of the knowledge based economy in Romania is Government Strategy for Informatization of Public Administration [2]. This strategy refers exclusively to those aspects of e-government and intended use of specific methods of information technology in modernizing public administration. The strategy covers the following categories of actions:

- Computerization designated to increase operational efficiency in the central and local government bodies;
- Computerization services were offered to citizens and businesses, which often involve the integration of services provided by central and local government;
- Provide access to information by end users of information technology services for government.

E-government project generally aims to reduce disparities between small and large communities in the use of information technology by facilitating access to new technologies for local public administration authorities in villages and small towns. Most authorities in small towns do not have a presence on the Internet or only a limited, static Web pages giving basic information without providing services to citizens. These communities lack the technical and economic capacity and human resources to take advantage of the possibilities and opportunities of e-government, even if any means have basic computer and Internet access. The project allows municipalities with insufficient resources to create an own web portal that can interact with citizens of those communities and make them available in real-time electronic services and provide

opportunities offered business environment to attract investment, or to interact with other institutions. The tools made available through the project, these communities could have an online presence with all the benefits that result from this.

Large local government institutions (ministries, other central authorities, county councils, mayors of large cities, etc.) began to develop e-government initiatives that allow interaction with citizens through electronic means.

National Strategy for Information Society development and implementation of knowledge-based economy

Strategies are the result of developments in strategic concept development related to the development of the knowledge economy in Romania. This development was that defining moment in 2001 during which the Ministry of Communications and Information Technology has released more than 20 pilot projects aimed at boosting the development of Information Society in Romania and has developed and launched in implementing three strategies[3]:

- National Strategy to promote the new economy and implementation of Information Society (approved by Government Decision 1440/2002);
- Romanian Government strategy to stimulate and support the development of communication sector in the period 2002-2012;
- ICT Strategy for Horizon 2025.

National strategy to promote implementation of the new economy and information society[4] was built on the eEurope + action plan. This strategy will be reviewed annually to update the projects targeted by new technological developments and European policy convergence plan eEurope2005 providing information society for all, with the eEurope + plan. Reaching the deadline of the eEurope 2005 Action Plan coincides with the time of revision of the Lisbon Strategy, aiming to reach Europe in 2010 the most dynamic and competitive knowledge-based economy. Renewed emphasis on growth and employment use. Based on revised strategy and the observation that, in Europe, information society since the "pilot phase" to the "range expansion" (due to advances in technology and the emergence of new actors) European Commission has

launched the i2010 strategy, a five-year strategy aimed at developing the digital economy. stands i2010 initiative "A European Information Society for growth and employment." In the i2010 initiative the European Commission proposes three priorities:

- Creating a single market and competitive information society;
- Increased investment in research on ICT by 80%, based on the finding that in this area, the EU invests only 80 Euros per capita compared to 350 in Japan and 400 in U.S.;
- Promoting an integrated European information society.

3. Conclusions

Romania's European and global context requires urgent need to increase economic competitiveness. It is well known that competitive advantage is no longer an economy currently based on products or services, the presence of natural resources or geographical or historical peculiarities. Today's competitive advantage is created through innovation, highly skilled workforce and extensive use of knowledge, in other words a knowledge-based economy (Knowledge Economy).

Romania's economy is still largely under the effect of industrial and agricultural era, promoting products and services that today are hardly compete on international markets and even domestically. For this reason it is necessary to stimulate the development of knowledge-based industries and European countries to eliminate disparities in its effort to innovation, using new information and communication technologies and increased public education on the new economy. Otherwise, the position of Romania in the EU will be characterized by major cost uncompetitiveness driven economy.

Stimulating knowledge-based economy in our country is the principal means of ensuring participation of the national economy on global markets, while the world prices of products will continue to decline. For this reason there must be a dynamic balance between international competition based on costs (lower wages, economic incentives, products and low value-added

services based on existing natural resources) and knowledge (high-skilled labor, research innovation, design, products and services with high added value).

Building the knowledge economy in Romania is still in its infancy, policies and programs currently prevailing in the specific concept, the precursor of the information society and the main progress made is related to the decision of building a knowledge-based economy in Romania.

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Modern Approaches in Romanian Management - Knowledge Based Management

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Abstract

The increasing globalization of business, leaner organizations, products and service convergence and vast development of technology implied that the issues of more efficient and effective operation of an organization's knowledge assets have become more important than ever before. Years ago Peter Drucker warned us that those who will wait until this challenge becomes a "hot" issue are likely to fall behind and perhaps never to recover. As Drucker has predicted, knowledge has become the key economic resource and the dominant source of competitive advantage today.

The main objective of this paper is to present the status of the knowledge management implementation in Romania, after the introductory part of the paper in which the concept of knowledge management is presented. Conclusions are presented at the end of the paper.

Key words: knowledge, knowledge management.

J.E.L. classification: M19

1. Introduction

Society has recognized the value of knowledge for centuries. Intellectual reflection on knowledge has been pursued for as long as records of human activities are available. For hundred of years, family members have passed off their commercial wisdom to their children, master craftsmen have painstakingly taught their trades to apprentices and workers have exchanged ideas and know-how on the job. However, the terminology of knowledge management

was not widely used until the middle of the nineties.

In the nineties, the characteristics of the business environment have changed. The increasing globalization of business, leaner organizations, products and service convergence and vast development of technology implied that the issues of more efficient and effective operation of an organization's knowledge assets have become more important than ever before. Years ago Peter Drucker warned us that those who will wait until this challenge becomes a "hot" issue are likely to fall behind and perhaps never to recover. As Drucker has predicted, knowledge has become the key economic resource and the dominant source of competitive advantage today.

The main objective of this paper is to present the status of the knowledge management implementation in Romania, after the introductory part of the paper in which the concept of knowledge management is presented. Conclusions are presented at the end of the paper.

2. Defining knowledge management

Based on the review of the literature presented by many academics and practitioners, it can be concluded that there is not yet a common consensus on the definition and concept of knowledge management despite a great deal of interest on the subject. Defining knowledge management is especially difficult, as different perspectives or schools of knowledge management can yield different dimensions and meanings. For example, management information systems researchers and practitioners tend to define knowledge management as an object that can be recognized and controlled in computer-based information systems. Management

researchers, on the other hand, address knowledge as processed based on individual and organizational competencies such as skills and know-how [1]. Thus, different perspectives on the concepts of knowledge can lead to different definitions of knowledge management.

The American Productivity & Quality Center considers that "Knowledge management is a business strategy, best practice transfer, personal learning, customer intelligence, intellectual asset management and innovation".

However, in the simplest term, knowledge management means exactly that: management of knowledge. It can be extended to management of organizational knowledge for creating business value and generating a competitive advantage. It consists of the processes required to effectively manage knowledge. It is a systematic, explicit and deliberate building, renewal and application of knowledge to maximize a firm's knowledge-related effectiveness and returns from its knowledge assets [2]. Knowledge management is essential for enterprises to determine where they are going and for organizational survival in the long run. It is a key requirement to future successful enterprises and is rapidly being recognized by firms to be of major strategic importance.

Salleh and Goh's [3] definition of knowledge management where it is a process of leveraging knowledge as means of achieving innovation in process and products/services, effective decision-making, and organizational adaptation to the market for creating business value and generating a competitive advantage to organizations.

Uit Beijerse [4] considers that "the knowledge management can be defined as a strategic orientated way of motivation and facilitation of the company's members engagement in the development and utilization of their cognitive capacities through the valorization of its information sources, experience and capabilities of its members".

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The essence of knowledge management is built on intellectual capital, which includes Human Capital, Social Capital and Corporate Capital. All three are essential components of Enterprise Knowledge. Human Capital it is made up of an individual's past, present and future. Each of us brings a unique set of characteristics and values from the past. These include expertise education and experience. Built on these characteristics and values from the past, they represent a set of capabilities and ways of seeing and living in the world (such as creativity and adaptability). Just as important as things from the past and skills of the present, we each have a future capacity and a particular potential for learning. Social Capital includes human and virtual networks, relationships and the interactions across these networks built on those relationships. Corporate Capital includes intellectual property, both formal and informal (e.g., patents, ideas, etc.), and corporate functional and organizational processes. It also includes all the data and information captured in corporate databases, all that has been made explicit.

Knowledge management can be viewed as a process for optimizing the effective application of intellectual capital to achieve organizational objectives. The knowledge management challenge is to discover and capture our tacit intellectual capital, share this capital through the Social Capital and leverage Corporate Capital (that which is visible or explicit). From another point of

view, knowledge management can be defined as a collection of disciplines, technologies and practices embedded in an information infrastructure that supports creation, sharing and leverage of intellectual assets – tangible and intangible – in an organization to achieve business goals. Or, knowledge management can be defined as simply the encouragement of people to share knowledge and ideas to create value-adding products and services.

Denning highlights that 'knowledge management might be seen as comprising multiple dimensions including knowledge strategy, communities of practice, help desks, knowledge bases, knowledge capture, knowledge storage, knowledge dissemination, knowledge taxonomies, quality assurance, authentication procedures, budget incentives, and knowledge measures'.

3. Knowledge management in Romania

If in Romania knowledge management is viewed by many the managers as a concept from many manuals of economics, things are different abroad. But years ago, even there, in the large corporations the need for effective management of knowledge was not fully understood.

To realize the importance of the concept without too many headaches, endless training and academic terms, Siemens executives have been faced with an unusual challenge: 60 top managers from the global telecommunications division were taken on a lake in Germany, supplied with logs, nails and string and asked to build rafts. Directors were challenged to achieve their goal without changing a word between them. The exercise demonstrated how important is the team work and the communication of knowledge within a company.

In Romania, knowledge management has entered in the companies with the infusion of know-how received from the multinational companies and Romanian managers were not asked to build rafts. Knowledge management exists in organizations from decades ago and took the form of discussions among colleagues or training. But now the concept is applied in a formally organized with the aid of specialized departments and IT systems. "In Romania, at present, we are not fully aware of the contribution to the development of knowledge management organization. Its

principles are not known to the Romanian economy and there are enough experts in the field," said Octavian Serban, the head of the KM Institute Romania.

At Siemens Romania, knowledge management system has been developed as a new project, but was picked up globally. Its operating costs locally amounted to tens of thousands of dollars a year. In Siemens Romania, each new employee immediately enters into contact with knowledge management. It is, for example, automatically recorded in some databases and according to their position, receives regular information. On the other hand, the employee adds whenever new information is needed in the system.

Romanian Commercial Bank was one of the first local companies that have implemented a knowledge management system, establishing even a department specialized in this respect, in August 2004, and a corporate university, a year later. The BCR has implemented a system of electronic access to all internal rules to all employees of the bank and they were alerted in real time of any change of rules or procedures. Knowledge captured from professional events are accessible to employees BCR clearly defined areas. "Given that knowledge management operates with intangible assets, unfortunately, the world is not yet sufficiently to developed systems and tools to measure the value of this activity," said Executive Director of Knowledge Management Unit of the BCR.

At Arcelor Mittal Corporation, which owns major steel centers in Romania, the start of knowledge management programs has been made since the early '90s. Back then, Lakshmi Mittal arranged meetings between CEOs. Gradually, they became operational meetings focused on specific aspects of the production process after several stages of preparation. In 2004, Mittal has officially launched the Knowledge Management Programme. "Given that we have about 15 meetings each year KMP, each gathering 40 participants, program costs amounted to several million Euros per year. These costs are, however, recovered well, given that the rate ROI is about 20:1" says the General Manager of Arcelor Mittal.

The results of the knowledge management system implementation in Romanian Ensign

Management Consulting firm costed around 160,000 Euros, and the results were immediate. "Increased efficiency consultants accessing faster because of the knowledge and skills have been developed to capture, dissemination and use of the information. A low time of integration of newcomers," said Roxana Blat, consultant at Ensign Management Consulting firm. A major component of cost is infrastructure, including creating the network, hardware, software and portable equipment or the office.

Ness Romania is one of the few local companies that offer solutions for information management. "For KM, IT is one area that comes with new tools, resulting in software applications that can provide clear competitive advantages to those who use them successfully," said Liliana Muraru Ness Romania marketing manager.

The vice president of human resources within the Vodafone Romania says that the purpose of knowledge management is to improve decision-making processes to integrate and reintegrate company's experiences, to increase the number of innovations to transform information into knowledge and obtain new knowledge. The advantages of such approach are obvious. Shared experiences and the knowledge of colleagues help others to combine as much information to find a creative solution or more importantly, innovative. "There are few situations in which employees of companies in various departments had to reinvent the wheel just because they were denied access to certain information, colleagues from other departments that already had them, but not of others had made known, draws Vodafone official attention. In the telecommunications industry, pressure is among the biggest change and innovation is essential to stay in the game. Vodafone provides its employees with database projects undertaken by colleagues in other countries, information on legislation, local and international press articles and forums on various topics and personalized. Over time, the company has undertaken several projects aimed at stimulating innovation and encouraging employees. Each employee may submit his idea for a new service / product / procedure / process or to improve existing ones and that he recognized the contribution when the idea is transformed into a viable project.

Involvement is the key word and Tuborg Romania. At Tuborg they are trying to attract as many people in various projects and they believe that the management is very important for each contribution, regardless of the department in which it operates. They designed the a program "Your idea counts", which encourages employees to provide solutions and suggestions, the best ideas with practicality being awarded. Tuborg Romania President considers that: "An employee with experience working on projects faced with all aspects of business and acquired over time an overview of the whole activity, which helps it effectively manage any situation. It is important that the project results to be implemented. Employees must feel the importance of their role and see the results. The changes involved in the organization this new paradigm are not easy, and project management and cross-functional teams can be difficult to implement. However, practitioners and researchers in the field ensure that the results worth all the efforts of a company that wishes to remain or to become a market leader.

Creativity and innovation is that "something" that distinguishes between companies and managers are aware of this. At the national level, except for textile and footwear industries, Romania is in all cases lower than the size of the innovative process of corresponding sectors in the EU. This leads to the conclusion that accelerated innovation is needed to eliminate disparities in growth and technological dependence.

The latest data on the level of innovation in Romania is based on statistical research findings on innovation activity for the period 2004-2006, harmonized survey Community Survey 4 CIS (Community Innovation Survey). According to survey results:

- The share of innovative enterprises in the period 2004-2006 is around 20%, showing improving economic growth climate in our country. Share of innovative enterprises is close to the EU average over the many countries in transition to knowledge-based economy.
- Structure of innovation expenditure is directed mainly towards the purchase of machinery, which means that much of the innovation process was actually based on technological catching

- The innovative firms-67% had both product innovation and process, 9% had only product innovations and 24% had only process innovations.
- The industry is more innovative than the firms in services. Of all enterprises are innovative industries 22%, while the percentage of innovative enterprises in the services sector is 17%.
- Of all innovative companies, 19% said that they achieve innovation through cooperation. Cooperation in innovation requires active participation in research and development or innovation together with other companies or organizations in the country or abroad.
- The main effects of innovation are improving the quality of goods or services and increase production capacity. 37% of innovative enterprises mentioned as the main effect of improving the quality of goods or services, 32% mentioned increased production capacity and only 18% mentioned that the main effect of reducing the negative environmental impact and increasing health and safety aspects. Information used to support the innovation process was mainly obtained from company personnel and business partners.
- With a higher share than in the EU, leading innovators are small (the share of small innovative enterprises is 55% of the total, compared to only 14% for large enterprises and 31% for medium).

4. Conclusions

The European and global context requires to Romania urgent necessity to increase economic competitiveness. It is well known that competitive advantage of an economy is no longer currently based on products or services, the presence of natural resources or geographical or historical peculiarities. Today's competitive advantage is created through innovation, highly skilled workforce and extensive use of knowledge.

Romania's economy is still largely under the effect of industrial and agricultural era, promoter of products and services that today are hard to compete in international markets and even domestically. For this reason it is necessary to stimulate the development of industries based on knowledge and elimination of gaps comparing with European countries, through the efforts of innovation, using new information and communication technologies.

Unfortunately in Romania, knowledge management is in a very early stage and till now it has entered in the domestic corporations with the infusion of know-how received from the multinational companies. But the forecasts are encouraging taking into account the governmental strategies for developing the knowledge based economy in Romania.

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The Promotion of Quality Culture in the European Union Space

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Abstract

Quality is considered to be the key of competitiveness in the European Union space. The European economy confronts in this period, with a business environment entirely new, as a result of globalization and of technological progresses on the background of a profound economic crisis. The main objective of all the actors on the European economic market has to be represented by the competitiveness development, as an essential way to improve the standards concerning the life quality, in the conditions of functioning on the markets opened to the international competition. Proceeding in this way, the society will promote the economic growth, will create new jobs, will develop the social cohesion and will protect the ambient environment. Communication represents the way in which the new vision of European quality will contribute to the development of Europe's competitiveness, as well as the roles of different partners involved in the accomplishment of this goal.

Key words: quality, competitiveness, efficiency, management, culture, vision.

J.E.L. classification: M10

1. The promotion of European Quality

According to the European Commission the European politics of promoting the quality is a politics of sensitizing awareness of the decision factors with the purpose of obtaining the transparency and the political support necessary for the assembly of instruments, methods and techniques of quality management as well as for the

assembly of initiatives and pro-quality actions from the whole Europe.

The main objective of the European politics of quality promotion in the conception of the accomplishment of some specific actions oriented to the economic agents and to the public authorities from Europe, in the view of facilitating and stimulating them to obtain the excellence of their internal organization, the excellence of their results [1].

The specific objective is the establishment and maintenance of an adequate economic environment to the appearance and development of some synergic actions, reciprocally advantageous among the involved actors: enterprises, organizations specialized in activities specific to the management of quality, other interested organizations.

In the European Union space quality is considered the key of competitiveness and a vast campaign of formatting real culture of quality take place.

This focuses on the following aspects [2]:

- the accomplishment of a common infrastructure in the domain of quality;
- the spreading of a great volume of information from the domain of quality with a view to strengthening the unique European market;
- the Europeanizing of enterprises through promoting a European politics of quality.

The enterprises actions in a national framework but harmonized with the European standards. The European politics of quality is a transcendental politics of all the national politics it determines and influences; - the elaboration of some documents of the European Union, as well as "The European Politics of Quality Promotion", "The Way of Europe to Excellence", "The European Program for Quality Promotion", all these foreseeing some measures for the

accomplishment of a strategic vision of quality in all the member countries and for the identification of the key points of this approach of maximum importance.

The beginning in the European culture formation is represented by "The European Paper of Quality" which was signed at the end of the European Convention of Quality by the representatives of more European organizations in the domain of quality, which made an important step to the harmonization of approaches in the domain of quality [3].

The signatories of this document assume their responsibility for the following domains: to promote a general approach concerning the quality in business and the public sector; to develop the teaching of quality at all the levels of education; to develop the current way of thinking over the methods and instruments and to make them more accessible for everyone; to participate actively at the dissemination of quality experience; to promote the image of European quality worldwide; to be involved in the European Week of Quality, with the view to report over the realized activities, the current initiatives and future projects, over the implementation of the management system of quality and its certification in accordance with ISO 9001/2000.

According "The European Paper of Quality", quality is: an objective of the organizational excellence is a methodology, a priority, a measure of efficiency, an action force of competitiveness.

Thus, quality is an objective because, to be competitive, the organizations have to respond precisely to the clients and user necessities and expectations. But, the quality is also a methodology which promotes the participation, the entire and responsible involvement of each person and at the same time the development of an adequate environment of work.

Quality becomes simultaneously an action force of competitiveness by lowering the costs, the beginning of people's imagination, the promotion of innovation, the renewal of the organization, the encouraging of the initiatives and consequently the increasing of jobs.

The economic competition always asks the organizations to do their best, and the quality has to be a priority for everyone every time.

Quality connects all the economic and social actors in a chain of quality, in which quality concerns everyone and asks to each and every person to be involved.

To realize this entire involvement which is a condition of the future progress, the public authorities, the professional and consulting organizations decided to sign "The European Paper of Quality" which forces them to action.

The signatories assume their responsibility in the following domains:

- to promote a general approach concerning the quality in business and public sector;
- to develop the teaching of quality at all the levels of education from the elementary to the superior education;
- to develop the current way of thinking over the methods and instruments and to make them more accessible for everyone;
- to participate actively at the dissemination of quality experience;
- to promote the image of European quality worldwide;
- to do their best to realize new progress in quality during the year;
- to be involved in the European Week of Quality with the view to report over the realized activities, the current initiatives and the future projects;
- the implementation of the management system of quality and its certification in accordance with ISO 9001/2000.

Thus the quality determines the maintenance of the organization on the market, its recognition on the intern and international plan, the growth of products and services competitiveness offered to the clients.

The European Federation of the Quality Management (EFQM) promotes a series of integrator concepts contributing to the crystallization of European culture of quality.

Thus the orientation to the results supposes "that the appreciation of an organization's quality depends on the satisfaction of all the parts interested from the financial point of view: clients, employees, providers, civil society, shareholders and physical or juridical people" [4].

Leadership and the goal's constancy determined the clarity of objectives and create an environment in which the

organization and the employees reach the excellence.

The Management, through processes and facts, another concept promoted on the European plan consists of the coordination of all the activities within an organization connected directly to the quality improvement based on reliable information.

The Implementation of staff can reach the maximum level when there are common values and an adequate culture for the participation of each employee to the improvement of quality.

Training – innovation – long-term improvement represents the base of an adequate culture formation, which determines the maximization of its performances.

The Development of partnerships supposes the existence and maintenance of some relations reciprocally advantageous based on trust with the business partners.

Public Responsibility then, when an ethical approach is adopted and when the overfull filing of expectations and of existing rules within the community is followed, the long-term interests of an organization and of its staff are the best satisfied.

2. The vision of European quality in a new perspective

The vision is “an ideal to which the organization tends, materialized in a weak structured image of future created from institutions or desires” [5].

Therefore, vision is an image, a painting of the future to which one aspires. There are both individual visions of the organizations members and a common vision of them. An important vision has to be created, communicated, expected by everyone, because only on this background the actions can be planned and the people involved in their development.

A vision refers mainly to the business which will develop, to the established mission, to the relations which will develop and the organization’s capability.

Some companies adopted the word “*vision*”, understanding by this where they would like to be in the future or what they would like to realize.

A declaration over the vision they had could refer to: the obtaining of a product at the level of the most lowered cost of the producer, the obtaining of the leader position on the market, the obtaining of the leader of innovation or opinion position, the obtaining of the leader of the quality position. To form the vision, some information is necessary from various domains: about products, technologies, projects, people. The romantic conception thought it is the fruit of magic or divine grace. Generally though, the formation of vision is based on the past analysis, of present, of future, the analysis referring to people, equipments, knowledge, and business.

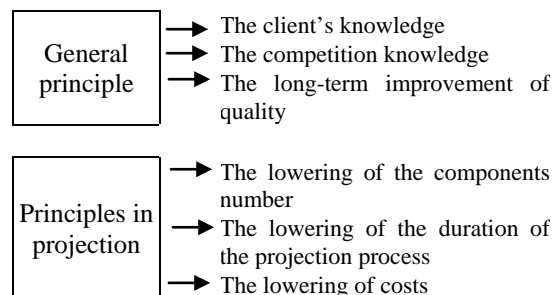
At the same time with the growth of vision’s importance, a new type of manager outlined, meaning the industrial leader. In contrast with the technocrats, the tension is directed to the creation of a unique vision in the enterprise, to communication and motivation. The vision’s sharing is done because of the same external restrictions – competition – and of some internal – new standards for products or for quality.

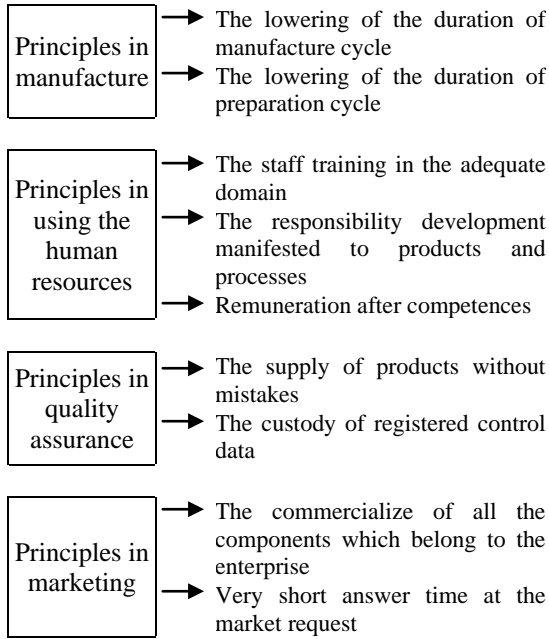
Always, a shared vision is not only an idea, even if there is about a fundamental idea, but an internal force, which gives energy to the employees.

To manage and enterprise not only a general vision is necessary, but also a vision over quality. The ruling vision a lot of important firms in the world have is that of “*world class manufacture*” (WCM) which allows the products to be better realized than any competitor, which supposes ability in manufacture.

At the background of WCM there are the following principles:

Figure1. The principles of WCM vision





To transform this vision in a plan an assessment of the present estate is necessary, the involvement of all the components contributes to the realization of production and of implementation, meaning the realization of projects and of all activities foreseen in the strategic plan.

The tendency to “*the world class manufacture*” comes with a vision in quality ensurance to “*World class quality*” – quality of world class.

This vision reflects in the way in which needs are perceived, in the attitude towards quality, in the expressing or manifesting of some components about quality. Also, the transaction to WCA supposes, mainly, a partnership adequate to the firm.

On the European plan a first strategic vision of quality has been defined for Europe in 1995. It emphasizes the importance of an image development of European culture and of a European culture of quality, in the view to favor the economic growth, to increase the jobs and to develop the world competitiveness of European enterprises.

It has to be noticed that this vision over the European quality also offers an image of the role of different involved public and private partners. The accomplishment of this vision necessities adequate action undertaken in two directions:

- an extern perspective – oriented to the clients’ satisfaction and the respecting and protection of the ambient environment;
- an intern perspective – destined to the ensurance of the accomplishment of different managerial and strategic functions, efficiently, and to the capitalization of the human potential.

The strategic vision for Europe includes the following aspects:

- citizens, consumers and clients are satisfied;
- the organizations’ staff is well-educated, trained, motivated and valuable;
- the enterprises are administered efficiently;
- the ambient environment is respected/ protected;
- the available resources are well-used;
- the unemployment is lowered through global competitiveness, innovation and creativity.

The ample analyses performed in the member states of the European Union emphasized that the level of the importance awareness and of the quality role is insufficient in these countries, as it can be seen in the following figure:

Table 1. The awareness of quality importance in world

Country /Region	The Role of Quality in Management	The level of the awareness of quality importance
Japan	Quality is an essential element of the global management of the organization.	Excellent
USA	Quality has a more and more important role.	Good
West Europe	Quality is considered to be a specialty professional problem of management.	Insufficient
Central and East Europe	Quality is considered to be only the problem of the employees from the directly productive compartments.	Limited

Other countries	Quality is perceived as being a secondary problem, not connected to management.	Lowered
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Source : *A European politics of quality promotion for the improvement of the European competitiveness*, The European Commission, FRPC, 2001

Therefore the efforts intensified for the awareness of the quality role importance at a European level and in this way the ministers with responsibilities in the domain of public services in the member states of the EU decided – within a reunion at Vienna – to develop a common program of actions concerning the quality of public services.

Consequently, a lot of important actions have been initiated in this way: an examination has been organized to know the well practices in the domain, special work groups took place to compare the obtained performances in the domain in different member states of EU and an instrument based on auto-assessment has been introduced which allows the civil servants to assess the quality of their own activities and results.

The necessity of a new European vision over quality was imposed, new versions of it being elaborated. Thus, at the beginning of the millennium, the European quality confronts to a business environment entirely new, as a result of globalization and of technological results. This situation imposes new attitudes of the different involved partners. The economic agents need the improvement of their own managerial capacity, and the public administrations need to facilitate the creation of a favorable environment for the lasting development of a society.

The main objective of all the partners has to be represented by the competitiveness development, as an essential way of standards improvement concerning the life quality, in the conditions of functioning on markets opened to international competitiveness. Proceeding this way, the society will promote the economic growth, will create new jobs, will develop a social cohesion and will protect the ambient environment.

The European vision over quality has three fundamental elements – each element being developed structurally and argued by a team specially created – thus:

- we enrich through diversity;
- we build on our success background;
- we earn together.

The vision over the European quality, edition 2000, has the following content: „Europe is a space within which enterprises and public administrations refer to the accomplishment of excellence in what concerns their results and their internal organization, all these being in the society benefit, in its assembly”.

3. Conclusions

The vision over quality send a message in accordance to which all the actors of the economic and social life should assume and play their roles with the view to accomplish a better awareness of the quality importance for Europe, as well as to engage themselves in the accomplishment of the fundamental objectives established with the view to long-term improvement and to the client's satisfaction.

This pro-active approach needs a cooperative attitude and a spiritual opening from the involved economic agents for them to accept the existence of a general commitment from the public service in the sense of transforming them into authorities which impose the respecting of some compulsory conditions in “facilitators” and “moderators”.

Thus, the economic agents and the public authorities send the society a message in accordance to which the public and private partners adopted adequate strategies of quality, contributing together at the enrichment of the civil society and so, being worthy of its trust and investments.

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Assessment Criteria for the University Scientific Research Projects

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Abstract

Scientific research is part of the university's mission, at least the major universities, being necessary to complement the learning process. The important universities consider that "the development of scientific research as a fundamental competence is essential for survival in a more and more competitive environment on global level and that is why, research should be part of the university mission".

This paper presents the results of a study which aimed to highlight the main assessment criteria used for the quality evaluation of university research projects. In the study there were involved 36 project managers from the National Plan of Research, Development and Innovation PN II 2007 – 2013. The managers of the research projects are university teachers who work for one of the three universities in Iasi: "Al. I. Cuza" University of Iasi, "Gr. T. Popa" University of Medicine and Pharmacy of Iasi and "Ghe. Asachi" Technical University of Iasi.

Key words: university scientific research projects, assessment criteria, project managers

J.E.L. classification: I 23

1. Introduction

The beginning of this century foresees many challenges for the mankind, questioning even the evolution and the existence of the mankind.

The changes in climate, the severe reduction in energetic resources, the increased average age of the population, the critical lack of food and water in a great number of areas in the world as well as other problems

related to the expansion of local and geographical conflicts represent major factors which cast doubt even on the human race.

Even though science and technology have had a spectacular evolution during the last 50 years, they have not answered to all the serious challenges mentioned above.

The economic and financial crisis during the last years has highlighted the fragility of the world economy and the lack of policies of global long-lasting development.

One recommendation made by the group of experts who propose a new policy of research in the economy based on knowledge is to allot 3% of the GDP for research and university education in a ratio of 1% for research and 2% for university education [1].

Scientific research means targeted and systematic search for the explanations to real or imaginary phenomena and processes, search for the solutions to current problems or issues specially created only to be solved or only proposed but which arise the interest and have importance in sciences or everyday life [2].

Scientific research is part of the university's mission, at least the major universities, as it represents the complementary element required by the learning process. A learning process based on engendering knowledge is much more valuable and competitive than a learning process which is reduced to a mere transfer of knowledge from the teacher to the students. The important universities consider that "the development of scientific research as a fundamental competence is essential for survival in a more and more competitive environment on global level and that is why, research should be part of the university mission" [3].

Excellency in universities and research centres represents an essential factor for the increase in competitiveness and efficiency in the allotment of funds.

The analysis undertaken regarding the university scientific research in Romania have proven the following [4]:

- Chronic lack of finances from public funds on short and average term, explained only partially by the recession and economic crisis after 2008;
- The competitive allotment of most available funds on projects which could be considered, in their great majority, important from the academic point of view, but having a few chances to be strategically synthesized on national level;
- Narrow applicability of the scientific research results, including innovations, in the field of real economic practice.

1.1. "Peer-review" evaluation systems

In the peer-review evaluation systems the assessment of the scientific research quality is done by expert advisory panels, the scientific output of the involved researchers is selectively analysed, only insofar as is relevant to a scientific research project proposed for financing. These evaluations constantly search for the correlation of the research plan proposed to be financed with a research project, taking into account the researchers' previous activity. These assessments are generally used by the financing agencies from the well-developed countries, where the scientific research follows the needs of the social and economic situation.

Decisions on funding research grants and scientific publications will depend to a large extent on the results of the peer review, as it contributes to the scientific reputation of the beneficiaries of grants / publications [5].

1.2. The National Science Foundation

The National Science Foundation (NSF) is an independent federal agency created by the American Congress in 1950, with the mission to encourage scientific progress, improve health, prosperity and welfare of the American people as well as secure national defense. With an annual budget of more than six billion dollars, the NSF supports approximately 20% from all the research receiving federal funds [6].

The scientific assessment of the projects proposed for funding is undertaken following different stages:

- intellectual merit
- broader impacts.

As regards the intellectual merit, there are considered the following issues:

- ◆ Degree of importance held by the proposed topic for the increase in knowledge and understanding within the field as well as for other fields;
- ◆ Experience of the researchers involved in the project and their readiness to successfully accomplish the project.
- ◆ The scientific impact of the research;
- ◆ The coherence of the research plan.

As regards the impact, there are considered the following:

- ◆ Contribution to the increase of knowledge and understanding, promoting teaching work at the same time;
- ◆ Wider participation of "under-represented" / "discriminated" groups;
- ◆ Increase infrastructure for education and research;
- ◆ Disseminate the results on a wide scale in order to increase understanding;
- ◆ Benefits brought to the society.

1.3. Scientific Council for Medicine

Sweden is one of the countries which gives special attention to research and development by allotting an important percentage from the GDP – 3,6 % from GDP [7].

The **aims** of the Scientific Council for Medicine established for the period 2005 - 2008 were the following [8]: determining a substantial increase of funds from the Swedish government research conducted in the field of medicine; promoting equality in chances; promoting the highest quality research.

Following the decision of the Scientific Council for Medicine from January 2007, the grants from the field of medicine have been assessed taking into account the following criteria, since 2008: project, feasibility, project management and project results.

The assessment regards quality more than quantity and it focusses on the relevant publications for the project under study. Other indicators of the research results and

their importance could be represented, for example, by the improvement on national and international level of the norms regarding treatment and diagnosis in medicine.

The evaluations are of peer-review type, in speciality panels.

1.4. Assessment criteria for university scientific research projects in Romania

The notion of quality indicator was introduced to include into the financing methodology used by universities a component with a stimulating and a corrective role.

This quality indicator – **IC6** [9], which focusses on the evaluation of the *performance level in university scientific research* has a complex structure and an estimation formula which is different from the other quality indicators described in the methodology. For the year 2009, CNFIS proposed that the percentage of 7% out of the total should be maintained for this indicator, in the situation when strategic directions at national and European level support the graduate cycles, as these study cycles are the direct beneficiaries of the university scientific research results.

In 2009 CNCSIS followed 5 general principles of performance evaluation in university scientific research, established and applied by CNCSIS, on the basis of the specific methodology:

1. The ability to collect funds for the scientific research activity - 25%
2. The ability to train the highly qualified human resources for the scientific research activity - 10%
3. Relevance and visibility of the results of the scientific research activity - 50%
4. Ability of the universities to conceive/develop innovating products and technologies for the business environment - 10%
5. Institutional capacity of universities to conduct and support scientific research performance - 5%.

The main criteria taken into account for the assessment of the university scientific research projects are the following (CNCSIS):

1. Scientific quality of the research project;
2. Human resources quality;

3. Implementation method of the research project;
4. How to use the resources of the research project;
5. Managerial skills of the project manager.

2. Material and method

The main purpose of the study is to evaluate the quality of university scientific research projects.

The hypotheses taken into account are the following:

1. The quality of the university scientific research projects and implicitly the results obtained after the carrying out of the projects is directly proportional to the scientific and managerial competence of the project managers.
2. The most important criterion for evaluation of university scientific research projects, which implicitly holds the greatest percentage is the scientific quality of the university scientific research projects.

Our study included a number of 36 project managers from the National Plan of Research, Development and Innovation PN II 2007 – 2013. The research project managers are university teachers from "Al. I. Cuza" University, "Gr. T. Popa" University of Medicine and Pharmacy and "Ghe. Asachi" Technical University, all from Iasi.

3. Results and discussions

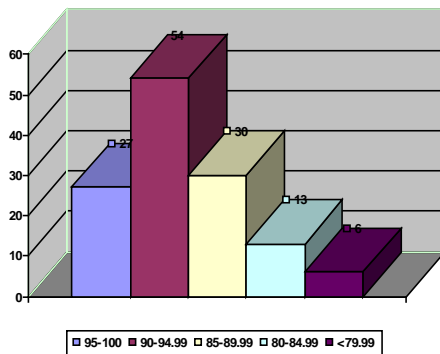
The answers to the first question about the number of research projects subscribed in the competitions are presented in Table 1. The table shows that 34 project managers (94,44%) subscribed more than 4 projects in the national competitions of university research projects, a fact which proves that they have experience in writing scientific research projects.

Table 1 Number of research projects subscribed in competitions

Crt no	Number of subscribed projects	Number of project managers
1	1-3 projects	19
2	4-7 projects	15
3	8-12 projects	2
4	> 12 projects	0
	Total	36

The 36 project managers mentioned herein have subscribed 130 projects of university scientific research into different competitions. The scores they marked are shown in Figure no 1.

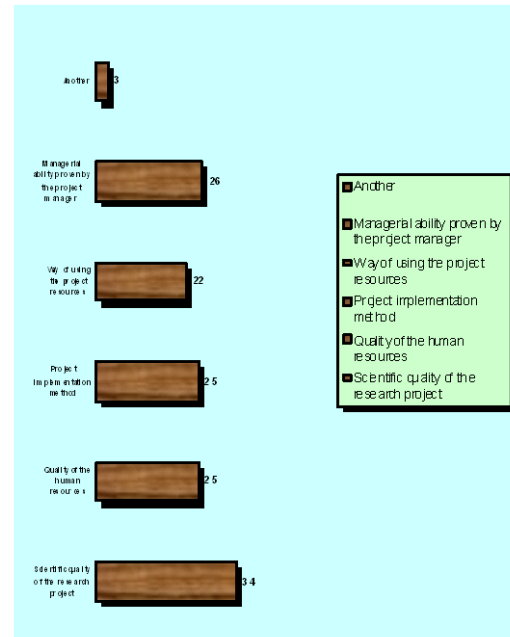
Figure 1. Scores of the university scientific research projects



The analysis of the first two questions of the questionnaire proves that 81 projects (62,30%) obtained a score higher than 90 points (the projects with this score have great chances to receive finances). Thus, the interviewed project managers build university scientific research projects which have real chances of funding.

As regards the assessment criteria which should be used for the evaluation of university scientific research project proposals, the answer can be seen in Figure 6. **The most important assessment criterion is the scientific quality of the research project** – 34 answers. On the second place lies the managerial ability proven by the project manager with 26 answers and on the third place there is the quality of the human resources and the project implementation method (25 answers). On the fourth place we find the way of using the project resources (22 answers).

Figure 2 Assessment criteria for the university scientific research project proposals



The answers given by the project managers referring to the percentage held by the assessment criteria are presented in Table 2.

Table 2 Percentages of the assessment criteria

%	Scientific quality of the research project	Quality of the human resources	Project implementation method	Way of using the project resources	Managerial ability proven by the project manager
0-20	2	22	33	35	32
21-30	11	11	3	1	3
31-40	10	2			1
41-50	6	1			
>50	7				

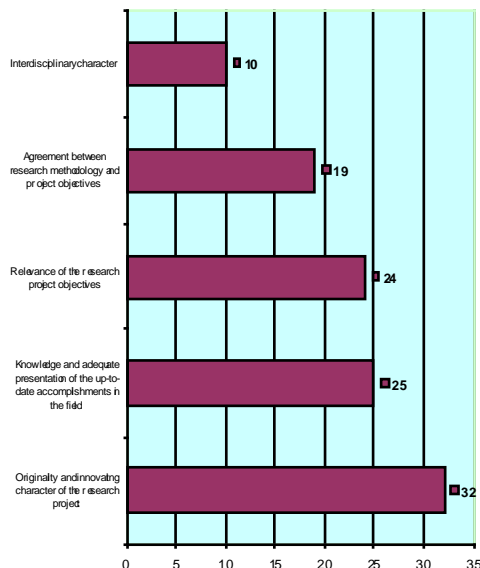
As it can be seen, **the most important criterion is the scientific quality of the project proposal** (23 managers considered that the percentage held by this criterion should be higher than 31%). The next one is the quality of the human resources (14 project managers – percentage higher than 21%). On the third place ranks the managerial ability proven by the project manager (4 project managers – percentage higher than 21%). The fourth criterion in the order of their percentage held at evaluation was considered the project implementation method and the lowest percentage should be

left for the way of using the project resources (0-20%).

The question about the aspects which certify the scientific quality of the research projects had the following answers (Figure 3):

- 32 (88,89%) out of the interviewed persons mentioned – originality and innovating character of the research project;
- 25 (69,5%) out of the interviewed persons mentioned – knowledge and adequate presentation of the up-to-date accomplishments in the field;
- 24 (66,7%) out of the interviewed persons mentioned – relevance of the research project objectives in the context of the researches in the field on national and international level ;
- 19 (52,7%) out of the interviewed persons mentioned – agreement between the chosen research methodology and project objectives;
- 10 (27,7%) out of the interviewed persons mentioned – interdisciplinary character.

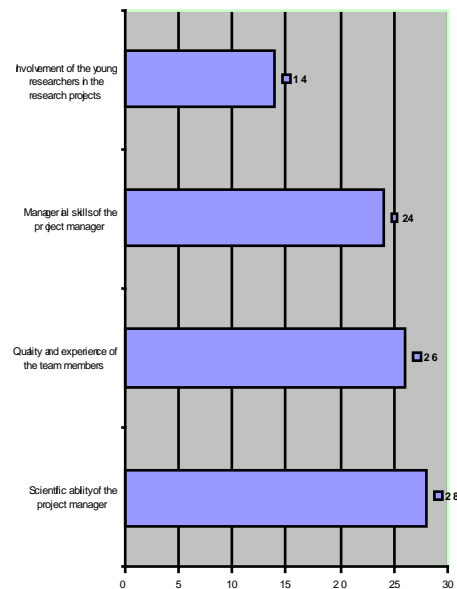
Figure 3 Aspects which certify the scientific quality of the research projects



The question about the quality of the human resources involved in the university scientific research projects had the following answers (Figure 4):

- 28 (77,8%) out of the interviewed persons mentioned – scientific ability of the project manager;
- 26 (67,4%) out of the interviewed persons mentioned – quality and experience of the research team members;
- 24 (66,7%) out of the interviewed persons mentioned – managerial skills of the project manager;
- 14 (38,9%) out of the interviewed persons mentioned – involvement of the young researchers in the research projects;

Figure 4 Quality of the human resources involved in the research projects



The question referring to the aspects which certify the implementation method used for the university scientific research projects, responses were the following:

- 28 (77,8%) out of the interviewed persons mentioned – quality of the project management;
- 24 (66,7%) out of the interviewed persons mentioned – method of disseminating the project results;
- 20 (55,6%) out of the interviewed persons mentioned – project feasibility and credibility;

- 12 (33,4%) out of the interviewed persons mentioned – approach of the ethical problems arising in the project research.

4. Conclusions

The university scientific research project is the main piece in any competition for the granting of finances in a specific field.

After processing data from the questionnaire that we developed in this study which aimed the main assessment criteria used for the quality evaluation of university research projects, we concluded the following:

1. The first real problem in the building of a university scientific research project is the existence of a team of researchers. The research team should have an optimum number of members, in other words, overcrowding is useless and not allowed. There is also necessary the presence of a real scientific competence for each member of the project team.
2. The quality of the university scientific research projects and consequently the results obtained during the implementation of these projects is directly proportional to the scientific and managerial competence of the project managers.
3. The results of the study conducted reveals that the most important criterion for evaluation of university research projects, which has the largest share by default, is the scientific quality of university research project.
4. The research infrastructure represents a severe limitation in the building and implementation of university scientific research projects. A certain research infrastructure imposes a certain type of research projects. The change of research infrastructure requires important resources and it is slightly possible, under the conditions of the present day crisis, that they might be available in a short period of time.
5. The project managers who have scientific and managerial expertise know very well the criteria for evaluation and build research projects that have real opportunities for funding, its building

projects to win grants, not just to attend in competitions.

6. The project managers and the teams with a rich experience in building and implementing university scientific research projects have bigger chances to win and carry out this type of projects.
7. Research in universities, at a significant level, cannot be accomplished only by university teachers, if we realistically consider the fact they already have a full-time didactic activity or other activities which take up their time.

In order to increase the success rate in competitions, the organizing institutions, after the analysis of the already accomplished projects, of their results and real visibility of the potential users, should take the next step in the limitation of the closely related fields.

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The Importance of Building and Developing University Scientific Research Projects for the Achievement of the Proposed Final Results

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Abstract

Any university scientific research project is a complex work, with a mixed character, scientific and organizational, which requires professional as well as managerial competence. The conceiving and drafting of the university scientific research project must follow a set of rules which would ensure the basis for the carrying out of the project when it is financed.

This paper presents the results of a study which aimed to highlight the importance of building and developing university scientific research projects for the achievement of the proposed final results. The study we made included 36 project managers from the National Plan of Research, Development and Innovation PN II 2007 – 2013, project managers working in three universities from Iasi university center: "Al. I. Cuza" University, "Gr. T. Popa" University of Medicine and Pharmacy and "Ghe. Asachi" Technical University.

Key words: university scientific research projects, project building, scientific results

J.E.L. classification: I23

1. Introduction

It is common knowledge that the three pillars: Education, Research and Innovation, in the context of the existence of certain advanced systems of communication and information and knowledge processing represent important factors for the ensurance of competitiveness and cooperation in the

world process of social and economical development.

The universities are the catalyst of creation and they play a key role due to the position they have in society in providing the most important component of the knowledge based society: highly qualified human resource.

Due to the four major tasks that have: creation of new knowledge through research, knowledge transfer through education, dissemination through information and communication technologies and use knowledge in new products and services, universities are key players in the knowledge based society. Apart from education and research, universities have an important role in stimulating the economic development [1].

Scientific research in universities is an inseparable part of an efficient system of education and it is essential for the development of the university system in itself. Under the conditions in which the effects of the globalization are noticed in all social and economic sectors, scientific research represents an essential factor for the accomplishment of the globalization objectives. In this context, the role of the universities should gain strength and they should be regarded as real pillars of the society based on knowledge due to the following [2]:

- Acknowledgement of universites role in the education of human resources through the gathering of abilities, stimulation of the imagination and creativity for the development of the society;
- Make differences between the universities, taking into account the research performances, education, the transfer of knowledge and technology and making

available the services for the local and regional communities;

- Encouraging cooperation between different universities and between universities and research centres and economic organizations, in order to reach the critical mass which ensures a excellency in research and transfer of knowledges;
- Encouraging the innovating and entrepreneurial capacity, with professional management and leaders with vision, which could accomplish the objectives regarding quality and excellency;
- Attraction the most talented young people in powerful research centres and create all the conditions for their training and support.

The high-quality scientific research represents the engine of the society. Performance and quality in the research activity require an analysis of the human resources, of the research infrastructure and the method of resource use for the financing of the research projects.

The financing of scientific research undertaken in universities requires funds which can be obtained mostly by applying to competitions for university scientific research projects.

For the designation of the university scientific research projects which will be financed they have to be assessed and classified. The evaluation process must be a fair and transparent one in order to ensure the financing of the best university scientific research projects.

Any university scientific research project is a complex work, having a mixed character, scientific and organizational which requires professional as well as managerial skill. Building and drafting a university scientific research project should follow a series of rules which would provide the necessary information needed for the project evaluators, and the basis of the implementation when the project is financed.

A project is considered to be successfully accomplished if, on one hand, are complied with restrictions on time, cost and performance [3], and on the other hand, if the results proposed at the drafting time were achieved [4].

The main chapters taken into consideration when building and implementing a university scientific research project are the following [5]:

1. **The aim of the project** – represents the stage which the project team wishes to reach at the end of the project.
2. **The project objectives** – are the results desired by the team in order to achieve the aim or the steps needed to be taken to achieve the purpose. They describe one or several future stages of a particular system or product, considered to be desirable, necessary or accomplishable. An objective represents what is desired to be obtained following a particular action. These objectives should be: quantifiable, clear, precise, realistic, result-oriented.
3. **The project methodology** represents the chapter dedicated to the presentation of the way (how?) in which the project objectives will be accomplished, during a particular period of time (when?) The methodology includes the totality of procedures which will be used in order to accomplish the defined objectives.
4. **The project staff.** In order to justify the abilities of the research staff as required by the demands of the project manager, the project proposal should include a presentation of these persons, mentioning especially the qualifications and the skills detained at the moment of the proposal and their scientific papers which are directly related to the theme of the project under study.
5. **The research infrastructure** and the available facilities as well as the ones proposed to be purchased. Any applicant institution which proves to dispose of most facilities required for the proposed project should be considered a guarantee for the accomplishment of the project.
6. **The accomplishment plan of the project.** The working units of the project are its activities and stages. The scheduling of the project means defining the activities and arranging them in temporal succession so that the main events could be followed during the implementation of the project. The way in which the accomplishment plan is presented should allow the identification of the working periods, of the way in which the activities depend upon one other and of the involved partners.

7. **The project budget.** The value of the project informs the financier about the sum which should be paid in order to obtain the promised results in good time. The great quality of a project manager is to choose a research topic, employ a number of qualified researchers which could accomplish the objectives using the existent supplies, with only a few completions, during the established period of time and without surpassing the announced financing limit. The necessary budget is established after the previous chapters of the description have been drafted and explained.

The main chapters of the project budget are the following:

- Staff expenses;
- Material expenses (stationery, reactants, inventory objects);
- Mobility expenses;
- Expenses on the research infrastructure which needs to be upgraded;
- Dissemination expenses (publication, taxes of participation in scientific events);
- Expenses on third parties;
- Indirect expenses.

There must be taken into account the fact that any university scientific research project is built in a system of constraints. The project proposal conceived to obtain finances should know, from the very beginning, the particular system of constraints.

The constraints to which the scientific research projects are bound to are the following:

- ◆ Duration of the project;
- ◆ Maximum value of funds;
- ◆ The ambition of the proposed research theme;
- ◆ Number of members in the project research team;
- ◆ Scientific capacity of the research team;
- ◆ The research infrastructure of the institution which hosts the research project.

The scientific research projects address the scientific community or the economic or business environment, ending in a series of results which are published or transferred as

intellectual rights to the interested parties [6].

2. Material and method

The purpose of the study is to highlight the importance of the building and developing of university scientific research projects in order to obtain the proposed final results.

The undertaken study included a number of 36 research project managers from the National Plan of Research, Development and Innovation PN II 2007 – 2013. The research project managers are university teachers from three universities from the same university centre: "Al. I. Cuza" University, Iasi, "Gr. T. Popa" University of Medicine and Pharmacy Iași and "Ghe. Asachi" Technical University Iași.

3. Results and discussions

Each of the 36 scientific research project managers answered a questionnaire with 12 questions regarding different aspects related to the building and developing of university scientific research projects.

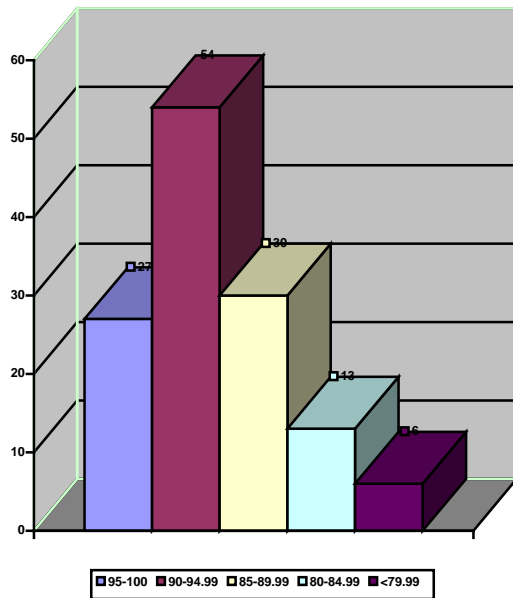
The answer to the first question about the number of projects subscribed to competitions is presented in Table 1. The table shows that 34 managers (94,44%) subscribed 4 projects in the national competitions of university scientific research projects, a fact which proves that they have experience in writing scientific research projects.

Table 1 Number of research projects subscribed to competitions

Cr t no.	Number of subscribed projects	Number of project managers
1	1-3 projects	19
2	4-7 projects	15
3	8-12 projects	2
4	> 12 projects	0
	Total	36

The 36 managers of university scientific research projects subscribed a total of 130 projects in different competitions. The scores obtained are presented in Figure 1.

Figure 1 Scores of the university research projects



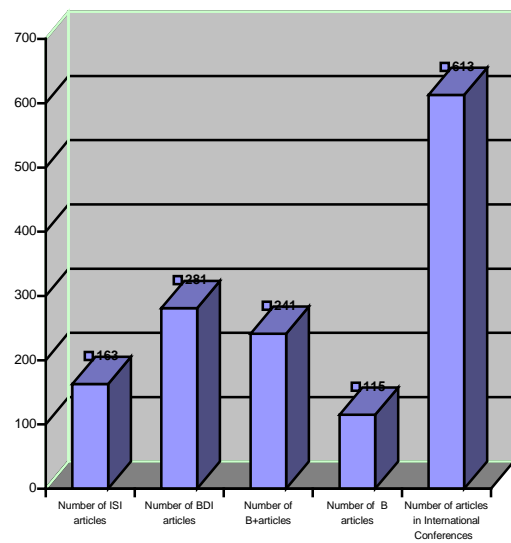
The analysis of the first two questions of the questionnaire shows that 81 projects (62,30%) obtained a score higher than 90 points (the projects with these scores have great chances to obtain funds), as a consequence, the project managers build university scientific research projects with real chances to be financed.

The question about the way of using the university scientific research projects resources had the following answers:

- 34 (94,5%) of the questioned people mentioned – adequacy of the equipment and facilities necessary for the experiments, as well as the degree in which the equipment is available in the institution hosting the project;
- 20 (55,6%) of the questioned people mentioned – correct dimension of the chapters in the research project budget.

The scientific results obtained by the research project managers under study are shown in Figure 2.

Figure 2 Scientific articles obtained in the research projects

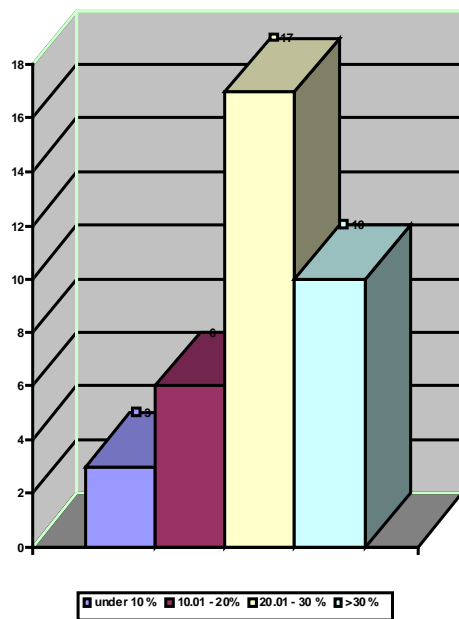


After the implementation of the research projects, there were subscribed 12 research projects in international competitions (FP5, FP6, FP7, etc.) and there were made 20 international collaborations.

The great number of articles published in ISI reviews, international data bases, B+ or B reviews, as well as the great number of articles presented at the international conferences created a good international visibility of the project managers and team members involved in the research projects. This fact helped to the creation of relationships with researchers from European Union countries, the USA and in collaboration there were subscribed research projects to European and international competitions.

The time dedicated to the accomplishment of the financial and accountancy stage of the research projects is shown in Figure 3.

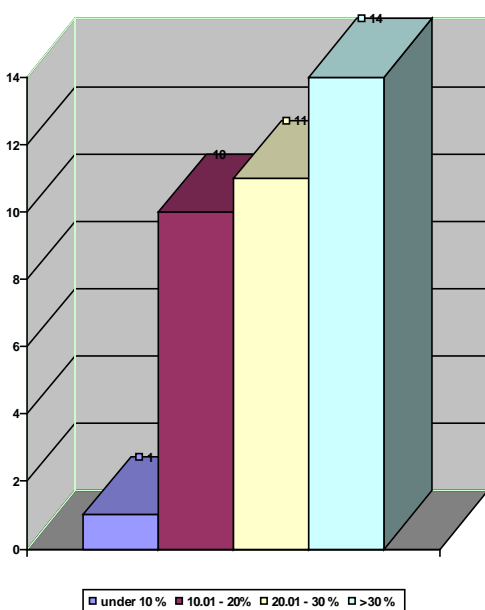
Figure 3 Percentage of time dedicated to the financial and accountancy stage of the university research projects



As it can be seen from Figure 3, 27 managers (75 %) allot more than 20% of the time for the accomplishment of the financial and accountancy stage of the university scientific research projects.

The time dedicated to the conceiving and drafting of the scientific and financial reports is presented in Figure 4.

Figure 4 Percentage of time dedicated to the accomplishment of scientific and financial reports of the research projects



As it can be seen from Figure 4, 25 managers (71,5 %) dedicate more than 20% of the time allotted to the project for the accomplishment of the scientific and financial reports of the university scientific research projects.

During the implementation of the university scientific research projects there appeared several dysfunctional elements which generated pressure on the project managers.

One issue which casted great pressure and created numerous dysfunctional elements during the implementation of the research projects was the purchase stage of the projects. More than 90 % of the project managers expressed their discontent related to the stuffy laws which require a lot of time, a fact which led to delays in the developing of the projects (sometimes the project manager had to change the report deadline for one particular stage in order to make the purchases included in that particular stage).

Another important issue was also the motivation of the team members. In order to achieve the results they engaged into through the project proposal, the managers had to find different incentives for the team members, stimulating from the financial point of view, namely: salaries, fees and travel expenses to the conferences where the results of the project were presented.

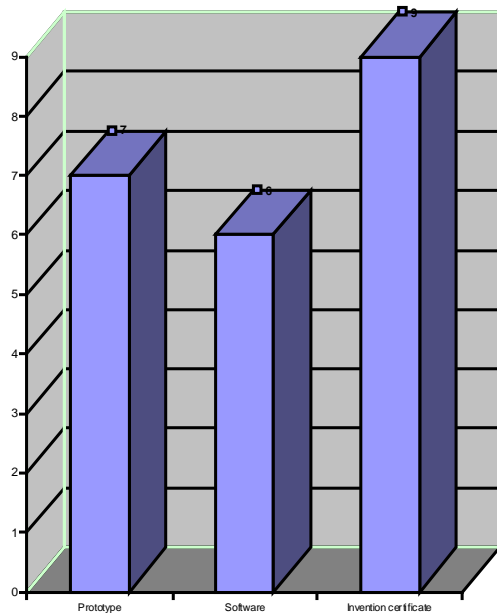
The young researchers (Masters and PhD students) as members of the research teams proved to have an average interest in the carrying out of this type of research projects (certain projects required the involvement of 2-3 young researchers in the team, clearly describing their part in the project implementation).

The practical results of the undertaken research projects are presented in Figure 5. Unfortunately, this chapter has less eloquent results. It is hard nowadays to find a company which is willing to invest in the selling of a prototype or in an invention obtained as a result of a research project. The company should have serious financial resources and should also be positive that the production of the prototype or invention will bring profit.

In case of 29 managers (80,6%) the results of the research projects were used for new project proposals and this proves that there has been created a new direction of research (research group).

The feedback from the users of the project results, after 2-3 years from their completion was a moderate one – 12 (33,4%) project managers have reported this.

Figure 5 Practical results of the university scientific research projects



4. Conclusions

After processing data from the questionnaire that we developed in this study regarding the importance of construction and evaluation of university scientific research projects for the achievement of the proposed final results, we concluded the following:

1. The results of the university scientific research depend directly on the performances of the human resources and finances used for their accomplishment.
2. The results obtained in the undertaken research projects (ISI articles or included in international data bases, as well as articles presented in international conferences, prototypes, the development of new methods and investigation techniques) created a better visibility on international level of the project managers and team members of

the research projects. This fact also helped to make contacts between the researchers from the European Union countries, the USA and their collaboration led to new research projects subscribed to European and international competitions.

3. In case of 29 managers (80,6%) the results of the research projects were used for new project proposals and this proves that there has been created a new direction of research (research group).
4. The project managers and teams with rich experience in building and developing university scientific research projects have greater chances to undertake university scientific research projects.
5. In order to obtain the proposed results, the project managers had to offer to the project team members financial incentives such as salaries, fees and travel expenses for the national and international congresses and conferences to present the results of the research projects.
6. The university scientific research projects carried out in the Romanian universities have only a few results (prototypes, invention certificates, so on) which could be directly used in economy.
7. The feedback from the users of the project results is a moderate one and a small number of stakeholders show an interest in the project results after 2-3 years from their completion.

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Fiscal Coordination vs. Fiscal Competition among Corporations in EU

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Abstract

While tax harmonization in Europe can be difficult, fiscal coordination is as necessary as it is desirable. Tax competition, however, is the result of international mobility of tax bases, such as companies and financial assets. This mobility was not driven only by technological innovations in transport and telecommunications sectors, but especially the political decisions of liberalization and deregulation. This article addresses the issue of eliminating tax competition through tax base, by adopting CCCTB system, analyzing the benefits of tax coordination at European level. Fiscal Competition, in these conditions, would occur only at the tax rates that are so diverse (as it shows bellow) in the 27 EU Member States.

Key words: fiscal coordination, fiscal competition, corporate tax rate competition, common consolidated corporation tax base

J.E.L. classification: H32-Firm

1. Introduction

Since the establishment of the European Economic Community in 1957, there has been an ongoing debate on the need for cooperation and tax harmonization in Europe, debate has been intensified, mainly by creating the Economic and Monetary Union.

When the 1992 report issued by the Ruding Committee stressed the need to counter special tax regimes in force as their distortions due to the effects of internal market, Member States agreed on the need to remove these regimes, in order to maintain a basic balanced taxation and to prevent economic distortions. Indeed, most of these countries have been extremely focused on completing the single market and promoting intra-community trade, and not achieving

fiscal harmonization, not wanting to give up fiscal sovereignty in direct tax.

Since then, however, the process of harmonization in the field of direct taxation has been made by the EC Court of Justice, which in some years, has developed a considerable amount of cases, not only in direct taxation, but especially in Measures to support the income tax field.

Currently, the same Member States who have a long enough period was reluctant, urged the Commission to review the fiscal policy of state aid and make full use of its powers under the rules of the Treaty in the fight against tax competition harmful.

Consequently, the „Monti package”, adopted in 1997, whose main provision was the Code of conduct, did not address only those measures that affect or may affect significantly the location of a commercial activity in the Community, but had designed, also taking into account the provisions of the Treaty and related rules on state aid to combat harmful tax competition. In other words, Member States would retain sovereignty in adopting their tax systems, however, the Commission is now vested with the power to enforce state aid rules, namely art. 87, 88 and 89 of the EC Treaty, the tax rules set by those states in the field of direct taxation.

In simple terms, therefore, the Commission will examine whether the tax rules can be regarded as harmful or not, to the extent that they are opposed to free and fair competition rules, the fundamental principle underlying the state aid discipline.

2. Fiscal coordination in corporate tax system

In the late eighties a new concept of economic integration has been defined. Priority represent a mutual *coordination and close the tax systems* of Member States rather than a systematic approximation

imposed by the European Union. This new concept was developed in accordance with the principle of subsidiarity. In 1988, the Commission started to draft a proposal to harmonize the rules for determining the corporate tax base. Initial draft guidelines on depreciation allowances, capital gains, stocks, provisions relating to reserves, valuation adjustments, and overall costs. The main goal was to establish a more uniform tax treatment and more transparent in terms of corporate profits, which would open the way for a harmonization effort under the guidelines proposed directive in 1975.

In 1990, three proposals on company taxation were adopted

- The Parent-Subsidiary Directive dealing with the tax treatment of cross-border dividend payments between parent companies and subsidiaries and the taxation of parents on income received from subsidiaries.
- The Merger Directive aimed at the deferral of capital gains taxation in case of certain cross-border transactions related to the restructuring of groups of companies.
- The Convention on the elimination of double taxation with the adjustment of profits of associated enterprises.

The European Commission also published a draft Directive on the set-off of losses sustained by branches and subsidiaries (COM (84) 404 final) and a draft Directive on the abolition of withholding taxes on interest and royalty payments between parent companies and subsidiaries (COM (90) 571 final).

In addition to tax treaties, mutual assistance can currently be based on the Directive for mutual assistance in direct tax matters. This Directive provides for the exchange of information, response to inquiries, and the presence of an agent of one Member State on the territory of another Member State with a view to monitor the activities of multinational corporations.

Also, in March 1992, on the line of fiscal coordination in the EU, the Independent Committee of Experts on Company Taxation, chaired by Mr. Ruding, published a report containing conclusions and recommendations to company taxation within the EU aimed to ensure the proper functioning of the internal market after 1992. Also for fiscal coordination in line with the purpose of imposing discipline in this respect and the

elimination of harmful tax competition in November 1997, the Commission adopted the so-called "Monti package", which was a central proposal Code of Conduct (agreed by the ECOFIN Council meeting in December 1997).

In order to assess recent attempts to coordinate their fiscal policies in the EU, it is useful to remember the purpose of coordination: increased mobility of companies and financial assets as a result of liberalization, which led to increased tax competition within the EU. When the opening was created, European politicians "forgot" to design and architecture parallel tax. This event fundamentally changed the balance of power between governments and market players.

Currently, the European Commission and Member States are trying to regain the power they lost, but this seems to be extremely difficult. These processes can be studied in terms of "politics of scale", a paradigm that opposes neofunctionale theory. This paradigm is basically regional in assessing applications for greater fiscal autonomy in a context of economic and monetary union.

3. Fiscal competition in corporate tax rates and fiscal coordination in tax base

There are many differences in corporate tax systems operated by each Member State, including significant changes in tax rates and tax base. In addition to these differences exist, namely, differences in other aspects of income taxes. Following are the key characteristics of corporate tax systems in the European Union.

The tax rates presented in Table 1., differ significantly in the 27 EU Member States. The lowest nominal tax rate of 10% recorded in Bulgaria and Cyprus. This is followed by Ireland, at a rate of 12.5%, Latvia, Lithuania 15%, and Romania 16%. All these nominal rates below the EU 27, which is 22%. In contrast, the highest nominal rate of corporation tax, Malta lies 35% followed by France with 33.33%, Belgium 33% and Spain by 30%.

Table no. 1. Corporate income tax rates applied in the EU27

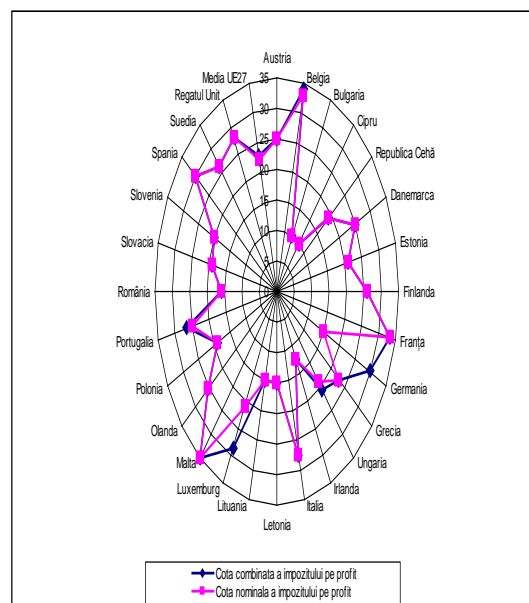
Member State	* Combined rate (%)	Nominal rate (%)
Austria	25	25
Belgium	33,99	33
Bulgaria	10	10
Cyprus	10	10
Czech Republic	19	19
Denmark	25	25
Estonia	21	21
Finland	26	26
France	33,33	33,33
Germany	29,8	15
Greece	23	23
Hungary	20,62	19
Ireland	12,5	12,5
Italy	27,5	27,5
Latvia	15	15
Lithuania	15	15
Luxembourg	28,59	21
Malta	35	35
Netherlands	25,5	25,5
Poland	19	19
Portugal	26,5	25
Romania	16	16
Slovakia	19	19
Slovenia	20	20
Spain	30	30
Sweden	26,3	26,3
United Kingdom	28	28
Average EU27	23	22

Source: Own elaboration from: http://ec.europa.eu/taxation_customs/taxinv, 2011
*) Combined share is made up of statutory rate, local rate and surcharges apply.

In Figure 1 are presented and compared the nominal rates and combined corporation tax rates in the EU27. Combined rates include near nominal rate, the central authority receiving the profit share percentage assigned to local authorities and certain surcharges. The biggest difference is recorded in Germany, from 15% as central authority to combined rate 29.8%, which includes 14% local incumbent. Also in Belgium are charged a 3% crisis surcharge that benefit only the central authorities, with a combined rate of 33.99%. In Hungary, the combined rate is 22.62% and includes, in addition to the nominal rate of 19% and 2% local rate. Luxembourg charge a combined

rate by 28.59%, which contains the nominal rate of 21% profit share of 7.5%, which applies in Luxembourg-City and a 4% solidarity surcharge to finance unemployment fund. Portugal, also, levy a local income tax rate of 1.5%, reaching a combined rate, above the EU 27 (which is, in this case, 23%), 26.5%.

Figure 1. Central authorities corporate tax rates and the combined rates in EU27



Source: Data from Table 1

Analyzing the evolution of the effective average tax rate (EATR, Average Effective Tax Rate) is, in fact, the relevant rate for the analysis of discrete investment choices, such as choosing the location. EATR is calculated for each of 15 different investment types - five assets, each could be funded from three sources. EATR is a measure of present value of taxes paid is expressed as a proportion of net present value of income stream, except the initial cost of investment), using the Devereux and Griffith (1999, 2003) methodology, Elschener and Vanborren (2009), have reached the following conclusions: EATR for the EU-27 average is 22.3%, but this hides considerable dispersion EATR levels of Member States. EATR lowest level recorded in Bulgaria (8, 8%) and highest in Germany (35.5%). In the EU15, EATR (26.3%) is considerably higher than in new EU Member States indicated that 12 (17.4%). There may be more reasons for variances between actual tax levels. One of them could be the size and the economic

development that can lead to higher levels TR for larger countries. For most countries EATR is slightly below the statutory tax rates. In some countries, EATR is higher than statutory tax rates. In Ireland, real estate taxes are very high compared to income taxes. France imposes a tax on business (*Taxe professionnelle*) for fixed assets. Cyprus applies a special tax on financial assets. Only in Belgium, Estonia and Italy, the average actual rates are considerably lower than the statutory tax rates. This is mainly due to a specific tax regime for financial assets or differences in tax treatment depending on funding. In Italy, local tax of 4.25% does not apply to financial assets, leading to a lower EATR. In Britain EATR reaches 29.3%, Spain 34.5%, Ireland 14.4% and 32.2% in Malta.

The Tax Base

The European Commission believes that the only way to systematically address the obstacles facing companies operating in more than one Member State in the Internal Market is to provide them with a consolidated tax base for their activities at EU level.

On March 16, 2011, the European Commission proposed a common system for calculating the tax base of corporations operating in the EU. Proposal for a common consolidated corporations tax base (CCCTB) would mean that companies could benefit from a "one-stop-shop" for filing tax returns and would be able to consolidate all profits and losses incurred by the throughout the EU. In this way, Member States could maintain full sovereign right to determine their own tax rates.

Common consolidated corporations tax base is a single set of rules that companies operating in the EU could use to calculate their taxable profits. In other words, a company or a qualified group of companies, should follow only one set of rules in calculating the taxable base, the EU, and not the different rules that apply in Member States where they operate.

In addition, using CCCTB, groups may submit a single consolidated tax declaration for the entire work in the EU and the consolidated group's taxable profits would be divided by individual companies through a simple formula, so that each Member State can tax then corporate profits with a tax rate they choose.

As regards depreciation, tax deduction for it, companies will choose CCCTB system will have to apply a set of rules for depreciation (25% over four years). The system will apply not CCCTB, as yet, is optional, as the depreciation will continue to apply national rules.

The CCCTB would be optional, allowing companies that felt that they would truly benefit from this harmonised system to opt-in, while other companies could continue to work within their national systems. This is a common sense approach, as it means that companies that have no intention of expanding beyond their national borders, and therefore will only ever work within one system, do not have to shift needlessly to a new tax system. The Commission also believes that a compulsory CCCTB would be out of line with the principle of subsidiarity, as it would mean that EU measures were being introduced to cover purely domestic, as well as EU-level, activity. Companies would have to opt-in to the CCCTB for a minimum of five years (to avoid them opting in and out for tax planning purposes). In addition, an annex to the proposal lists various criteria that a company must meet to be eligible for the CCCTB system (e.g. type of corporate tax rules that it must be currently covered by; type of company). Another crucial aspect of the CCCTB is consolidation, because it means that a company's cross-border activity within the EU will be fully recognised. In addition, consolidation would eliminate the need for the complex transfer pricing system that is currently in place for cross-border intra-group sales. Given that transfer pricing is one of the most burdensome and most expensive aspects of corporate taxation for enterprises, its elimination will lead to significant benefits for companies and groups within the EU.

Another positive aspect of the CCCTB is that it can make the EU a much more attractive market for foreign investors. For example, at the moment, companies operating in third countries such as the USA or China only have to deal with one national tax system. This is compared to a European system of 27 different sets of rules, which creates far more complexity and costs. A single set of rules for the corporate tax base, and a one-stop-shop system for filing tax returns, would make the EU a much easier

place for foreign firms to invest in. Many third countries have already indicated to the Commission that the CCCTB would help to make the EU a more interesting market for foreign investment.

4. Conclusions

Fiscal coordination is as necessary as it is desirable in the EU. The adoption by companies, which operate in more than one Member State, the CCCTB system, provides the following advantages both companies and tax policies at EU level:

- the CCCTB would make things far cheaper and simpler for businesses by creating one set of rules for calculating the tax base of a company or group, and by setting up a one-stop-shop system for filing tax returns.
- by allowing the consolidation of profits and losses at EU level, the CCCTB would enable the cross border activities of businesses to be fully taken into account and would avoid over taxation.
- for businesses operating cross border in the EU, the CCCTB unequivocally translates into savings in compliance time and costs. It is estimated that the current compliance costs could be reduced by 7%, which is equivalent to a saving of €0.7 billion across the EU.
- the CCCTB would be optional, allowing companies that felt that they would truly benefit from this harmonised system to opt-in, while other companies could continue to work within their national systems. This is a common sense approach, as it means that companies that have no intention of expanding beyond their national borders, and therefore will only ever work within one system, do not have to shift needlessly to a new tax system. The Commission also believes that a compulsory CCCTB would be out of line with the principle of subsidiarity, as it would mean that EU measures were being introduced to cover purely domestic, as well as EU-level, activity.
- the CCCTB opens up the possibility of expansion within the EU for SMEs that may, up to now, have thought it too costly and complicated to do so.

- overall, CCCTB offers better environment for research and innovation than foreseen in the current corporate tax systems of most Member States.
- the CCCTB also can make the EU a much more attractive market for foreign investors

In terms of tax competition, this is exacerbated by the tax base mobility. Establishing a common system for determining taxable income, tax competition in the EU will be at the level of rates of profits and there will be no hidden elements to distort the tax base and to emphasize the harmful effects of tax competition. And overall, states would retain sovereignty in setting their tax rates.

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The Analysis of the Operational Efficiency

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Abstract

It is our goal to analyze the efficiency of the operations of one company by its technical endowment and its way of using the assets during the production cycle as to achieve basic operational efficiency, including the maximization of the results to the level when shareholders would want to get paid.

As an analysis method of the operational efficiency, we suggest the production cycle efficiency analysis (the operational cycle) in a structural way, respectively by tracking the analysis of the production phases. Even if the indicators are similar to those used by present models and established in banks, their contribution to the research will be achieved through the way of computing as its new formula is more fitted to our target (credit risk analysis). At the same time, we have suggested the analysis of some new indicators in order to improve the quality of credit risk analysis.

Key words: credit risk, ratio, performance.

J.E.L. classification: M 40, M41.

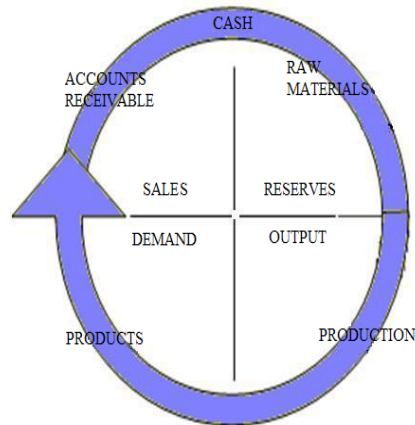
1. Introduction

The analysis of the financial reports and of the data required for credit scoring it will be concluded by applying some methods and analytical techniques in order to acquire useful information. These pieces of information are presented as being the important link between the data and the trends of these data, which point to the previous performances of the company and its present financial situation. The information will indicate the results or the consequences of the previous management decisions. Moreover, the information will be used in order to forecast the company's cash ratio, as cash ratio influences without a doubt the short-term solvency. In a next stage the long-term solvency establishment methods will be underlined.

2. The diagram of the efficiency of the operations

$$\begin{aligned} & \text{Demand \& Collection Period analysis} \\ \text{Collection Period} &= \frac{\text{Commercial accounts receivable} \times 365}{\text{Cost of goods sold (COGS)}} \\ \text{Period of stocking of finished products} &= \frac{\text{Finished products} \times 365}{\text{COGS}} \end{aligned}$$

$$\begin{aligned} & \text{Supply analysis} \\ \text{Raw Material Days} &= \frac{\text{Raw materials} \times 365}{\text{Cost of Goods Sold}} \\ \text{Debt owed to suppliers period} &= \frac{\text{Debt owed to suppliers} \times 365}{\text{Cost of Goods Sold}} \end{aligned}$$



Net Operating Assets (NOA)

The majority of daily activities financing are made through commercial credit (supplier) Costs can be minimized by having minimum stocks, fast cashing and suppliers' postponement of payment.

NOA's formula is =

$$\begin{aligned} & \text{Accounts receivable} \\ & + \text{Stocks} \\ & + \text{Prepaid expenses} \\ & - \text{Commercial suppliers} \\ & - \text{Accrued Expenses} \\ & = \text{Net Operating Assets} \end{aligned}$$

NOA can be used as a rate = $\frac{\text{NOA}}{\text{Sales in \%}}$

Production analysis

Turnover of ongoing production = $\frac{\text{Ongoing production} \times 365}{\text{Cost of Goods Sold}}$

Payback period = $\frac{\text{Direct production costs} \times 365}{\text{Cost of Goods Sold}}$

Net property plant & Equipment (NPP&E) turnover:
NPP&E turnover = $\frac{\text{sales in \%}}{\text{NPP\&E}}$

Lifespan rates of fixed assets involved in the production process

Expected lifespan

= $\frac{\text{Historical cost of fixed assets involved in production (FAIP)}}{\text{Yearly debt depreciation}}$

Elapsed lifespan = $\frac{\text{Acumulated depreciation of FAIP}}{\text{Yearly debt depreciation}}$

We will divide the turnover stocks period into several rates: Stocking period of raw materials, Turnover period of ongoing production and Stocking period of finished products. The superiority of this individual analysis is obvious. At the same time, it can be computed an assessment of the added value of the three indicators.

Net Property Plant & Equipment = the book value of land and other property, plant, and equipment (PPE) used in the production process.

The three rates of the lifespan rates of fixed assets involved in the production process (expected lifespan, elapsed lifespan and remaining lifespan) are not found for the time being as part of credit risk analysis. However, their examination is considered useful as it points out to the efficiency of fixed assets involvement in the production process, respectively the technical

endowment ratio and the necessity of an update (as for an application to an investement financing).

NOA – Net operating assets are a businesses operating assets minus its operating liabilities. Nowadays, credit scoring does not analyze this index.

NOA formula includes also a new indicator, Accrued Expenses. Accrued expenses represent the opposite of prepaid expenses. Expenses such as wages, interest and taxes are classical examples of accrued expenses.

As it concerns the service industry, the production cycle does not exist or it is short. This is why the occupancy rates analysis (for restaurants, hotels and medical clinics) is directly pointed at; obviously the occupancy rate is added to cash turnover, respectively the ratio between customers' payments and payment period.

Liquidity measurement analysis will be made through usual ratios (general and existing liquidity), even if they are limited by the presumption that all liabilities are going to be cashed in and all stocks can be sold.

As it concerns the question of uncertain or delayed liabilities in the credit risk analysis we suggest:

- the adjustment of liabilities with the values considered to be backlogs. At the same time we suggest to cut the unsaleable stocks from the stock value considered when calculating the general liquidity. Eventually, the degree of cashing the liabilities or the possibility of selling the stocks and to redo the calculation in reality can be adjusted by some percents.;

- use of new ratio

$$\text{Cash ratio} = \frac{\text{Cash} + \text{Shares that can be sold}}{\text{Current liabilities}}$$

Current liabilities

The analysis of forecasted liquidity is also crucial, the cash-flowing being its strong basis. Practically, the calculation of these indicators on analyzed periods is going to be inserted into the cash-flow which is prepared for the credit analysis.

Taking into consideration that the analysis of liquidity conversion cycle is very important to credit analysis, it will be added also to this stage. This indicator measures the length of the time period when the company has funds invested into working capital.

Liquidity conversion cycle = Operational cycle – Payment cycle

Operational cycle = Stock conversion period + Liabilities conversion period

Liabilities conversion period = The period necessary to liabilities to turn into cash

Payment cycle = The period of delaying the payments

If the cash conversion cycle is positive, the company requires short-term financing. Size of this funding is being given by **the turnover reported at 365 days * cash conversion cycle**. One achieves the same results through the relationship

Working Capital = Current Assets - Current Liabilities.

According to the report Current assets - current liabilities, the company will fall into 3 categories:

- **Moderate Attitude Company:** establishes a match between debt maturity and the life of the financed assets. Credit risk is minimized.

- **Aggressive Attitude Company:** the company chooses to finance their investments, even in part of assets. Credit risk achieves maximum peaks because the company is vulnerable to interest growth risk and could not refinance its credits from another lender (in the event of a conflict with the main bank). Greater attention should be paid to firms that choose this approach of liquidity management because short term borrowing is cheaper than a long-term and perhaps simpler to obtain so some companies are willing to sacrifice their safety and stability for the sake of higher profits.

- **Conservative Attitude Company:** the company chooses to finance its current investment activity in long-term debt. Risks are the lowest in this case.

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The Assessment of the Founding Structure

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Abstract

For the analysis of structure will take into account, the need The need for short-term financing but also for long-term financing. It will be identified the finding sources and recomend financial structure including in the analysis of grafics on the evolution of economic structure on a reference period for the purpose of the funding. In order to reduce credit risk, equity analysis is recommended togeter with any loans from shareholder equity firm as well as analysis, that come to give answer to the question:- Choosing a funding strategy-offensive or defensive based loans on cash flow?

Key words: equity capital solvency, liquidity, patrimonial analysis, performance.

J.E.L. classification: M40, M41.

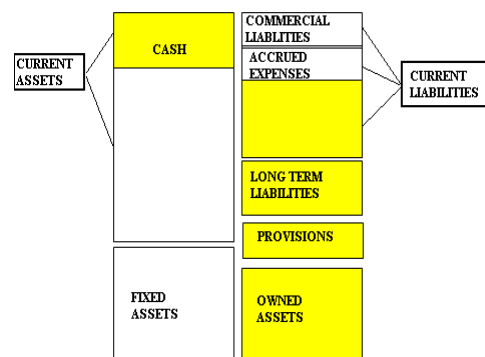
1. Introduction

In order to analyze assets the diagram below is going to show in the yellow spaces the values of areas affected by the company's decisions; here managers can act freely within the operational process and determine the size of non-operational funding necessary in order to achieve equality asset.

The need for short-term funding will be assessed through liquidity ratios.

The need for long-term funding will be assessed through solvency ratio.

Fig. no.1 - Company's balance sheet
(yellow areas are influenced by managers' decisions)



Sources of funding:

Given the founding needed, the company's management will choose the suitable type and proportion as: banking, capital or other (renegotiating contracts, shareholder loans, etc.) considering:
- not to pay for unnecessary financing (flexibility)

the achieved funding is always available(stability)

External sources of finance are debt and equity; domestic sources of financing are commercial loans, incurred but unpaid operating expenses and reported profit.

It is advisable to include in the analysis of the financing structure the graphs on the evolution of economic structure (separate graphs for the evolution of the assets structure, owned equity structure and evolution of liabilities structured as short and long-term). The assessment should be done over a reference period as it concerns the purpose of the funding analysis so that the differences from one period to another are relevant.

2. Analysis of solvency

The ability of an enterprise to generate enough cash to maintain its productive capacity and to settle with its due and long term liabilities.

Similarities and differences	Bank debts	Equity
Reimbursement obligation	X	
The source's payment	X contract Obligation	X at the right disposal of the shareholder's/company's decision
The value of the source's payment	Fixed	Variable, because of the uncertainty and risk taken, the payment can be highly significant. The cost paid by the company is higher than banking debts.
In case of dissolution	Prioritary	Only if all company's debts are covered
Short-term financing	X	
Long-term financing	X	X

3. Analysis of bank debt and equity

As it concerns doubtful or variable financial performances from one period to another, it is strongly advisable to lean more towards a funding through owner equity than through bank loans, because shareholders will be willing to take the risk (risk is proportional to their assumed reimbursement). Loan financing can be inaccessible from the beginning because of the risks that the bank already takes without a payment that compensates the risk (interest paid to the bank can not reward risks - considered to be high in these cases)

4. Analysis of debt and indebtedness

To mitigate credit risk, we recommend the equity analysis along with any loan offered by the company's shareholders. They are usually subordinated to the bank and can be incorporated in the calculation of indicators. However, if shareholders bring as funding the company only a small part of total sum needed, the risks that could affect the company will be borne mainly by the creditor. Furthermore, owners are those who control a company although they have invested less than the bank - the main financier.

Although there are a variety of ratios, based upon different assumptions or associations, the most representative calculations formulae of the solvency rates

The degree of leverage (Gearing) % = (Total Debt x100) /Equity

Where Total Debt represent all debts plus unused credits (loans approved and in use).

Lower rates of this value are preferable because, as this ratio is lower, so there is a higher protection against any losses suffered by the bank in case of bankruptcy. A high degree of indebtedness can encourage irresponsible behavior of the shareholders who bring small contributions of capital, meaning that they risk less and they can bear this loss, turning the business into a speculative one, financed by loans.

The choice that has been made can be backed up by the interdependence debt – equity ratio. The more cash generated is less certain, the more company depends on equity. Reduced values of this indicator ensure the long term survival. The company's gearing ratio should be compared to other companies' ratios or to other values in the area considered good for the industry where the credited company operates into.

It's recommended that a variation of this rate is more useful to consider:

Net gearing ratio% = $[\text{Total Debt} - (\text{cash} + \text{shares that can be sold}) \times 100] / \text{Equity}$

Where Total Debt represent all debts plus unused credits (loans approved and ready to use)

Also the degree of indebtedness (leverage) is going to be determined upon a modified formula of an in use one (Debt / Total Assets). Therefore here it is an adjusted indicator.

Tangible leverage = $\text{Total Debt} / \text{Own equity} - \text{intangible assets}$

We start from the fact that, when running a company, intangible assets such as formation expenses, trademarks, property rights, goodwill, etc. lose their market value and decrease the value of the amount of capital with the value they are currently registered in.

It's also important to consider the inclusion of off-balance sheet debt, respectively the contingent liabilities (the guarantees offered by the borrower as a guarantor, guarantees as corporate letters of guarantee, etc.. so-called "contingent liabilities." (IAS 37). Since not all contingent liabilities are achievable too and in order not to overestimate the degree of indebtedness, it should be considered a selection of contingent liabilities by:

- likelihood to influence the company under assessment during the grant period;
- the likelihood that the guaranteed company should not discount its own transactions and to act upon its guarantors.

Leverage –including contingent liabilities= $(\text{Total debt} + \text{contingent liabilities}) /$

Owned equity - Intangible assets

Total debt - total debt may include both the company's debts and the unused credit Another measure to assess capital structure is debt index from total assets, meaning how many of the assets of a company are financed by debts: **Debts / assets (leverage)**

5. Employed capital analysis

The purpose of this section is to verify the stability of a company in terms of available funding. Therefore Capital Employed ratio is defined as = Short-term bank debts + long-term bank debts+ Other long term liabilities + long-term provisions + social capital and we compute the debt ratio into the capital employed - information that shows the size of the risk faced by a firm = $\text{Total Debt} / \text{Capital employed}$.

It must be emphasized that the taking into consideration of the capital is taken at market value and not at the book value, as it concerns the possibilities for refining the calculation of rates. By comparing the market value of a company with its debt level, we can obtain a better solvency analysis of the analyzed company.

The proposed solvency ratios use new formulae for calculating the gearing ratio of the company and will indicate whether gearing level has equilibrium values despite the risks induced by the respective debt.

Financing a business by loan is cheaper than through capital, because:

1. Lenders require a much smaller share of profits than shareholders. Debt-financed investments have a lower risk than investment financed by shareholders because the latter want to cash dividends to be at least at the level of interest given by banks and depositors. On the other hand self-financing means lower risks on behalf of the company.
2. A profitable business generates a lower borrowing cost than the cost of owned equity, because operating profit is reduced along with income tax, which is a deductible expense in financial terms.
3. The costs of attracting new lenders are generally lower than those for the issuing of new shares

Also, because credits usually generate fixed costs regarding the interest, they limit the financing costs and create the required conditions so that the leverage effect could be used in the benefit of the company. The

Bank plays a major role in the economy, filtering the financings only to reliable, income-generating and responsible money-spender companies.

There are some positive aspects of financing a company by credit, although some companies decline risk-taking and tend to avoid high levels of external financing because the interest should be paid to financial creditors regardless the cash flow of the business. If the company has problems related to operational activity, consequently it should have problems concerning the payment of its non-financial creditors, shareholders, financial creditors, etc.. The basic idea of financial leverage is as follows: if the company earns a large profit, shareholders usually ask dividends out of the remaining profit after loan repayment. If the profit is small, creditors must be paid, and capital owners can not ask for dividends.

The inability of the company to pay the interest as it was established by the credit agreement, can generate its financial inability; the bank can block access to the accounts (even if only temporarily sometimes). This is the condition under which a firm can take decisions under time pressure to meet its legal obligations to creditors. These decisions may not meet the interests of business owners.

In practice, there is a trend for firms in certain industrial areas to use in a greater extent than debt financing rather than self-financing. The structural differences of the equity between different industries are the main factor that influences the type of financing:

Industries that rely more on research and development of new products and technologies (pharmaceutical companies) tend to have a lower degree of debt financing of their assets than companies that are not based on research and development.

Industries that require retrofitting (for example, firms producing footwear) tend to have lower levels of these indicators

It is also interesting to note the level of debt ratios in the industry. For example, the electricity industry has is a higher level of this index than in the beverage industry. There is variation even within this industry. The question is: why some industries tend to have a higher level of debt than others. A possible answer would be that they depend

on the role of financial leverage, on risk and level of taxation of profits.

At the end of the economic analysis of the assets, the study of the seasonal borrowing should be point at, too. Most of the times, the indebtedness level may be different during the analyzed periods. The calculation of the highest leverage can not be done without additional information given by the client (which could be hidden by himself). We propose in this situation the analysis of a new indicator that will prove the existence of seasonal fluctuations of leverage.

The rate of the banking system interest or from the audit report submitted by the customer is to be compared to the annual interest expenditures reported to the company's bank loans during the analyzed period

Rd versus annual expenses concerning the interest within year 1 * 100 weighted arithmetic average, depending on the actual use of credit during the reported year. The magnitude of reported differences will indicate the seasonality scale of a business gross financing.

In order to summarize, the ratios proposed for analyzing the structure of financing are:

The assessment of the financing scheme/Ratios suggested to be analyzed:
Net debt (leasing included)
Senior Debt/EBITDA
NFD/EBITDA
The degree of covering the interest liabilities EBIT/ Interest liabilities (LINE IS BEING REIMBURSED CURRENT ACTIVITY)
EBITDA cover
Gearing (Net Debt/Equity)
Gearing (Total Debts including the neutralized part of the line /Equity) - suggested indicator
Net gearing (Total debt-Cash Equity) % - suggested indicator
Leverage (Debts/Total Assets)
Tangible leverage (Total Debts /(Owner capital -Intangible assets) – suggested indicator
Leverage included contingent liabilities (Total Debt + Contingent liabilities) / (Owned Equity -Intangible Assets) suggested indicator
Equity in use ratio = Total Debt / Equity in use – suggested indicator

By analyzing the efficiency of operational and financing structure, a few basic and general directions related to reducing credit risk are emerging:

Increasing the rotation speed of the economic asset by increasing the rotation of all assets and by increasing the share of current assets, which can be restored more quickly by mean of turnover.

Increasing the volume of economic activity leading to a higher turnover and to achieve superior business returns.

Increasing the production's turning to account by promoting an active policy of marketing to achieve better market positioning.

Establishing an appropriate financial structure so that a higher leverage would trigger a higher level of profitability and economic growth in time.

The continuous tracking of the level of economic performance, whose dynamics should distance itself more and more of the cost of borrowed capital in order to decrease the possibility of financial risk and its consequences.

The choice of financing strategy (offensive based upon loans or defensive based on self-financing) is an economic challenge for all companies' accountants.

Options for financing strategies involving owned equity and by debt to maximize net profit per share (EPS indicator, earning per share) are supported by finding the critical point / the equilibrium point between the two strategies considered to have constant interest rates, as shown below:

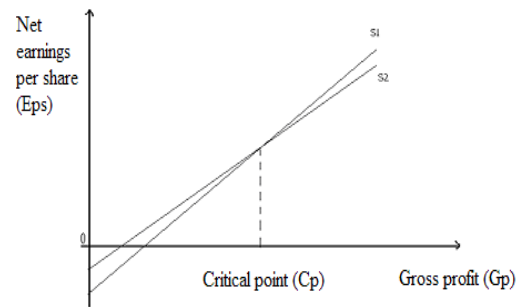
Equilibrium point is at the intersection of straight lines which give the chosen financing strategies S1 or S2, where net earning per share is equal for both options, according to the formula:

$$\text{Eps} = (\text{Gp} - d) (1 - \tau) / N \text{ and}$$

$$\text{Cp} = (\text{N2} \cdot \text{D1} \cdot \text{INTr1} - \text{N1} \cdot \text{D2} \cdot \text{INTr2}) / (\text{N2} - \text{N1}), \text{ where:}$$

$$1,2 = \text{Strategy version;}$$

$$\text{Eps.} = \text{Net earnings per share;}$$



Gp = gross profit;

d = rate ($D \cdot \text{INTr}$ where: D = debt in the form of loans, credits and

INTr = interest rate);

τ = corporate revenue tax rate;

N = number of shares

As a conclusion, the variability of financial profitability depends on the economic risk expressed by the variability of economic profitability and leverage as an expression of financial risk.

When undertaking a justified high-risk activity, shareholders want a higher return on equity. Their attitude is boosted by the fact that as loans rise, profits are higher too, and the entity is more profitable with a return under the influence of increasing financial leverage ratio.

By promoting an optimal ratio between owned equity and credit, it is possible to use credit as a way to increase performance. The condition required to obtain a higher return on equity is that, through proper management of assets, to achieve a higher efficiency than the cost of borrowed sources, otherwise the emergence and the consequences of the financial risk will be imminent.

As it concerns credit risk analysis, experience, training and actions of managers to achieve and improve business functions are *sine qua non* in business lending. Moreover, the relations is a key factor between banks and customers, it can determine the quality of these relationships and their sustainability. Only by improving its quality, it can act as a shock absorber for various impacts but also to promote a sustainable economic development (2).

The impact of higher risks on revenues can be expressed as follows:

Revenue obtained from:	Risk categories			
	Interest rate risk	Credit risk	Liquidity risk	Equity risk
Interest rate	H	h	H	
Asset use (AU)		H	H	
Return of assets (ROA)	H	H	H	
Equity multiplier (EM)				H
Return on equity (ROE)	H	H	H	H

H = high probability that a high risk could raise the revenue rate

h= medium probability that a high risk could raise the revenue rate

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Diagnosis of Tourist Activity on the Romanian Coast

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Abstract

Constanta County coast was an important tourist destination zonal market, promoting coastal tourism products and spa. Romanian tourism offer, has changed little over time (especially the southern coastal resorts), becoming uncompetitive in relation to the demands of tourism demand and related tourism products on international markets. The spas on the coast, requires, in turn, the modernization and refurbishment. Black Sea coast, will be competing offers and other new season: Montenegro, Serbia, Albania, Ukraine. After conducting a SWOT analysis of the Constanta County coast, it was found that the emergency is of great technical progress in the implementation of spa activities and operation of tourism both treatment factors, as well as spa treatment for the recovery of health.

Key words: spa, tourism product, the diagnosis

J.E.L. classification: M20

Romanian Black Sea coast stretches about 240 km, between Ukraine and Bulgaria, the Danube Delta in the north to the coastal city Vama Veche, located on the border with Bulgaria. In terms of capitalization of interest, except for areas of the Danube Delta, the Romanian seaside is arranged and exploited for tourist purposes only for a distance of about 82 km from Cape Midia (the North) and to the border with Bulgaria (South) , An area where there are 18 coastal localities of which 13 are tourist resorts of national interest Navodari, Mamaia, Eforie Nord, Eforie Sud, Techirghiol, Costinesti, Neptun - Olimp, Jupiter, Cap Aurora, Venus, Saturn, Mangalia, 2 Mai and Vama Veche. Most coastal tourist resorts in Romania have been developed, 4-5 decades ago to meet two important segments of the tourism market: segment passive type sunlust, whereby the

demand for sun and beach and spa tourism segment (balneotherapy).

Currently, both types of products offered on the European market are outdated and are in the Romanian seaside declin. Romanian seaside resorts faced in recent years, with a reduction in visitor traffic, the tourist offer fails to live up to expectations only partly tourists. Spas on the coast requires, in turn, shares of upgrading and refurbishment. On the Romanian coast, there are over 150,000 beds in hotels, villas and agro resort, representing 40% of accommodation capacity in Romania. Season itself takes about 3 months. Although, quantitatively, things are good, is not enough room for quality. Romanian seaside needs as many events as well as new investments.

In an analysis of the tourism season at the end of 2008 season consisted of: internal summer destination was the Romanian seaside. A measure to increase the number of tourists has been increasing tourist traffic to the end of the season: May, June and September. The hotels have started opening early, but unfortunately, many businesses (restaurants, terraces, shops, discos) have kept the gates closed until June. This while the first series of foreign tourists (Germans, French and Scandinavian) began to arrive around May 10 for the program "Coast for all" was underway. The trend of the season has been widening since 2007.

Black Sea coast will be competing by other coasts offers. It's about the Ukrainian Black Sea coast. Montenegro also start to steal from customers who could be the target of Romania, and also Albania, which promises that it will develop as a tourist destination litoral. A regional comparison shows that Bulgaria competitors, receiving almost four times as many tourists in accommodation establishments than Romania, also won an annual average increase of 11%. Ukraine and Turkey - as smaller competitors such as Serbia and

Montenegro - far exceed the growth rate of the Romanian tourism.

Increased tourism in Croatia - although more modest 8% per year - six times more attracted to foreign tourists in accommodation establishments compared to Romania.

There is an interesting variation of the structures of visiting the seaside resorts, and the mountain, with a greater duration of stay recorded in the Black Sea than in the seaside resorts that an average of over 7 nights from just over 2 nights, suggesting that foreigners are visiting this coast as part of their destination, while many visits to ski resorts are part of the circuit along with other locations. In 2009, the agency promotes the predominant category of accommodation packages with four, three and two stars, while the previous years promoted predominantly offers 4 and 5 stars. It also records a drop in business travel, conferences and congresses.

SWOT Analysis coast

Constanta County coast was an important tourist destination zonal market, promoting coastal tourism products and spa. Romanian tourism offer has changed little over time (especially the southern coastal resorts), becoming uncompetitive in relation to the demands of tourism demand and related tourism products on international markets. Tourist reception structures and especially leisure offer are outdated, uncompetitive (South Eforie, Saturn and Venus), tourism services and tourism programs are made stereotype and modest quality and value for money is inconclusive. After conducting a SWOT analysis Constanta county coast, were found the following:

Strengths

- natural environment conducive to development of tourism activities (Black Sea, fine and sunny beaches, sandy sea bottom and no rocks, low slope, no tides);
- accommodation capacity high, in full extension (about 1 / 3 of the total accommodation capacity nationwide, a place in the country);
- special tradition in tourist activities (over 100 years); Dobrogea-area practice has a

significant potential for many types of tourism (archaeological, historical, ecological, oenological, ethnographic, religious, etc..) strengths of the ecotourism opportunity.

- potential high health spa;
- special interest of local public authorities and the local tourism sector development;
- Mamaia is rated resorts of national interest;
- the emergence of new tourism products, new to this region (Aqua Magic Telegondola, water fountains, small squares where there are different manifestations of modern art, casinos and amusement parks);
- geographical position favorable to the development of new tourism products (itinerary tourism, cruise tourism, business, etc..)
- historical and cultural heritage value;

Weaknesses

- Techirghiol lake water quality degradation, depletion of lake mud Nuntasi
- anthropogenic pollution of the Black Sea water.
- overcrowding Mamaia, Eforie Nord, Costinesti, 2Mai, Vama Veche during the peak summer season and on weekends;
- insufficient parking places, in relation to the number of tourists during the summer;
- lack of permanent tourist products;
- some practical undertakings high prices that discourage foreign tourists, they have the possibility to choose the best tourist destinations in terms of quality / price ratio (Bulgarian coast);
- lack of adequate infrastructure development of cruise tourism (tourism and leisure ports);
- weak in terms of historical and cultural tourism potential of the area;
- the presence of the commercial and industrial sites in the vicinity of tourist areas creates some problems of image and comfort and is an important factor of environmental pollution;
- lack the legal and financial environment and stable tax incentive, which will attract domestic and foreign investments in the area.
- local authorities and have had no legislation to enable them to develop and promote tourism season, these "authorities" remain solely the task of central authorities
- blocking projects for marinas and artificial

islands, coastal construction of roads, facilities for open sea navigation in the Danube Delta to central government authority.

-lack of interest of governments in promoting foreign investment in air traffic and airport development Constanta, which has contributed greatly to the fall of the Romanian seaside image.

Opportunities

- the position at the confluence of three major geopolitical zones, sets the stage for higher recovery of the tourism potential available in the Constanta area and its proximity;
-vicinity of Delta, Macin mountains, monasteries in northern Dobrogea, the region's agricultural potential and valences of the folk villages, represents an important support for tourism development in general and in particular tourism itinerary;
- river Danube and the Danube - Black Sea tourist arteries may represent new spatial perspective of tourist ports in coastal recreation, contributing to the development of cruise tourism;
- economic development of coastal tourism generates a beneficial business.
-national-level decisions, regional / local on the reconstruction of lake Techirghiol solutions to the phenomenon of narrowing of beaches and water pollution in the Black Sea.

Threats

- competition exerted on regional tourism and local businesses a low capacity to adapt to a unique and competitive market;
-decrease in interest for Romanian tourists indigenous tourism products;
-erosion of beaches and cliffs can affect long-term development of tourist activities in this area;
-vicinity of industrial sites and commercial port is an important risk factor contributing to environmental degradation and generates continuous air pollution and water pollution, diminishing the area's tourism potential;
-allocating public funds for tourism development, on political grounds;
- lack of coherent development policies and strategies integrated coastal zone (infrastructure and engineering services, protection and rehabilitation of the natural

and built, etc..) discourage some foreign investors wishing to invest in tourism in this area.

- poverty, still has people in the area.

Conclusions

This analysis seeks to identify in what situation is currently tourism and to highlight weaknesses that need to be addressed and opportunities to be exploited. In the seaside resorts are necessary actions for modernization of equipment supported accommodation, catering, to the treatment, but also to diversify the recreational facilities that are still insufficient. For better organization and planning of resorts are recommended:
1.the systematization and definition of functional areas (bathing area), corroborating the data on the optimal exploitation of natural healing factors, the most favorable locations, measures to materialize the sanitary protection perimeters (Techirghiol, Eforie Nord);
2. sizing and other spa building volume and capacity factors and natural healing qualities (Techirghiol)
3. arrangement of spaces and their use for therapeutic purposes;
4. Judicious and economic use of natural healing factors by management, storage and transport rationally to avoid deterioration and loss (mud from the guests);
5. use of complex machinery and high-tech spa. Priority in terms of material development strategy specific health tourism, I would suggest setting up in all resorts with spa prevention programs, the base material for their application:
- outdoor trails for running and walking practice;
- the design of surface water in warm weather beaches for practicing procedures with contrasting thermal factors (heliotherapy with cold baths);
- furnished rooms for practicing gymnastics programs and group of sports such as: badminton, tennis, volleyball, etc.;;
-the design of dried or wet bath hyperthermia (sauna type);
- expanding sectors of massage therapy.

6. diversification in some climate stations with a single type of therapeutic substance use by natural factors:

- bringing the station, or preparation of sludge (eg Eforie Nord):

- heliotherapy-practicing and cold baths when the season permits;

7. The development of physical therapy, insufficiently equipped resorts quantitatively and qualitatively, by completing and upgrading training facilities allow for the practice of increasing exercise capacity and strength of muscles and accessories necessary for the practice of physical therapy recovery .

To emphasize the specific character of natural healing factors and / or experience in some centers are medical teams will study the possibilities of creating specialized units for prevention, treatment and recovery of patients belonging to certain groups of diseases (ex. rheumatism, lung affections , allergies, neurological disorders, etc.).

In perspective, it requires careful examination and research gaps and inconsistencies, while products among potential mineral spas and built areas (eg Techirghiol, Eforie Nord, Saturn, etc.). The implementation of technical progress in the spa business is a real emergency; special efforts are needed to upgrade facilities and medical devices in the treatment area. Given the scale of health tourism in our country, it is necessary to involve the wider Romanian industry in solving this problem, complex national interest, related to the material, it requires a scientific structure to a unitary concept, premise deployment quality of tourism activities and greater efficiency.

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The Modernization and the Development of Romanian Tourism Present and Future

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Abstract

Romania's integration into the EU has contributed positively to the development of tourism in the country because there are European money funds that will be directed to infrastructure, accommodations, food, recreation, treatment units and last but not least the promotion.

Romania can become a competitive player on the European market for business tourism, which marks important increasing and in this time, but must move from promoting tourism to implement an appropriate marketing policy by creating events and participation in international touristic fairs. Romania will receive up to 2013, the European funds of 150 million Euros for tourism promotion and information programs, the Regional Operational Programme. O.M.T. anticipates that in 2020 to an estimated 1.6 billion arrivals in international tourism.

Key – words: the consumer, the tourism development, recreation

J.E.L. Classification: M20

EU's regional policy is a policy whose stated goal is to remove the economic and social disparities between different regions of Europe, acting on significant areas for development, growth and SME sector, transport, agriculture, urban development, environmental protection, employment and vocational training, education, etc.. Conceived as a policy of European solidarity, regional policy is mainly based on financial solidarity, i.e. the redistribution of part of the Community budget contribution made by Member States to regions and poorer social groups, about one third of the EU budget is allocated to this segment.

For 2007-2013, EU cohesion policy

has been reformed to better meet the objectives set in Lisbon and Goteborg (competitive economy based on knowledge, research and technological development, sustainable development, employment). Following this reform, the policy will have three instruments: the European Regional Development, Cohesion Fund and European Social Fund.

Cohesion policy in its new form, has three objectives:

1. Convergence: supporting growth and job creation in the least developed countries and regions.

2. Regional Competitiveness and Employment (supporting regions, other than those left behind as development level, to achieve the Lisbon targets)..

3. European Territorial Collaboration (promoting a balanced development of the whole EU area, by encouraging cooperation and exchange of best practices among all EU regions). The last objective will have three axes of action, namely: cross-border cooperation, transnational and inter-regional cooperation.

Romania's integration into the EU has contributed positively to the development of tourism in the country because there are European money funds which will be directed to infrastructure, the restoration of historical and cultural heritage, to train the personnel in the hospitality industry, to improve the quality of accommodation and entertainment.

Thanks to a very tough competitive environment in many European markets, the Romanian tourism will have to adapt quickly to the human resources to create skilled manpower and necessary investments for its retention.

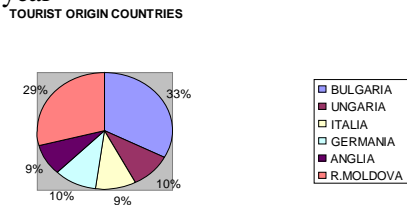
The main brands to be developed in future to represent Romania as a tourist destination both externally and internally as business as

tourism, health, cultural, as well as the adventure.

In the last years business travel is increasing by about 15-20% per year. This increase would have more clout, but lack large conference center that allows the organization of events with thousands of participants, transport infrastructure and lack of heavy promotion in the international profile of this growth is expected to leave.

Romania can become a competitive player on the European market for business tourism, which is registering important growths in this time, but must move from promoting tourism to implement an appropriate marketing policy by creating events and participation in international fairs of tourism. Thus, the priority markets for Romania are Germany, Austria, Italy, France, USA, Germany, Russia, Hungary, Great Britain and Ireland, while the Scandinavian countries, Benelux and the Iberian Peninsula are secondary targets.

Arrivals from Europe increased by 21.0% over the previous year, while the European Union grew at a rate of 20%. In the countries of origin, significant increases were recorded in Bulgaria (48%), Hungary (15%), Italy (14%), Germany (15%), United Kingdom (13%). There were important increases in arrivals from the Republic of Moldova (43%), Turkey (9%), while arrivals from Ukraine are at the same level as in the previous year



Source: INS

A decisive role in the marketing policy it has to identify the consumer. Our country would benefit if the consumer – the target would be the young European. Romania offers an appropriate range of outdoor activities both summer and winter, and has a growing program of musical events, sporting and other events in Bucharest and elsewhere in the country and offer relatively low cost. Carpathians and the Danube Delta are the main areas in which to develop ecotourism in the small to medium scale. The growing tourism segment will be

recorded on tourism events, due to accelerated market growth businesses in the country.

World Tourism Organization, together with Romanian specialists has developed the Romanian Tourism Master Plan, a program to identify shortcomings and propose solutions. The document focuses on the exploitation of tourism in areas such as Bucharest, Transylvania, Black Sea, Bucovina, Maramures and Danube Delta. Implementation of the Master Plan is scheduled for the next 20 years.

Objective of the Master Plan is to identify vulnerabilities of the tourism industry of Romania and to draw strategic directions on how it can be restructured and the resources can be provided, and how it can be regenerated in order to compete effectively on the world market

Table 1 Percentage of visitors from the main regions of origin in 2006 and 2026

Region of Origin	2006 %	2026 %
UE	47	56
Rest of Europe	47	34
Rest of the world	6	10

Source: Estimates based on the Master Plan arrivals

Master Plan includes several directions including market research, providing functional institutional structures, a marketing strategy that targets potential markets and professional training of employees.

Objective of the Master Plan is that by 2013 to transform Romania into a quality tourism destination based on its natural and cultural heritage that meets European Union standards regarding the provision of goods and services and achieve sustainable development, in terms of environmental, the tourism sector into a growth rate superior to other destinations in Europe.

The document says that the tourism development program should be directed in the following directions:
- weekend travel, culture, recreation, tourism circuit in Bucharest;
-cultural tourism, nature tourism, ecotourism,

ski and spa tourism in Transylvania
 - the beach, recreation, spa on the Black Sea;
 - cultural tourism, ecotourism, nature, ski in Bukovina;
 - cultural tourism, nature tourism, ecotourism in Maramures;
 - nature, ecotourism and recreational tourism in Danube Delta

The funds which can be made of the strategy for tourism plans are the 150 million revival for the brand in Romania, promoting tourist destinations, as well as funds to 700 million Euros for projects by the National Authority for Tourism.

Table 2 Estimates of domestic and international visitor expenditure

Year	Costs International visitors (mil Euro)	Costs Internal visitors	Total costs visitors
2005	877	1.878	2.755
2011	1.726	2.385	4.561
2016	2.947	4.058	7.005
2021	4.798	5.914	10.712
2026	7.740	8.329	16.069

Source: Estimates based on the Master Plan arrivals

Master Plan identifies five key areas which should receive attention. It is about research, institutional structures, training of employees in industry, tourism planning and marketing investments.

National strategy that will result will be established and priorities in general are known to specialists and are the cultural tours, business travel, the Danube Delta, cities like Sibiu and Brasov, spa tourism and agro-tourism.

Romania's tourist brand, the program that will be invested 20-30 million Euros, began in April 2008.

World Tourism Organization has criticized the current slogan of the Romanian tourism, because it does not communicate the essence of Romania for potential visitors. They were surprised by the fact that their expectations about the country have been greatly exceeded. The challenge faced by Romanian tourism is to show the whole world before they get into the country, how many beautiful

things and experiences can offer. Romania will receive up to 2013, the European funds of 150 million Euros for tourism promotion and information programs, the Regional Operational Program.

Climate change increases the hopes that tourism operators will be able extend the summer season, so it is expected that 160 million Euros will be obtained annually from the proceeds of the season. An approximate amount will be obtained and the spas in conditions where there is clear indication that shows that they have gained ground in the last year. According to NBR data, from January to May 2009, foreigners spent 308 million Euros in Romania, with two million Euros more than the same period last year, but 176 million less than the money left by tourists in Romanian abroad.

Adjacent to the accommodation services, namely the organization of conferences or entertainment, contribute to increased revenue from tourism. Basically, these services generate no less than 25% of total revenues from tourism. Increasingly, many hotels are turning to so-called segment, arranged the facilities for organizing seminars, conferences and business meetings. As a conference destination, the most requested areas are Bucharest, the Prahova Valley, and more recently, and the coastline. About three quarters of segment revenues are generated by the Bucharest conference, and hoteliers want to take advantage of rising demand for such events. It became obvious that hotels that have conference facilities to manage properly developed to insure a higher occupancy rate and grossed more consistent. According to tourism officials, the capital contribution this year will be less than 180 million Euros, one of the 'engines' main business is tourism, which predicts a 87% contribution. According to calculations NATA in Bucharest, the business tourism receipts contributing 60%, while the share is 15% Cluj, Timisoara - 10%, Constanta - 7%, Brasov - Iasi 5% - 3%.

Taking into account the actions taken by the countries competing in foreign markets, countries with annual budgets greater than the promotion of Romania (Bulgaria - 10 million, Poland - 11 million, Hungary - 28 million, Turkey - 76 million), it requires amplification of pan-European advertising and national television channels, installation

of street billboards (out-door type), the exposure of the Romanian tourism offer transportation.

Channels may be present for promoting our message with the video broadcast advertising "Romania - always surprising, " 30 seconds, which is the national mark of Romanian tourism are:

- Pan-European television channels like Euronews, Eurosport;
- national channels from countries considered in this critical period to promote Romanian tourism to Germany, Scandinavia, Czech Republic, Russia, Slovakia, Hungary, Poland.

The promotion of Romanian tourism product in the offer coast, are under consideration that are of interest for Romania, countries like Germany, Austria, Netherlands, Spain, Czech Republic.

Efficient management of Romanian tourism

Creating a competitive interest offerings on domestic and foreign tourism product development involves the following directions:

- Modernization and development of the national tourist product, so that Romania should be distinguished from other countries as tourist destinations;
- modernization and development of the national tourist product, so that Romania should be distinguished from other countries as tourist destinations;
- diversifying the tourism product specialization and deepening of religious and promote higher quality development offering new deals as market trends;
- creation of centers / areas / tourist areas and areas selected model, with financial support from central government and local investment as well as international capital markets;
- optimization to maximize the business and cultural component of the product to attract profitable customer structure changes;
- improve the quality of tourist facilities and development of tourist capacity in areas where tourism demand is greater than supply obligations;
- setting priorities in the overall infrastructure proposals to overcome existing difficulties for tourism;

- raising the standard of basic and complementary tourist services according to category of comfort and pricing;
- approval of the bid;
- stimulating the development of forms of tourism and tourism products complementary / parallel need to ensure a response to certain segments of domestic demand (tourism, youth, rural tourism, social tourism, health tourism, business travel, safari);

Development of tourism in the context of sustainability, even in all the objectives, programs and development actions:

- * environmental protection and improvement in tourist areas;

- * programs and plans to expand the built environment to comply with environmental legislation, relating to urban and regional planning and the tourism, which has the effect of harmonizing and improving the environment;

Tourism in 2020

World tourism in 2020 will be characterized by the use of equipment, more advanced technological equipment and extending computing, automating many travel services, exploitation of new tourist destinations, now considered less accessible, increasing desire for knowledge, adventure and travel .

O.M.T. anticipates that in 2020 to an estimated 1.6 billion in international tourism arrivals, these tourists will spend more than 1500 billion dollars.

Projections show that in 2020, Europe will continue to be the largest tourist area receivers, but it is anticipated that this position will be seriously threatened. If in 2006 the share of Europe in terms of arrivals is 57.7%, projections for 2020 indicate a rate of 45.9%.

Tourism is not only a school about others, but considering how we live with others, how will we behave. Our world, one created by the producers of tourism, is a global one ethnic group: the human race. Any mistake can lead to incurable trauma. And this on a mass of people called "tourists".

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Cultural Values and Entrepreneurial Culture in the Romanian Space

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Abstract

Cultural dimensions play an important predictive role in generating specific combinations of organizational behavior, hence the special stake of knowing and their recovery. The process of formation and change of values is an adaptive process that does a few important factors which may cause differences in value systems at both individual and cultural level. Cultural values affect the supply of entrepreneurs, and the culture itself has its own rhythms of evolution. Entrepreneurship is an engine of economic and social development. Study the complex relationship between entrepreneurship and economic growth, measuring the level of entrepreneurial activity in international comparison is justified by identifying factors influence the level of entrepreneurial activity and policies that can boost the level of entrepreneurial activity.

Key words: cultural values, changing values, entrepreneurial culture.

J.E.L. classification: L26, M14.

1. Introduction

Beyond the partisan interpretations of economic policy, globalization must be seen as a mode of manifestation in the context of real market information asymmetries, increasing returns (when technological progress is hard), the effects of agglomeration (clusters), multiple equilibria in different cultural worlds. Perception must become the "opening"[1] under the impulse of mutual societies and technological change advanced search of economic progress without "flattening" of cultural values. Social cleavages fragile democratic political process and reveals the asymmetry between economic and political globalization, the

latter meaning and functioning of multilateral institutions [2]. The increase is necessary to assume its social responsibility by both public institutions and private organizations in the business or nonprofit. Enhances cultural values and become fertile ground for the manifestation of entrepreneurial culture, called to give specific solutions to regional and global issues.

Conceptualizing culture involves a subjective set of resources that includes what was functional and was sent to inter-generational experience. As the individual values are sources of motivation for individual action on a cultural level, they define the rules and goals that trigger and drive the behaviors of individuals in that culture [3]. Cultural values like "freedom", "welfare", "security", "fairness" implicit or explicit abstract ideas are shared by individuals belonging to the culture about what is right, good or desirable for society[4]. They are sent to members of a society by daily exposure to customs, laws, rules and organizational practices ([5], [6], [7], [8]). For this reason, adaptation to social reality and informal socialization are most important in transmitting cultural values than formal socialization. The principle is that of communicating vessels: sharing experiences, integrates and are integrated to various degrees in the social values of their communities.

In formulating intercultural differences have an important role language, perception of time and space [9]. Cultural values are externalized to the societal institutions such as family, education, economic institutions, political or religious systems by their goals and their modes of operation. The special attention in the investigations undertaken have enjoyed work-related values. This not only explains that gainful activity is the main source of income but also by the social status it offers. As Max Weber put in relation with the spirit of the Protestant ethic of capitalism,

studies have pursued the connection between work-related values (considered integrated general values of life) and overall economic performance as a desirable goal([10], [11], [12], [13]).

2. The change of values under the influence of socio-political changes brought into the Romanian

With the establishment of communism in Eastern Europe, socio-economic situation began to change in a way that was not anticipated. The new living conditions were introduced by the new political regime entailed a new way of relating to social reality embedded. Attitudes and behaviors valued once or were not prosecuted or were encouraged by the new socio-political. Schwartz, Bardi and Bianchi [14] have identified two mechanisms that have affected the fundamental values of the countries of Eastern Europe: a direct ideological indoctrination and the process of human adaptation to new living conditions created by the totalitarian system. The adaptation process is achieved by acclimation (people increase the importance of those values that are easily reached, being strengthened) and clearing (inhibited lessen the values that are being rejected). For example, restricting individual freedom has resulted in a diminution of the importance that people attach to the initiative or risk taking, personal achievements, creativity, and especially social responsibility.

Therefore, the formation and change of values is an adaptive process that does a few important factors which may cause differences in value systems at both individual and cultural level. Thus, religious differences or economic level the country can be so affected. Although communism had different organizational structures from one country to another impacts communist ideology was different. Roman Catholic countries of Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Slovenia) were more easily adapted to a market economy but have shown more resistance to the communist ideology while Orthodox-majority countries (Bulgaria, Russia Serbia and Romania) had a prolonged transition to a market economy and yet

rhythmic breaks in updating the democratic and political values. However scores correlate values and average income per capita (in countries in eastern and western Europe) showed a low level of economic importance in the formation of values [15].

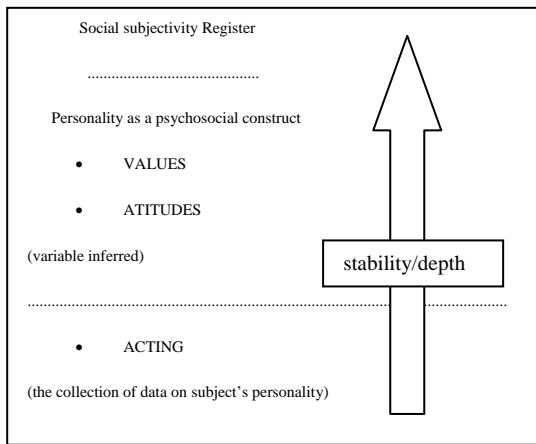
Some clarifications are needed to accompany the permanent judgments on cultural values: a) divalent material (functionary/structuraly) and spiritual (transcendent) value, b) social desirability, c) and axiological foundations of moral value (because of changes macro and trend of globalization, there is no consensus on what is "right" and what is "bad" [16]). Relative to realities of Romanian society we are older or that the concept of *locus of control* (LOC) [17] on the subject tend to think that maybe controllers facing events in life (internality) or the inclination to believe that this control is exercised by other external forces, independent personality (an externality). Inverted population pyramid linking Romania's population disruptive economic policies of recent years and accumulating a significant number of negative life experiences (unemployment, accidents, repeated failures) confirmed the relationship between LOC and the status of independent variable "age" reported by Rodin [18]. According to him, people tend to adopt a predominantly foreign, thus causing the control exercised faith in others rather than themselves.

After '2005 few relevant research on value profiles made in the Romanian context (Gavreliuc [19], Schwartz [20]) reveal important aspects of the Romanian mentality, that entity meets all ideas, conceptions of reality, attitudes, values and modes of behavior of individuals. The Romanians proved to be the most pessimistic about the future, bringing arguments that political chaos and fewer jobs. This approach is commendable by permanent confrontation with the forgotten past policy promoted at all levels of society post-revolutionary obsessive and not necessarily from the spirit of conservation.

The study of social values based on Schwartz model developed in three phases (between 2002 and 2010) revealed values and intergenerational transfers in post-communist Romania. The historic event "rupture" Revolution of 1989 was aiming at its impact

on social attitudes and values shared fundamental. Dimensions were assessed independence-interdependence, self esteem, instead of control, self-determination and the SVS value matrix. Research assumes that values are a consistent predictor of structure and behavior [21] . Hence the importance of studying social values, especially in the deep records (attitudes, values) which encodes the most significant interpersonal strategies to open default.

Figure 1. Value-attitude-behavior relationship



Source: Boehnke, 2008

The research was started in 2002-2003 and conducted on three age groups: "Generation 50" (socialized overwhelming communism), "Generation 35" (secondary socialized to internalize an experience of Communism, Revolution have acquired present positions of the decision nodes of social networks) and "Generation 20" (not part of 1989 Previous office in the world, which holds a fragile neutrality visiting a selective memory, but have begun to insert social strategies in a society profoundly changed against the communist).

Figure 2. Portraits of intergenerational value

Controlling Value Categories	G50	G35	G20
Conservative (status quo, group solidarity, traditional policing)	4,06*	4,68*	4,21
Hierarchy (emphasizing the legitimacy of hierarchical allocation of roles and social resources)	2,12*	2,97	2,29

Harmony (emphasizing the harmonious integration of the individual life in its environment)	4,19	4,17	4,08
Egalitarianism (encourage community engagement at the expense of the individual to promote the welfare of others)	4,62*	4,23	4,46
Intellectual Autonomy (promoting ideas and individual rights in order to achieve objectives)	4,78**	4,12	4,43
Emotional Autonomy (promoting individual independence in the acquisition of a positive emotional experiences)	3,56	3,21*	3,81
Seizure (subject to quality has increased and control natural and social environment)	3,96	3,77	3,82

* p<0.05

**p<0.01

Source: Schwartz *et. al.*2000, 2010

The scores recorded, the generation that is less predictable G35- instability, ambivalence and vulnerability. It integrates a number of social-historical traumas [22], that encodes the identity profile (most pronounced conservatism, favoring the most intense hierarchy, egalitarianism, intellectual and emotional autonomy most modest).

In the long term, characteristics such as interdependence, self esteem high, externalism, low self-consciousness, seen as diminished choice, low self express pronounced disengagement of youth from the less young. How are structured fundamental values and attitudes show they are equally "old" as their parents, vulnerable, dependent and less willing to take their lives.

Without incriminating "generation of sacrifice" adaptive strategies have to reinvent a historical context, political, economic and social again, the Romanians remain open to positive change, analogous to the communist era dissidents as an engaging side of a trans configuration value (enhanced by Christian dogma) in dealing with global entropic social and political context.

3. Determinations cultural impact on economic development

The most relevant cultural dimensions impact on economic development proved to be individualism and collectivism. Individualistic societies it promotes the "homo economicus" (need for autonomy and independence, connections with other valued modestly) while collectivist societies, the "homo sociologicus" (reciprocity, loyalty, harmony and the need for social support). The challenge of economic development in a globalized world calls for reconciliation of cultural values.

Sensing complementarity, R. Ball [23], assumed a bilateral relationship: the nature of individualist / collectivist a society affect economic development and growth and induce changes in its structure individualism or collectivism.

In itself, the manifestation of individualism or collectivism is not good or bad but counter-productive or phases of the economic cycle. Here we can talk about the lag between economic cycles and culture, fostered by the perception of time and ripped the "burning" stages. For example, the emergence and development of capitalism is linked to the prevalence of "homo rationalis" and individual interests. In such societies, social rule became "invisible hand" guided by principles of economic exchange scale favors liberalizing economic development in its growth phase. In phases of consolidation, economic development is facilitated by collectivism. Reciprocity, trust and morality underlying the collective interests and are internalized, justifying any purpose other than personal. This explains the efficient functioning of economic enterprises in collectivist societies. On the other hand, corporate social rules, indispensable in a world of borders, is the expression of collectivism, because obedience to their individual interests unilaterally waived. Excess of collectivism (bureaucracy, corruption and preferential treatment) is harmful to economic development.

Might conclude that promotes economic development and inhibits individualism collectivism. Inglehart [24] and Inglehart and Norris [25] argue that people in rich countries decreases concern for material wealth "at any price" and increases the so-

called post-material values (non-materials). Beyond the classification guidance and tools you need to rethink the extent to which the alleged collectivist values such as: social justice, altruism and self-sacrifice, or the alleged individualistic such as freedom of expression and enhances economic development option. This assumption starts from the premise that trade and the market does not always determine the rules and pro-social behaviors, social dilemmas as an example [26].

4. Entrepreneurial culture in the Romanian space

Yale Richmond in his 1995 paper, From Da to Yes: Understanding East Europeans, said that Romania is "the culture confusing and unstable in Eastern Europe." Geography and history Latinism determines the diversity and particularities of the Romanian cultural orthodoxy. Being positioned at the crossroads of multiple national cultural influences, the Romanian culture in itself is difficult to describe.

However, S. Văduva[27] attempt an assessment of Romanian culture in terms of the framework provided by Hofstede.

Individualism / collectivism. From the communist era Romania was forced to thinking collectivism, Romanian culture today is moving towards individualism. There are several arguments in favor of individualism development in Romania: a reorientation towards Western culture, particularly noticeable trend among the new Romanian entrepreneurs to comply with the Western model both personally and professionally, the emergence of private property, which motivates and calls for courage and initiative economic, but more recently emerging orientation towards profit increased accumulation of wealth, power and high social position.

Power Distance. Distance to power in the social, economic and cultural Romanian has been and will likely remain high, because the Romanian society is still structured like a pyramid based on education, family environment and income. Pyramid Peak continues to be the dream of all Romanians. Second is almost nonexistent middle class. Her absence caused more power increasing distance between social classes. Most wealth

seems to be divided between members of a small percentage of the population. Thirdly, the majority of Romanian institutions is still characterized by a complex hierarchical structure and a large number of hierarchical levels.

Masculinity / Femininity. Romania has been and remains a country whose culture is oriented towards manhood. In Romanian culture, men have jobs and take important decisions with power and authority to a greater extent than women. Romania is the country of a patriarchal society where women, considered above all as mothers and wives, are less important positions outside the home. Typically, men in authority in the family and feel more strongly the responsibility of earning income.

Although the great diversity and complexity, however, one can identify two distinct types of organizational culture in Romania: bureaucratic culture and entrepreneurial culture, supporting the hypothesis that these two categories are the extremes of a continuum with a wide variety of expression. Bureaucratic culture is typical of state-owned companies, companies undergoing privatization, the former state companies during privatization, autonomous companies, educational institutions and state sponsored health, public institutions, military institutions. This can be characterized as still strong inertia, targeted to the inside system and highly involved in political life.

Entrepreneurial culture, ongoing training is typical for private companies set up after 1989. This is where the two forms of red tape bureaucracy and red tape mechanical training. Specific mechanical bureaucracy is a highly developed hierarchy, which dominates the regulations. It defines strict management of subordinates. Professional bureaucracy, much decision-making power is distributed to professionals and analysts. The structure is quite decentralized, but the high degree of bureaucratic standardization in methods of operation. Qualifications predetermine behavior more standardized categories of highly skilled experts, appointed professionals. They are specialists in the gathering, processing and use of data, are secretaries, economists, financial experts, lawyers, etc.

5. Analysis of the integration of entrepreneurial culture in Romanian organizations

Existence, the discovery of entrepreneurial opportunities and the decision to exploit them are considered to be the starting point of entrepreneurial activity [28]. Considering the above, I accepted definition of international research program Global Entrepreneurship Monitor (GEM) on the entrepreneur and the entrepreneurial phases. Database Global Entrepreneurship Monitor (GEM) survey contains adult population of Romania from 2007-2009. GEM reports demonstrate the link between a country's economic development level and rate of early-stage entrepreneurial activity ([29], [30], [31]). GEM results in 2009 confirm that institutional and demographic characteristics, entrepreneurial culture and economic wellbeing of a country emerging entrepreneurial characteristics [32].

Accepting the recommendations of Arenius and Minnie [33], the study focuses on population characteristics, such as demographic structure, individual skills and attitudes on entrepreneurship, taking into account the classification of these socio-demographic factors and perceptual factors. Several factors influence individuals' decision to start a business, such opportunities in their environment perception, knowledge and skills, knowledge of other persons involved in entrepreneurial activity, fear of failure. The factors studied are grouped into demographic variables (for example, age, gender, household income, education level and occupation) and perceptual variables (for example, fear of failure, finding opportunities, self-confidence).

In Romania, early-stage entrepreneurial activity rate in 2009 is 5.02%, higher than that measured in 2008 (3.98%). These rates are among the lowest in the economies based on efficiency.

Figure 3. Rates of entrepreneurial activity in Romania (%)

Rates of entrepreneurial activity	2007	2008	2009
Entrepreneurs in training	2,90	2,54	2,79
Owners of new firms	1,30	1,56	2,30
Established business owners	2,50	2,07	3,38

Early-stage entrepreneurs	4,02	3,98	5,02
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Source: GEM adult population survey, Romania, 2007, 2008, 2009.

Individual perceptions of entrepreneurship describe changes in the analyzed period. During the global financial and economic crisis percentage of those who feel that fear of failure would prevent them starting a business has increased (from 28.3% in 2007 to 50.4% in 2009), while the rate of those who feel that in the next six months will be good opportunities for starting a business environment in which they live has declined (from 26.2% in 2007 to 13.8% in 2009).

In 2009, early-stage entrepreneurial activity rate was 5.02%, a rate higher than that measured in 2008 (3.98%). Even though the rate has increased, it remains one of the lowest among economies based on efficiency. The variables that significantly affect their desire to start a business are: household income, knowing other entrepreneurs, age, sex, fear of failure, confidence in knowledge and entrepreneurial skills, promoting the perception of entrepreneurial success in the media and occupation. In 2007-2008 the factors of influence or change, age, sex, fear of failure and factors of influence became occupation probability of becoming an entrepreneur at an early stage during the global financial and economic crisis.

6. Conclusions

Interaction between culture and economics related to material prosperity of the country concerned and the specific social and political institutions. If formal institutions are ineffective, social capital and trust to replace them to maintain social cohesion. Some components of individualism / collectivism facilitate economic development, others not, and the shortcomings are more noticeable when formal institutions are less developed / evolved. Currently in Romania, it crystallizes the culture of entrepreneurship especially in the private equity firm, founded after the creation of free market mechanisms in Romania. Institutional and demographic characteristics, entrepreneurial culture and

economic wellbeing of a country emerging entrepreneurial characteristics.

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The Investment Development Path – Literature Review

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Abstract

This article aims to identify the differences between the Narula's model regarding the five stages of investment development path and the economic reality. In other words, we try to determine if the model presented by Narula reflects what is happening on the economic environment of a country or not. Is the Narula's model of five stages of investment development path really capable of reflecting the level of development of a country or not?

In order to answer to these questions 10 relevant articles had been analyzed. These were published during 1996 – 2009 in the Transnational Corporations, Journal of International Business Studies and Working Papers Series.

We find out that even if the Narula's model of five stages of investment development path is very detailed and concret model the reality show us that some countries may be in different stages than the one specified by the Narula's traditional model.

Key words: foreign direct investment, investment development path, Multinational Corporation, host economy

J.E.L. classifications: F23, F43, O11

1. Introduction

The notions of country development and foreign direct investment (FDI) have always been at the forefront of international business research in the context of globalization [8]. The main reason for this situation is given by the fact that the economic development of a country depends on the net outward position which is the difference between inward and outward FDI.

On the other hand, the attention was usually focused on the multinational corporations (MNC) that responded to the

globalization phenomenon by adapting their strategies, way of organizing their activity and the modalities in which they interact with the host economic actors. This context influenced the opportunities and challenges that the governments that were following FDI – assisted development strategies had to face.

As a result to all this, the effects that the foreign direct investment of the MNC have it on the host economy represented a major subject of debate in the area of international business research [10]. It had already been demonstrated that the dynamic relationship between foreign direct investment and the level of development of a host country is reflected by the investment development path (IDP), the newest concept regarding FDI [5].

The concept of IDP was used for the first time, in 1981, by Dunning. In 1996, Dunning and Narula redefined the concept and in 2001, they extended it to incorporate trade.

Since then it had become the base of a wide range of theoretical and empirical studies which are analyzing the situation that exist in Austria, Spain, Portugal, Finland, Ireland, Central and Eastern European Countries, Korea and Taiwan.

2. Methodology

This article aims to identify the contradictions that exist between the Narula's model and new discoveries regarding the five stages of IDP.

In order to achieve this goal a content analysis of 10 relevant articles have been made. The analysis was focus on identifying a definition of the concept of IDP, determining the most important stages of the IDP and the way in which these stages may be identifying in the economic reality.

The selected articles were published during 1996 – 2009 in the *Transnational Corporations, Journal of International Business Studies* and *Working Papers Series*.

The results of this analysis will be showed in part three and four of this article. So, the third part will focus on the model developed by Narula in order to surprise the five stages of IDP while the fourth part concentrates on differences between Narula's model and aspects identified in the economic reality.

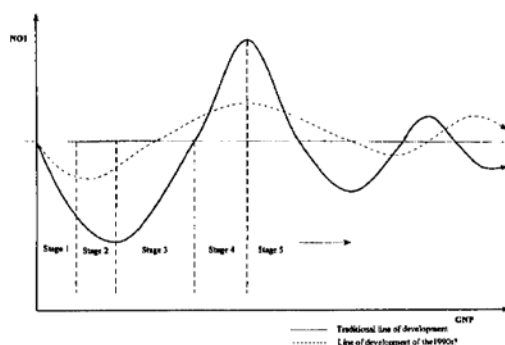
3. The Narula model of five stages of IDP

According to the concept's basic proposition, the inward and outward investment positions of a country are tied to the country's economic development. Changes in the volume and structure of FDI lead to different values in the country's net outward investment (NOI) position, defined as the difference between the gross outward direct investment stock and the gross inward direct investment stock. The changing NOI position passes through five stages intrinsically related to the country's economic development [5].

So, a country experiences five stages of economic development characterized as having different pattern of inward and outward investment. Outward FDI is expected to take place in later stages when a country has accumulated a certain amount of ownership advantages among firms.

According to the IDP theory, countries evolve through five stages of development (Figure 1) [4].

Figure 1: The Pattern of the Investment Development Path



Source: Dunning and Narula, 1998

Stage 1 is associated with preindustrialization. Inward and outward FDI flows are almost nonexistent because domestic markets are very small,

infrastructure is inadequate, the labor force is poorly educated and commercial and legal frameworks are undeveloped.

The development of some location specific advantages (for example, basic infrastructure, eventually as the result of government policies) will give rise to *stage 2*. This leads to more inward direct investment, mostly targeting the emerging domestic market in consumer goods and infrastructure, but too little outward investment, because domestic firms lack ownership advantages. Consequently, the net stocks of outward investment will become increasingly negative. In this stage, inward FDI stocks rise faster than GDP.

Stage 3 is associated with less spectacular growth rates of inward FDI. This is eventually overtaken by outward direct investment, and the net FDI stock will for the first time start to increase despite remaining negative for some time. Behind this change are the domestic firms' growing ownership advantages, which become also more firm-specific and less country-specific. Stronger domestic firms will be more competitive in the domestic market, while engaging in resources seeking investment in less developed countries and in market and strategic asset-seeking investment in more-developed countries.

The deepening of these trends will eventually turn countries into net outward investors (*stage 4*). Location advantages become almost entirely based on created assets, and the firms' ownership advantages that result from managing and coordinating geographically dispersed assets become far more important than those based on the host country's specific characteristics. Intra-industry production is a consequence of the growing similarity in the advantages of countries at this stage, and it generally follows prior growth in intra-industry trade. It results from an increasing propensity by TNC to internalize trade and production.

Finally, Dunning, Dunning and Narula postulate the existence of a *stage 5* in the IDP, corresponding to today's situation in the leading developed countries. With permanently high stocks of both inward and outward FDI, the net outward investment (NOI) position of stage 5, countries will revolve around zero, alternating between positive and negative balances, depending on

the short-term evolution of exchange rates and economic cycles.

4. Differences between Narula's model and the economic reality

Research on the IDP concept as applied to different countries encompasses many additional factors. Focusing on the case of the United Kingdom, Clegg (1996) frames his analysis in the context of country competitiveness. He draws attention to technological factors that influence competitiveness besides FDI and government policy, and extends the investigation of the U.K.'s IDP to bilateral components according to region and country as well as to the sectoral destination of FDI.

Graham (1996) explores the U.S. IDP using data beginning with 1950 and questions the original model's assumption that, in the fifth and final stage, the NOI position tends to fluctuate around the 0 level. Ozawa's (1996) analysis of the Japanese experience stresses the effects of restrictions placed on inward FDI and introduces the technology development path as a surrogate for the IDP concept [7].

The IDP in the Spanish economy is of special interest to the present study because the development trajectories of Spain and Poland resemble each other, albeit separated by a considerable time gap (eighteen years if access to the European Union is considered as the base). Campa and Guillen (1996) extensively present the Spanish case, concluding that Spain has difficulty moving out of Stage 2 of the IDP model, not because of a deficiency in ownership or internalization advantages of Spanish firms, but because of the continuing attractiveness of location advantages in the Spanish market.

Lall (1996) offers a synthetic evaluation of the IDP concept, as evidenced in developed as well as developing and newly industrialized countries. He maintains that structural changes in ownership and location factors influence trends in international capital flows, corporate behavior, and government policy. According to one of his suggestions, the IDP could be better measured by the international transfer of intangible assets instead of relying only on FDI. His main observation is that countries

exhibit long-term deviations from the IDP model, caused mainly by the nature and efficacy of government policy. This might necessitate extending and modifying the model to encompass all of the identified subpatterns. As for the role of government policy in the said model, Lall identifies three main types: a passive approach to FDI and technology upgrading; a proactive approach to attract and guide FDI to activities that most benefit local development and a selective approach to FDI, using it to acquire foreign-created assets and at the same time, developing the potential and especially the technological base for local firms [9].

Buckley and Castro (1998) look at the IDP of Portugal, pointing out some key weaknesses of the IDP concept. They question the IDP's predictive capacity, given the unpredictable character of economic and non-economic factors. Among the non-economic factors, they cite political events such as Portugal's entry into the European Free Trade Association (EFTA) and the European Economic Community (EEC), the 1974 revolution, and the transformation in Central and Eastern Europe [4].

Bellak (2001) analyzes the Austrian IDP, stressing the usefulness of distinguishing an IDP approach for small countries and focusing on bilateral and sectoral analysis similar to that of Clegg (1996). Bellak (2001) argues that, on the basis of collected empirical evidence and taking the level of development as the main criterion, Austria may be classified as being in Stage 4 or 5 of its IDP. If, however, its constantly deteriorating NOI position is considered, the country falls into the category of Stage 2.

Austria's inconsistency with the ideal IDP model may be explained by its extensive use of exporting as an alternative to outward FDI: Austrian firms' weak technological base led to their low capacity to generate firm-specific advantages and inward FDI increased after Austria entered the European Union in 1995. Much of the outward Austrian FDI is undertaken by foreign subsidiaries of MNCs resident in Austria, and therefore, any ownership advantages should be de facto attributable to the parent company from the relevant home country [4].

Barry et al. (2003) find support for the IDP model in their study of Ireland. The IDP concept is also positively verified in a

bilateral U.S-Irish framework, because the United States is the largest source of incoming FDI, as well as the principal destination of outward FDI from Ireland. Outward FDI is mainly oriented toward nontraded products, such as construction materials, paper, and packaging, and the ownership advantages of Irish MNCs tend to be based on management and experience [1].

A complex evaluation of the IDP concept and its shortcomings, and suggestions for modifying it, are found in Durán and Ubeda (2001). Calling for a new approach to the IDP, they draw attention to such methodological problems as the incompleteness of the concept of NOI position as an indicator for analyzing the effects of structural changes on inward and outward FDI, and the insufficiency of gross domestic product (GDP) per capita to indicate a country's level of economic development [9].

The first dilemma appears in countries in which hardly any inward and outward FDI is made and which are classified as being in Stage 1 of the IDP. Their NOI position will be close to zero, similar to developed countries in Stage 5 of their IDPs. To solve this paradox, Durán and Ubeda (2001) propose to look at inward and outward FDI in absolute and relative terms. Suggestions to deal with the second issue revolve around including structural variables that reflect not only the degree of economic development, but also each country's peculiarities and the nature of its international trade.

Another of Durán and Ubeda's (2001) significant contributions to the debate around the IDP concept concerns their redefinition of the fourth stage. Their amended version includes developed countries that have a structural gap due to fewer endowments of created assets; the same levels of inward FDI but lower levels of outward FDI compared to countries in Stage 5; and a positive or negative NOI position, but in all cases, lower than that of countries in Stage 5. All of the proposed modifications depend on the availability of additional or more detailed data and offer much wider analytical possibilities [6].

A growing amount of research on IDP relates to the transition economies of Central and Eastern Europe. Kubiela (1996) invokes the early version of the IDP in his analysis of

the role of technology transfer and FDI in restructuring the Polish economy during the first five years of transformation to a market-based system. The first stage of the IDP is driven by basic production factors, which are abundant and relatively inexpensive. The next two stages fall into the investment-driven category, in which inward FDI is focused on standardized products and then on export-oriented mass production of medium-technology products that generate economies of scale. Finally, there is the innovation-driven (fourth) stage, in which technology is not only imported, appropriated, and improved, but also generated domestically. Inward FDI is now of the strategic asset-seeking type.

A comprehensive and insightful analysis of outward and inward investment in selected Central and East European countries is conducted in a study edited by Svetlicic and Rojec (2003). One of its principal recurring themes states that the IDP concept is useful to understand and explain the outward internationalization process of transition economies. Within the same study, Rosati and Wilinski (2003) investigate how the IDP concept fits with FDI in Poland. They find that the limited extent of outward FDI from Poland is due to factors such as a large and growing domestic market, low savings rate, and a still-low degree of openness in the economy. The outward FDI is mostly market seeking, focused on the markets of Europe [7].

Boudier-Bensebaa (2004) undertakes a synthetic and comparative approach, applying the IDP concept to the entire region of Central and Eastern Europe, including Russia and the former republics of the Soviet Union, and to the fifteen members of the European Union. The Eastern countries concerned are classified into four distinct groups according to their per-capita level of GDP and NOI position. The NOI position of the Eastern countries places them in Stage 1 or 2 of the IDP, while the NOI position of the EU countries suggests Stage 4 or 5. The first and most advanced group of the Eastern countries consists of Czech Republic, Estonia, Slovenia, Hungary, Slovakia, Poland, Latvia, Lithuania, and Croatia. The group is identified as moving toward the end of Stage 2 of their IDP, or even toward the beginning of Stage 3. The NOI positions of

the Eastern country groups and subgroups reveal a tendency to converge. But as far as income levels are concerned, no convergence is found either inside the Eastern countries or between them and the European Union. Finally, the author posits that data on FDI stocks and GDP do not cover all of the factors affecting FDI and development. In the FDI sphere, nonequity forms of investment are left out. As for the effect on FDI, besides GDP, elements such as EU accession, globalization, and the transformation process per se should also be taken into account [3].

5. Conclusions

The IDP is an attempt to provide a framework for a series of concatenated dynamic processes associated with development and MNCs. But the stages of the IDP should be taken as indicative rather than categorical. The IDP framework needs to be used and interpreted in the broad sense, as it is first and foremost a tool which analyzes the interaction between FDI and economic development. The broad version of the IDP focuses on the heterogeneity of both FDI and territories; to interactions and turning points and to the role of policy orientations.

We have provide some suggestiones for a future research agenda to better understand the developmental implications of FDI in Romania. Our analysis of the case serve to illustrate how important is to place the IDP framework whithin the context of the countries institutions and policies. Is is essential to stress that overdependence on FDI to drive industrial upgrading has its risks.

In recent years, the global economic crisis has had a very negative effect on MNC's operations, questioning the formerly prevalent optimistic view of the seccess of FDI - assisted development.

Changes in the policy options available and the continuous restructuring of MNCs imply a growing pressure to develop the kind of sustainable competitive location advantages that enable upgrading throughout the IDP.

6. Acknowledgement

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Agriculture - a Chance for the Economy in Crisis of Romania

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Abstract

Agriculture is not a problem; it should be seen as a solution, alongside with other domains, for taking Romania out of recession. In order to achieve this goal, the attention should be shifted towards the increasing of efficiency and competitiveness in this regard, a strong infusion of foreign direct investment being necessary. The ecological agriculture may be a way to support the revival of the Romanian agriculture, and even a part of Romania's economic recovery.

The role of the Romanian agriculture is the following: development based on knowledge and innovation, conservation, biodiversity and maintenance of the rural heritage, promoting an economy with a high rate of employment, in order to ensure social and territorial cohesion.

Agriculture and the rural development must become ecological, fair, efficient and effective.

The Romanian ecological agriculture is a response to the revival of the agricultural life, if there will be found competitive and efficient solutions to the four characteristics of the agro systems: productivity, stability, fairness and development.

Key words: sustainable eco-agriculture; the smart growth of the agriculture, social inclusion, transparency in food processing, agricultural price volatility.

J.E.L. classification: Q13, Q17, Q57, Q58

The emergence of agriculture is considered the first great economic revolution in human history. By inventing the agriculture, the man went to the creation of the food he needed, greatly increasing the

efficiency of his effort and reducing the hazard [1].

Between the years 2008-2009, the Romanian agriculture had to face the global financial crisis and also to be a domain which had to support the Romanian economy. The Romanian agriculture between 2008-2009 is characterized by the following coordinates: GDP (Gross Domestic Product) per capita - 47% of the one of the European Union in 2008, the agriculture in GDP - 6.4% (1.8% in EU-2007), employed population in agriculture - 29.8% of total employed population (5.6% in the European Union - 2007); in the year 2009, 19% (2.1million) of the 11.2 million “full time” jobs in EU agriculture were in Romania (2.2 million people in Poland and 1.2 million in Italy), the rural population accounts for 45% of the population, 14.7 million ha of agricultural land, 9.8 million ha have been supported by Community Fund Policy - (2,000 commercial farms apply intensive agriculture - 5.1 million ha of farms developed extensive subsistence agriculture - 3 million ha; in Romania the average holding is of 3.3 hectares, 64% of farms produce for their own consumption; net importer of food products); 1.532 million Euros deficit in 2009 (of which 1.301 million Euros represent Intra-community trade and 231 million Euros represent extra trades.) [2].

In 2010, the Romanian agriculture model is as follows: the agro-industrial agriculture, consisting of hundreds, even thousands of hectares, is adapted to the market and relative advanced from the technical point of view; the middle agriculture is underdeveloped compared to the European model of agriculture which is represented by the middle family farms; the subsistence agriculture consists of many micro farms which are not on the market but for the own

consumption; the farmers are mostly elderly people who own the majority of the lands; an important part of the agricultural economy is carried out on lands owned by individuals.

The contribution of agriculture, forestry, fisheries in the calculation of the gross domestic product is of about 6% of GDP, and of about 1.7% of GDP in the Member States of the European Union [7].

Table 1
The percentage of the agriculture, forestry and fisheries in the GDP

Gross Domestic Product	Current prices (million RON)			
	2007	2008	2009*	2010* 1.1-30 VI
Agriculture, hunting and forestry, fishing, fish farming	23992,2	34448,2	30768	6911,7
Total GDP	416006,8	514654	491273,7	211414,8
Percentage (%) from GDP	5,8	6,7	6,3	3,27

Source: *www.insse.ro, the Statistical Yearbook of Romania 2009, *Monthly Statistical Bulletin No. 8 / 2010*

Agriculture is not a problem; it should be seen as a solution, alongside with other domains, for taking Romania out of recession. Under these conditions, although 7.5 billion Euros have been allocated in Romania, for the years 2007-2013, by means of the Common Agricultural Policy, only fewer than 10% of these funds have been absorbed. If those 3.5 billion Euros would not have been spent on imports but directly on agriculture and if there would have been a government program of support, in five years Romania would have become the third agricultural power in Europe, after France and Germany. Massive investment is needed to defeat the meteo-dependence. Few from the great investors come to invest in agriculture. The land price has increased 5 times - but it still holds itself 3-7 times lower than the European average - so a solution would be to accelerate access to EU funds. The absorption of EU funds increased in 2010 more than twice from the year 2009, but not enough [6]. To this lack of European investment there are added the infusion and the low levels of foreign direct investment, especially in tangibles and intangibles. The foreign direct investment is of a low value of 286 million Euros, representing only 0.6% of the total FDI in Romania [5]. This situation reflects the "transience" of the Romanian agriculture and the need to grant a special consideration, in order to support this vital industry for the recovery of the Romanian

economy, in terms of competitive and economic, social, environmental efficiency on the EU and world market.

Romania is on the 6th place in Europe as an agricultural area used (after France, Spain, Germany, Britain and Poland) and on the 5th as arable land (after France, Spain, Germany and Poland). The distribution of the land fund according to its use shows that the arable land is about 64% of the farmland and one third of the total area, 4.8 million ha, is occupied by pastures and meadows, orchards and vineyards and it is about 3% [7].

The evolution of the agricultural production (the prices of the producers, plus the subsidies on products and less the taxes on products) reflects a reduced crop production, meaning a production from 61, 9% in 2006 to 59.6% in 2009, in the benefit of the production resulting from livestock, which has experienced a significant increase of 8.5% compared to 2008, but only 0.7% compared to 2007 [3].

Table 2
The evolution of the agricultural production between 2006-2009

Specification	2006		2007		2008		2009	
	Current prices (million RON)	%	Current prices (million RON)	%	Current prices (million RON)	%	Current prices (million RON)	%
Vegetal production	31327,2	61,9	28723,4	60,2	45742,2	68,3	35735,5	59,6
Animal production	18848,6	37,2	18291,6	38,3	20535,7	30,6	23441,6	39,1
Agricultural services	473,8	0,9	684,8	1,5	716,0	1,1	751,3	1,3
Total	50649,6	100,0	47699,9	100,0	66993,9	100,0	59928,4	100,0

Source: *www.madr.ro, Ministry of Agriculture and Rural Development, The Agriculture of Romania in Figures, November 2010.*

The productions of the field crops, in 2009, insured the needed consumption for the population as well as for feeding animals.

Table 3
The evolution of the field crops between 2006-2009

Specification	The area (thousand ha)				Total production (thousand t)			
	2007	2008	2009*	2010**	2007	2008	2009*	2010**
Cereals - total d.c.	5129,2	5210,7	5282,4	5066,4	7814,8	16826,4	14873	16496
Wheat + Rye	1987,1	2123,3	2164,3	2060,5	3065,0	7212,4	5235,5	5727,4
Barley	363,8	394,0	517,5	506,1	531,4	1209,4	1182,1	1262,7
Oats	208,7	290,4	202,7	194,3	251,6	382,0	295,8	331,1
Maize	2524,7	2441,5	2338,8	2289,9	3853,9	7849,1	7973,3	9085,2 ⁰¹
Rice	8,4	9,9	12,9	13,1	27,5	48,9	72,5	89,6 ⁰²
Sunflower	835,9	813,9	766,1	823,6	546,9	1170,0	1098	1454,8
Oil rape	364,9	365	419,9	579,5	361,5	673,0	559,6	920,6
Soybeans	133,2	49,9	48,8	64,1	136,1	90,6	84,3	143,3 ⁰³
Sugar beet	28,7	20,4	21,3	24,4	748,8	706,7	816,8	792,5 ⁰³
Total Potatoes	268,1	255,3	255,2	243,9	372,4	3649,0	4004	3333,8 ⁰³

Source: *www.insse.ro, The Statistical Yearbook of Romania, 2009 and estimates of the Ministry of Agriculture and Rural Development*

The evolution of the field crops shows significant increases compared with 2007, despite a reduction in the values recorded in 2009 with 21% overall grain crop. In terms

of sunflower (266% in 2010 compared to 2007), rape (255%), soybeans (106%), the production recorded an ascending trend in 2010 compared to 2007. It is worth noting that steps are to be seen in practicing an intensive agriculture for this kind of crops because of the slight declines of the cultivated land while conditions for the growth of the production are recorded. The position and the role of the field crops in agriculture would be even greater if the efficiency and productivity should be mandatory in their management.

Romania, as a vineyard country, occupies the 5th place for its vineyard area and the 6th place for its grapes and wine production in the European Union.

The area planted with vines occupies 1.5% of all farmland in the country. The three major vineyard areas of Romania are the Carpathian area, the Carpathian hills area and the Danube area. Within these areas there are eight wine growing regions and a total of 38 vineyards were over 100 varieties of grapes are planted. The four wine complexes which are dominant on the market are: Murfatlar (29.9%), Jidvei (19%), Cotnari (13.8%) and Vrancea Vincon (7.9%). In 2009, the grape production has exceeded the average recorded between 2007-2008, and the fruit production increased by 143.000 tonnes compared to 2008 [3].

Table 4
The evolution of wine production between 2007-2009

Specification	The area (thousand ha)			Total grape production (thousand to)		
	2007	2008	2009*	2007	2008	2009*
Grape vines bearing	187.6	194.9	184.4	873.2	1010.0	990.2
Grape vines grafted	92.3	100.4	94.7**	511.3	603	592.5**
Hybrid grape vine	95.3	94.1	89.7**	361.9	407	397.7**

Source: www.madr.ro, Ministry of Agriculture and Rural Development, The Agriculture of Romania in Figures, November 2010

In the vine-wine field, the focus is on the Support Programme, which runs the Community funds with an annual financial allocation of 42.1 million Euros between 2009-2013 for the following measures: the restructuring and conversion of vineyards, the vineyard harvest insurance, the use of the concentrated must in order to raise the alcoholic strength of the wines, the wine promotion on the markets of the other countries.

A goal of the Romanian agriculture is represented by the finding of the balance between the fields of plants and animals. It aims to increase and improve the livestock

breeds for meat and milk. It also aims to increase the areas occupied by the protein forage for the improvement of the livestock production aimed, in turn, to encourage the development of agro-processing units.

Livestock is an important part of the Romanian agriculture and is one of the main activities in the rural sector (see table 5).

Between 2007-2009 there were awarded grants to improve the quality of genetic material used for the first calving heifers, gilts, produced calves, sheep, ewes and rams, silkworms depending on the production of merchandise sold and also on the development of certain criteria of breeding and breeding productive performance.

Table 5
The evolution of livestock field between 2007-2009

Specification	U.M.	2007	2008	2009*	2010**
Number of					
Cattle	thousand heads	2819	2684	2512.2	2465
Swine	thousand heads	6565	6174	5793.4	5423
Sheep and goats	thousand heads	9334	9780	158.7	12007
Hens	thousand heads	82036	84373	83843	87008
Productions					
Meat (live weight)	thousand to	1503	1426	1442.3	978
Milk (including calf consumption)	thousand hectolitres	61048	59006	56382.6	39185
Eggs	thousand pieces	6522	6692	6211.2	4703
Wool	thousand to	21	22.1	22.3	19.8

Source: www.madr.ro, Ministry of Agriculture and Rural Development, The Agriculture of Romania in Figures, November 2010

Despite the measures taken, the results are to be long expected because, except for the sheep and goats where there have been recorded increases in livestock, in all the other livestock sectors there have been registered decreases. The milk production is in decline, and the one of eggs and wool has recorded a slight increase. There are farms holding a very small area in point of the number of milk cows. Fragmentation means reduced bargaining power. Concerning the small farms, you can not achieve high costs comparable with the ones of the great producers. This sector holds the record for the number of farms in Europe, but not in terms of efficiency. On the milk market, only 22% of the produced milk in farms go to trial and finally in stores, the rest being used either for the own consumption or for "at the gate" marketing [8].

The ecological agriculture experienced a dynamic evolution. At the beginning of the financial crisis in Romania, the total area under cultivation was of 240,000 hectares, an area that grew by 68% compared to the one in the year 2006. For the year 2010, the ecological production area increased 1.82 times compared to 2006, meaning an increase of 8% compared to the year 2009. This development is based on the growth of the

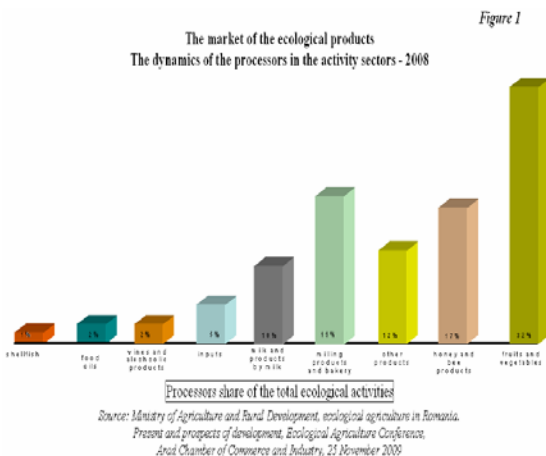
arable area and of the one related with the collection of the spontaneous flora [4].

Table 6

Period / Indicator	2006	2007	2008	2008/2007	2008/2006
Cultivated areas, based on the ecological production method (ha)	143.194	190.129	221.411	1,16	1,55
Certified ecological areas (ha)	78.083	143.179	152.881	1,07	1,96
Areas during the conversion (ha)	65.111	46.949	68.530	1,46	1,05
The share of the agricultural areas by the model of the ecological production, total agricultural area of Romania (%)	1,00	1,40	1,60	0,20	0,60

Source: Ministry of Agriculture and Rural Development, Ecological Agriculture in Romania. Present and prospects of development, Ecological Agriculture Conference, Arad Chamber of Commerce and Industry, 25 November 2009

At the beginning of the financial crisis in Romania (2008) the characteristics of the market for the ecological products show the following: an emerging domestic market estimated to 20 million Euros, with a steady growth; the distribution channels are represented by wholesale shops, sales at the gate of the farms by means of specialized stores, on-line sales or seasonal markets; the consumption is targeted to customers aged between 30-50 years and with an above-average income; the most requested items are milk, cheese, vegetables and fruit, eggs, cereals, bread, honey and products for children [4].

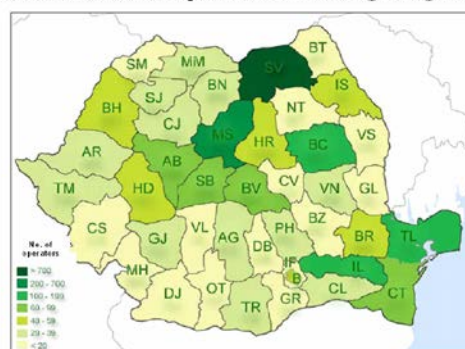


In the year 2009, on the domestic market there were sold fresh vegetables and fruits, herbal teas, bread, pasta, pastries and confectionery, flour and cereal flakes, sunflower and soybean oils, wine made from ecological grapes, honey and bee products, eggs and processed products: cow and sheep milk (swaitzer, cheese, butter, and cream cheese), rice, soy, hemp seed (spreads, tofu, pate, and hemp oil); pork, beef and snails (sausages, bacon, and pate), fruit and vegetables (juices, jams).

It means that, of the total number of the registered processors in 2009, 18% of manufacturers deal with fresh fruits and vegetables segment, 16% with milling, bakery and confectionery, 17% with honey products, 10% with milk products, 6% with other products, 2% with wine, oil and margarine and 1% with heliculture (see figure 2) [3].

Figure 2

The distribution of the operators in the ecological agriculture



Source: www.madr.ro, Ministry of Agriculture and Rural Development, Agriculture of Romania in figures, November 2010

There were used 136,600 tonnes of ecological products worthing 103 million Euros, for the intra-community trade in the year 2009, up 20% compared to the year 2007.

The main products on the Community market were oil and protein, grain, berries and mushrooms, processed milk, honey and derived products, sunflower oil. Romanian products were marketed in Germany, Italy, Greece, Switzerland, Holland and France. In the future of the ecological agriculture, Romania should take into consideration the new perspectives of the European Union. By "The Common Agricultural Policy up to 2020 - How to respond to the future challenges in nutrition, natural resources and territories", in mid 2011, the European Commission will present formal legislative proposals and it will also propose: a new vision of direct payments, which must integrate the "green" component, a distribution in a fairer and a more transparent way, the intensifying of efforts towards combating the climate changes and the innovation in the rural development programs; the transparency of the food chain in order to provide the Member States new tools to combat the excessive volatility of the commodity prices in agriculture [8].

The future implementation and the accomplishment of the objectives of the development strategy in ecological

agriculture should be in line with the new approaches of the European Union. Thus, the quality objective of placing the ecological agriculture in the center of the Romanian agriculture as an engine of sustainable development should be linked to quantitative targets - the increasing of the cultivated areas (by the year 2013 to 5.08% of the agricultural area), the diversifying of the range of ecological products, the expansion of the internal market for ecological food products, the increasing of the "per capita" consumption [4].

The Romanian agriculture is a sector that fails to provide Romania the needed currency resources. The increase of the value of exports has not yet been able to offset the deficit created by imports, although their value was reduced by 476.3 million Euros, amid the economic crisis. There is an upward trend of exports. In the year 2008, compared to 2007, the export value has doubled, and in 2009 compared to 2008, the exports grew by 61 million. The trade deficit recorded in 2009 was of 1.5324 billion Euros, down by 537.3 million Euros, compared to 2008, and of 622 million Euros compared to 2007. The European Union is the main partner in Romania's agricultural trade; in 2009, shipments of agricultural products to this destination had a share value of 77% and the acquisitions of the European Union Member States have held a share of 80% [3].

To strengthen the role of the Romanian agriculture in the revival of the Romanian economy, there should be considered the following priorities: smart growth - the developing of an economy based on knowledge and innovation (research and technological development combined with efficient use of existing resources lead to increased productivity), sustainable growth - the promoting of a more efficient economy in terms of the use of some greener and more competitive resources leads, on the one hand, to providing "public goods" for the society (such as conservation, biodiversity and maintaining the rural heritage) which, on the other hand, might lead to creating new jobs by means of the expansion of agriculture and local markets supply; social inclusive growth - the promoting of an economy with a high rate of employment, to ensure social and territorial cohesion (about 13.6 million people are directly engaged in agriculture,

forestry and fishing, and another 5 million in agro-food sector, this meaning 8.6% of the total employment in the EU and 4% of EU GDP [2].

Agriculture and the rural development must become ecological, fair, efficient and effective and also must have the following objectives: reliable food production - to ensure safe and sufficient food supplies, according to the permanent rising demand, the global economic crisis and the larger volatility of the market, in order to contribute to the food security; sustainable management of natural resources and climate policies (farmers have to be more aware of the environmental issues than the economic ones although these costs are offset by the market); maintenance of the territorial balance and the diversity of the rural areas (agriculture remains a major social and economic engine in the rural areas and an important factor for maintaining of the countryside area).

The market for the ecological agricultural products (bio) is estimated to 40 billion dollars worldwide, representing 2.5% of the overall food and beverage market. Romania could benefit from this trend. The existing and potential agro ecologists could develop a strong ecological agriculture sector, by making use of the arable and forest land and by taking advantages from the low level of the fertilizers and the pesticides used in the Romanian agriculture, which could be transformed from a competitive disadvantage into an advantage.

The Romanian ecological agriculture is a response to the revival of the agricultural life, if there will be found competitive and efficient solutions to the four features of the agro systems: productivity, stability, fairness and development. The agro ecologists of the agro system must best manage the agro system's elements such as soil features and the interactions between plants and insects, and also the use of the social sciences in order to understand the effects of the soil cultivation practice in the rural communities, economic constraints of developing new methods of production or cultural factors indicating soil cultivation practices, and the presence of the "bio" allows striking [8].

In conclusion, agriculture is an important sector in the real economy having an important social role but a modest competitiveness

though. The Romanian agriculture has divergent objectives, interests and even solutions of development and therefore there are need different intervention measures.

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The Need for the Emergence and Development of Ecotechnology that Science

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Abstract

Altered climate and increased global instability, are problems that can not be ignored at all, they must be located in the master plan of concern to people could prevent general environmental disasters.

Both climate change and global instability can be eliminated primarily by switching to energy production based on hydrocarbons to one based on alternative energy.

The process of altering the Earth's existence can be slowed or even eliminated if they pass the economic processes based on the eco tehnological processes for immediate financial profit, meaning it will move from the present industrialized and computerized society to a society based on sustainable development.

The XXI century will build eco tehnological civilization cross that supports care for the environment, protect existing habitat and regeneration of the destroyed.

*Thus it appeared that a new discipline - **Ecotehnology** - which is a harmonious blend of technology and environmental protection.*

Key words: ecology, ecotehnology, environmentale damage, automobile industry
J.E.L. classification: Q56

1. Introduction

Since his appearance on earth, man has influenced the natural environment in the sense he wanted to ensure their protection, food, heating, so for survival and development.

If at first the impact was negligible because of the small number of individuals gradually adjust to the environment, while the effects were amplified. In ancient times, agriculture has seen a rapid expansion over

large areas, affecting more strongly the ecosystem.

From the eighteenth century industrialization increasingly intervened heavily in the natural environment, damaging natural resources and exploiting it by working through various techniques, through increased traffic and population growth.

Human impact on nature has been accomplished by:

- Radically changing the work geographic landscape through large scale as: ponds, lakes, dams, drainage, etc.
- Operation of strong energy and material resources of soil and subsoil
- Climate change negative transformations in the structure of the vegetal cover in particular by deforestation
- Change the structure of ecosystems beyond their recovery
- The destruction of many species of plants and animals, deterioration, change or destruction of ecosystems that had been adapted
- Changing the composition of the atmosphere, water and soil through spills of various products
- Altering the natural gene pool of living beings downward adjustment capacity, restoration and reproduction [5].

2. The emergence and development of ecology

The term ecology was first introduced by German biologist Ernst Haeckel in 1866, which practically joined two Greek words, namely:

- **Oikos** = house, home
- **Logos** = science, speech

So basically ecology as a science can be considered habitat (living space).

The appearance of this field of science has enabled significant accumulation of knowledge about the nature of the naturalists of great value over time.

Development of ecology but has been slow to start, compared with other scientific developments, due to lack of data on interactions between these organisms and the environment, and the purpose of this science, so the practical applications.

After 1930, the ecology has experienced spectacular growth, due to the abundance of accumulated knowledge and awareness of humanity to the environmental causes of errors [3].

Today ecology is defined as the science that studies the conditions of the existing interactions between living things and living beings on the one hand and between living things and environment, on the other side.

The main problems of ecology are:

- study of matter and energy flow in the biosphere;
- principles of biological productivity;
- dynamics of animal populations;
- natural resources conservation principles and reproduction.

3. Eco tehnology – 3rd millennium since

We can say with certainty that there is no area of our existence which have not appeared and technology words, technical progress, new technologies, pollution and sustainable development, special and different-sounding words at a time for hope each of us.

Technology, a term with different meanings, was born, developed and initially consisted of the production materials (all methods of work and technical resources necessary to develop materials production processes), has gradually expanded the benefits of services (transport, municipal services, repairs, household appliances etc.), then to cover production and spiritual sphere (works of art, sport, tourism, leisure, etc.). Therefore, understanding, perception and proper application of technology and other concepts that are directly related to it - technical progress, upgrading and environmental pollution - is a civic duty not only for specialists but for all the protagonists of the third millennium.

Eco technology, this new science has emerged as a necessity of manifesting prominent trends in human development, especially due to the trends of environmental pollution from uncontrolled desire economic development based solely on profit. [7]

Eco technology is the science of applying all the sciences, in order to achieve the goods of a certain social utility in terms of sustainable development and a minimum pollution.

The scientists studied all the transformations that the substance is subject, cross eco technological processes driving these changes work and how to obtain the necessary products company, in terms of sustainable development and optimum efficiency.

Today, the main way of developing high level of wastage due to specific "consumer society" is the technology and eco technology is called now to find an alternative for preserving the environment and solve the general crisis in which humanity is (the crisis of energy, materials raw material resources, protection, reliable and not least economic) [1].

Eco engine technology is an *eco-economy* development, the end result of it being a cross product obtained from one or more material behind an *eco production process* [7].

Eco technology differs from other sciences through the following:

- is a science because it follows the applicative technique with a practical purpose;
- is dependent on time and space, because any discovery of laws of nature is made useful by a specific technology company, and its use is perfected in time for an eco technology;
- does not solve the problem of making a single product, it solved the problems of obtaining an eco industrial production, diversified series of the same social utility, thus becoming an essential condition of human society development;
- based on the concept of sustainable development - of future generations to conditions of life and development at least as good as our generation, as provided by our generation's obligation to preserve and restore, as appropriate, environmental

conditions conducive an existing optimal [2].

Eco technology differs in that the technology must offer solutions for assuming implementation of sustainable development:

- Limit the amount of materials used in their economy through recycling and circulation
- Possible elimination of waste from industrial processes
- Energy conservation and development of new clean energy
- Replacement of toxic materials and biodegradable materials difficult recycleble
- Preservation of environmental factors
- Biodiversity Conservation
- Reduce operating costs
- Improving working conditions [4].

4. The main beneficiary of the development of environmental technologies - automobile industry

Most of us know the huge effort that make for healthy planet, humans and animals through various ecological approaches to nature. Stranger to these moves is neither the international automotive industry, and rightly so, because hundreds of millions of vehicles worldwide spread on the roads have a huge potential for air pollution, global warming accelerate the process and eventually choking the planet. Naturally, the importance of cars is too high to give up their service, but a transformation of cars more environmentally friendly direction was already taken into account. In recent decades, transit trains, heavy but necessary, from cars run on fossil fuels to those which employ alternative energy resources, clean and renewable.

Turnover is difficult and slow to change because the world fleet is, by definition, a war of attrition, but we can already speak about green cars and even about its history.

In the aftermath of World War II, following the example of Germany, Japan would launch project to develop affordable car man. Year 1958 will mark the launch of small car market by a large number of Japanese automakers, the 480,000 cars sold in Japan in 1960 turns into 5.3 million sold by 1970. From there he remained until just a step in the Land of Rising Sun, the negative

impact on the environment began to be felt, especially the air pollution. Emissions caused a sensible increase of cases of asthma, which culminated in an incident in 1970, when many high school students in Tokyo accused of dizziness and headaches as a result of breathing in car exhaust gases emissions. The event boosted awareness about air pollution both in the capital of Japan, and other major cities "inhabited" cars.

A similar problem already had the time most industrialized countries, among them the U.S.. Thus in 1970, was issued "**Clean Air Act**", under the name "Muskie Act", which stipulated a 90% reduction of hydrocarbons, carbon dioxide and nitrogen oxide exhaust gas component, within 5 - 6 years. Stepping on the same tracks, the Japanese government enacted the 1972 "**Act to prevent pollution**". Criteria related to acceptable rates of contaminant removed cars became more severe after subsequent regulations, leading to a recognized threshold of 0.25 g / km exhaust emissions.

Environmental problem has led industrialists worldwide motorists to be aware of the practical implementation of new standards. Were used as the latest technological breakthroughs, such as thermal reactors, electronic fuel injection pump, new engine design elements and catalytic converters to minimize the quantity of toxic substances emitted by motor vehicles by removing gas.

Following the 1973 oil embargo, gas prices increased, a phenomenon that gave birth to a major interest for electric vehicles.

If we think of car environmental history from its beginning until today, the first reminder is worth even the first model with four-wheel electric vehicle, namely electric carriage, made between 1832 and 1839, the Scotsman Robert Anderson . Also, a small-scale electric car was designed by Professor Strating from Groningen, Holland, and built by his assistant Christopher Becker in 1835. Plant Gaston Frenchman invented its own model with the same principle of operation in 1865 and Camille Faure improved partner storage capacity of the battery used vehicle in 1881. Also, the first purely electric car with fuel was invented in 1902 and named Buick Phaeton, a model that later became, in 1916, hybrid, operating both an electric motor and internal combustion.

All these marks of industry pioneering experimental environmentally "friendly car".

These inventions have appeared in practice due to their ambitions and to do otherwise, to show that it can be a different approach to automotive issues, but he had no intention of starting a fashion sparing nature. If we go on this thread, I would say that green cars were born, because the first car, designed in 1769, worked on the principle of energy produced by steam.

In reality, the draft environmental machines began shy of the 1973 Honda Civic, but it actually started after the United Nations Kyoto Protocol, Japan, in 1997, when an amendment appeared on the international treaty on climate change.

The 40 developed countries and the European Community, which ratified the Protocol, have agreed to reduce their collective emissions of carbon dioxide by at least 5%. This objective would be achieved until the period 2008-2012. By the middle of 2007, and 149 other countries, less developed protocol rallied, even having no emission reduction obligations. In 2006, the Protocol covers more than 55% of global emissions of greenhouse gases. The Kyoto Protocol was replaced by a resolution of the summit on global warming that took place in Copenhagen resolution that calls into question much tougher standards with polluting industries and at the same time, more environmentally friendly.

International automotive market transformation strategy, took place on several fronts, all having the same destination, a means of personal transport, efficient and autonomous, environmentally friendly and affordable at prices similar to those of conventional cars.

Global auto industry has not rested in their attempts to find, enhance and promote environmental alternatives and conventional vehicles already mapped directions for environmentally friendly cars plan were followed closely, and developed streamlined.

He started the development of automobile industry on several tracks:

- pneumatically powered machine uses a piston engine that uses compressed air to zero emissions as an energy source;
- battery electric vehicles derive their power from chemical energy of different types of batteries: lead acid and nickel-

metal lithium-ion, lithium-polimner, zinc-air and others;

- solar car which is achieved using solar photovoltaic panels installed on the vehicle surface;
- using hydrogen cars, hydrogen as the main or even sole source of power. Hydrogen vehicles can be used in combustion processes (hydrogen burned in the engine) or fuel conversion processes (hydrogen is converted into electricity to drive the electric motor);
- hybrid cars that combine an internal combustion engine fueled by gasoline and an electric motor powered by a battery.

Delay and slow progress in eco car industry have a lesser or greater tangent to those who rule the empire of oil. Sea oilmen, those who have enriched conventional cars, have exploded and continues to sabotage the initiative by the actions of different natures green. Renunciation, the globe, for the fossil fuels in cars move would seriously harm the interests of those who have created financial empires in the exploitation and marketing of these fields. [6]

5. Conclusions

Given the serious environmental problems and climate change exacerbated in recent years, if the group really want industrialized nations to reduce pollution at least one of the methods of alternative energy for cars will be adopted for mass production of motor "green" vehicles.

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The EU Strategy of Development for Inland Water Transport on the Danube. Intermodality and Logistics Services

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Abstract

The European Union has developed a strategy for inland water transport that will be implemented through programs financed by the Regional Development Fund.

The priority areas will focus on improving: transport connections, energy connections, the environment, socio-economic development and security.

This paper will analyze how this strategy is implemented in Romania, through programs concerning the development of inland transport on the Danube. As road infrastructure is insufficiently developed in our country, traffic congestion is an important problem for transportation of goods. Diversifying the means of transport could offer an alternative to road transport, but it must be viable and safe. A main concern is the cost, and we will explore the possibilities to enhance competitiveness of inland water transport. An important factor in this matter is intermodality and related logistics services.

Key words: development strategy, inland water transport, Danube, intermodality, logistics

J.E.L. classification: R48, L91, O18

1. Introduction

In order to increase competitiveness of the European Community economy, new sources of competitive advantage must be identified. The huge economic potential of inland water transport could be one of them.

The European network of inland waters has a total length of 3500 km. It connects hundreds of cities and industrial regions and plays a major part in transportation of goods throughout the continent. A part of this network is the river corridor formed by Rhin, Main and Danube rivers, which connect The Black Sea and the North Sea.

The Danube region covers parts of 8 EU countries (Germany, Austria, Hungary, Czech Republic, Slovak Republic, Slovenia, Bulgaria and Romania) and 6 non-EU countries (Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Ukraine and Moldova). [2]

The region is facing several challenges:

- environmental threats (water pollution, floods, climate change)
- untapped shipping potential and lack of road and rail transport connections
- insufficient energy connections
- uneven socio-economic development
- uncoordinated education, research and innovation systems
- shortcomings in safety and security

Better coordination and cooperation between the countries and regions is needed to address these challenges.

For the period 2007 - 2013, 100 billion Euro funding have been allocated from the cohesion policy (European Regional Development Fund, Cohesion Fund, and European Social Fund). The main objective is to increase the fluvial traffic for goods by decreasing the negative externalities of water transport, as navigation incidents.

2. The European inland water transport strategy

The opening of the markets is traditionally related to competition. An important factor for increasing the competitiveness of the EU industry is the development of the Trans-European network infrastructure.

The European Transport Policy has the role to improve the funding support for developing the inland water transportation, including the Danube.

By diversifying the means of transportation and intensive using of inland waterways, the aim of reducing traffic congestion may be achieved.

In the EU consensus has been achieved on the need for adopting the principle and practice of cost-based charges. As a consequence research has been oriented towards the estimation of social external costs because these are a fundamental input to the price setting process. Extensive research has been carried out on this topic both at European and national level. [3]

A fundamental issue for developing competitive alternatives to road transport is intermodality, as door-to-door delivery is preferred by most customers.

According to The Freight Transport Report (European Commission for Energy and Transport, 2010) there have been few tangible achievements apart from a few major ports with good rail or canal links. Action is therefore advocated to ensure fuller integration of the modes offering considerable potential transport capacity as links in an efficiently managed transport chain joining up all the individual services. The priorities must be technical harmonization and interoperability between systems, particularly for containers.

3. Enhancing the competitiveness of inland navigation

The recommendations for increasing the competitiveness of the waterborne mode are:

- support an extensive use of ICT-solutions to simplify and improve administrative and logistical processes;
- stimulate the application of IWT based door-to-door supply chains as long as it reaches a good level of commercial

competitiveness;

- support the development of container liner services on inland waterways;
- Implementation of River Information Services (RIS);
- create harmonized regulations for the implementation and use of RIS;
- provide funding for innovative inland waterway development projects;
- use synergy effects between information technology (logistics, telematics) and the upgrading of waterways. [4]

The European Transport Policy is oriented towards the rationalization of intra-European procedures. The streamlined dangerous cargo reporting tool, whose use has resulted in substantial savings for companies and organizations, demonstrates how ICT (Information and Communication Technologies) can significantly help to facilitate the implementation of directives that are, otherwise, very difficult to enforce.

The pricing of logistics supply chains is generally recognized as a key driver of modal choice, but not the only one nor the principal factor. In practice in modal choice selection processes it is necessary to take into account a number of variables. This does not mean that policies to influence modal shift by increasing the price of road transport may not be effective at all, but it must be considered that there are limits to the impact of such measures on modal shift. [5]

The development of the CESAR tool (Coordination Action for the European Strategic Agenda of Research on intermodalism and logistics) is an example of how European collaboration may be organized in order to develop common and harmonized tools. [6]

4. Intermodal transport and logistics services

“Intermodal Transport: The movement of goods in one and the same loading unit or road vehicle, which uses successively two or more modes of transport without handling the goods themselves in changing modes. *By extension, the term **intermodality** has been used to describe a system of transport whereby two or more modes of transport are used to transport the same loading unit or truck in a integrated manner, without loading*

or unloading, in a [door to door] transport chain" [7]

Technical improvements of intermodal transport had concerned the development of pallet and suitable wagons for travelling at high speed, an innovative solution for transferring semi-trailers, and conceptual terminal designs with fully automated loading and unloading systems, as well as a system to trace container within the terminal yard in real time, reducing the intervention of human operators.

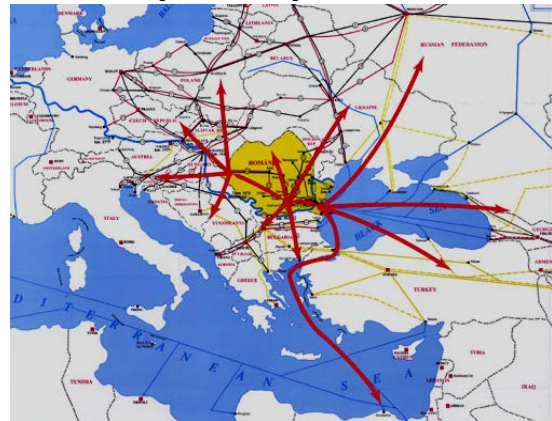
For what concerns the intermodal network efficiency, research has particularly focused on investigating existing technologies and their applications to enhance the efficiency of intermodal and maritime operations and increase their volume by improving and facilitating cargo flows between inland and sea. An innovative waterborne transport concept for inland/short-sea operations was developed, which can replace the currently fragmented and traffic jams sensitive road, rail and waterborne transport. Furthermore, tools for improving the efficiency of door-to-door transport of goods in urban areas were developed, as well as a Freight Transport Monitoring System (FTMS) for intermodal transport chains, which can monitor the status of the delivery and provide real-time information. Research has also provided an overview of the potential and limits concerning the use of semi

5. Case study: The development strategy for the fluvial traffic on the Danube – implementation in Romania

Romania is on the European transport corridors:

- IV (Berlin/Nurenberg-Prague-Budapest-Arad-Bucharest-Constanta-Istanbul-Salonic),
- VII (Danube, the river corridor Sulina and Channel Danube-Black Sea) and
- IX (Helsinki-St.Petersburg-Moscow-Pskov-Kiev-Ljubasevka-Chisinau-Bucharest-Dimitrovgrad-Alexandroupolis).

Figure 1: Position of Romania in The European Transport Network



Source: Arhicom, Foundation European Gateways Platform, 2010

The transportation of goods in Romania benefits from the possibility of choosing between 4 means of transportation: road, air, maritime and fluvial. It is well acknowledged that the road infrastructure in our country is considered to be insufficient developed, especially concerning commercial transportation of goods using large dimensions trucks. As air transportation costs are high and suitable for increased value products, transportation by water is the alternative that has the advantage of low cost.

Table 1: The evolution of modal split of inland transport of goods

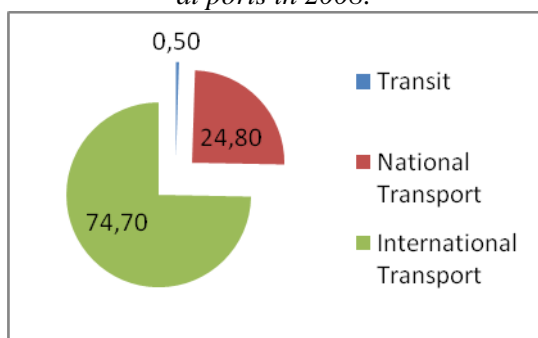
Type of transport	2000	2008
Roads	42,9%	70,2%
Railways	49,2%	19,0%
Inland waterways	7,9%	10,8%

Source: Eurostat

The Danube crosses 15 countries and has a total length of 3500 km, still, freight volumes on this river have reached only 10% of its potential capacity [1].

From the total volume of transports, the biggest part is represented by national transports (74.7%) and the transit volume is insignificant.

Figure 2: The inland waterways transport at ports in 2008:



Source: The National Institut of Statistics, Statistic Yearbook 2009

The Directive EC/2005/44 demanded the implementation of River Information Services along the navigable international waterway network. The GIS forum was founded in 1997 by the waterway administrations of Germany, Austria and Slovakia. Since 1999, the group joined the working group of the Danube Commission, followed afterwards by Croatia, Romania and the Ukraine. The GIS Forum aims at more intensive exchanges of geographical data and closer cooperation in terms of the waterway management for the Danube River. In this respect, D4D (Data warehouse for Danube Waterway, Priority Axis 2 – Efficient and sustainable transport systems and access to the information society) was set within the work carried out by the GIS Forum Danube. The D4D project's primary objective was to provide a common and harmonized implementation of European and international standards on the Danube waterway, and recommendations for inland navigation. In particular, it sought to create digital navigation charts for the Danube river in compliance with the European inland ECDIS standard¹⁶ and set up an infrastructure to improve the accuracy of satellite based positioning systems, according to current international standards. In accordance with the regional orientation of the project, D4D also aimed to network national geographic information systems around the Danube and to ensure an efficient exchange of electronic data between responsible waterway authorities. [8]

The network of harbors on the Danube is in the south part of the country and has both fluvial, maritime and fluvial-maritime ports.

Table 1: List of Romanian ports on Danube

Port	Tip port
Baziaș	Fluvial
Moldova Veche	Fluvial
Moldova Nouă	Fluvial
Drencova	Fluvial
Țișovița	Fluvial
Orșova	Fluvial
Drobeta-T.Severin	Fluvial
Gruia	Fluvial
Cetate	Fluvial
Calafat	Fluvial
Bechet	Fluvial
Corabia	Fluvial
Turnu Măgurele	Fluvial
Zimnicea	Fluvial
Giurgiu	Fluvial
Oltenița	Fluvial
Călărași	Fluvial
Ostrov	Fluvial
Cernavodă	Fluvial
Hârșova	Fluvial
Chișcani	Fluvial
Brăila	Fluvial-M
Isaccea	Fluvial-M
Galați	Fluvial-M
Tulcea	Fluvial-M
Sulina	Fluvial-M
Midia	Maritime
Constanța	Maritime
Mangalia	Fluvial
Turcoaia	Port interior
Gura Arman	Port interior
Măcin	Port interior
Chilia Veche	Port interior
Mahmudia	Port interior
Sfântu Gheorghe	Port interior
Timișoara	Port interior
Medgidia	Port interior
Murfatlar	Port interior
Ovidiu	Port interior
Luminița	Port interior

Source: The Ministry of Transports web site: www.mt.ro

As part of the European strategy for development of inland water transport, Romania has developed a program for traffic management, which has been financed through the Authority of Management in Sectoral Operational Programme – Transport (SOPT) by The European fund PHARE 2002/00 – 586.04.09. The project is compatible with the Priority Axis 3 (TEN-T), intervention domain 3.2 “Modernization of fluvial transport and improvement of safety”. The scope of the program is to ensure that European standards regarding safety and real time communication are respected.

The total value of the project is 49.989.094 lei, and eligible value for funding 42.007.642 lei. The non-refundable financing from the EU is of 71.12% (29.875.835 lei) of the eligible value and the difference of 28.88% (12.131.807 lei) must be co-financed by Romanian Government.

The main scope of this project is to create a harmonized inland water transport at European level by interconnecting national RIS centers.

The first stage of the project implemented VTMISS (Vessel Traffic Management Information System), a form of Integrated Maritime Surveillance System that can incorporate various information systems developed for traffic management. It offers real-time information about ships and navigation routes.

As the first stage has been completed, the second stage (named RoRIS II) is in course of implementation since May 2009. The technical aim is to implement a RIS system (Radiology Information System) compatible with EU Directive 2005/44/EC (Directive RIS) on the part of Danube crossing Romania and also interconnecting it to similar systems from Austria, Hungary, Slovakia, Bulgaria and Serbia.

This is the most complex project implemented in Romania as it covers all 23 Romanian fluvial ports (see table 1) and offers an intelligent system of naval transport with the purpose of enhancing the safety and effectiveness of inland waterways of The Danube River. The organizational structure of the system will have three levels, with the following attributions:

Table 2: Organizational structure of RoRIS

Level	Office	Attributions
central	Constanta - Romanian Naval Authority Terminals at Transport Ministry and Interns Ministry	Management of informational flow between all regional and local levels
		Coordination of the system
		Creating interfaces for external communication
regional	Drobeta Turnu Severin, Giurgiu, Galati Tulcea	Centralizing information about fluvial transport on the Danube
local	All fluvial ports on Danube in Romania (see table 1)	Current navigation operations
		Communication with other ports by VHF system
		Collection of initial data from sensors

Source: The Romanian Naval Authority, www.rna.ro

The main objectives of the project are:

- efficient use of ports and terminals
- the reduction of naval incidents, pollution and environmental risks
- efficiency of inland water transport
- maximization of ship capacity and of navigable routes
- the reduction of transport time, costs and administrative work volume
- to ensure an easy connection with other means of transport
- increase of safety

The RIS system offers strategic and tactical information about the fluvial traffic, about the routes, the management of intermodal platforms, statistics and legal regulations.

In order to obtain improvement of safety and efficient management of inland water transport it is necessary to connect the national RIS centers by interchange of:

AIS information

Electronic reports (ERI)

Information about ship identification

The technical project has been developed by ASESOFIT (the company has won the public auction for the implementation of the project) and the results until now are:

- Equipments for the communication, monitoring and IT subsystems have been purchased

- the following software was developed: desktop application type ECDIS for naval traffic management, soft for defection management, application CCTV and security application PKI.

6. Conclusions

For many technical, economic and social reasons, the road is today the dominant transport mode for inland expedition services. However, as a high-capacity mode, inland waterways also have considerable advantages over the road:

- Inland waterway transport has high fixed costs and low variable costs so costs per kilometer and per TEU become lower the higher the transport capacity and the container capacity utilization ratio. Water transport is more energy efficient and has lower costs per tone-kilometer than either road or rail. Up to 500 TEUs at a time can be transported by barge, compared with only 90 by train and only 2 by truck;
- It facilitates the repositioning of large numbers of empty containers at low cost;
- It provides an alternative mode to the road, whose negative externalities are becoming increasingly unacceptable, in response to environmental and societal pressures. [9]

Fluvial transport is not the dominant mode of transport because it has a number of disadvantages. Unlike the road, which possesses a very large interconnected network, inland waterway services can only carry goods to a limited number of destinations which are entirely dependent on the infrastructure. To gain market share, combined waterway-road transport must be more competitive than road transport, both

with regard to the price of door-to-door services and the quality of the service provided (Vellenga et al., 1999). This leads us to the concept of intermodality (which has been presented in the fourth section of this paper) and logistics services offered by port operators and shippers. In order to increase the quality of services that can be provided, we need to have a safe and reliable infrastructure doubled by a communicational system that can output real-time information regarding the position and status of the goods transported. This is exactly what the RoRIS project aims to implement on the part of Danube that crosses Romania. It is important that the project continues and reach all its goals (see the fifth section of the paper).

There are still areas for further research in the field of enhancing competitiveness of inland transport that can be financed, such as intermodal terminals development.

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Economic Transition Process between Ambition and Reality

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Abstract

It should be understood that we should first of all "join" ourselves by the reconstruction and reshaping of our own system of values and only after that wish to join the united Europe. Is useful to point out that the present day Europe is not that of the Treaty of Rome, but that of the Maastricht Treaty of 1992. There is a big difference between what we understand now in Romania by integration and how it is defined in Western Europe. Thus, in Romania, nowadays by integration we understand rather an attempt to remedy the disintegration. For the western European countries, which had long ago solved their after war problems, integration is defined as a process of "coupling" the economies and institutions, starting with the juridical ones, passing to the educational and finishing with the cultural ones. So the European Community functions as a whole under as many aspects as possible. Integration is thus the expression of a high economic, political, social and institutional consciousness of the integrating countries. Integration is to achieved, and not decided upon.

Key words: integration, economic transition, globalization

J.E.L. classification: P2

The perspective of Romania's integration in the European Union imposed a clear definition and understanding of the concept of "integration" and the term of "transition".

As it was used during the last half of the century, the notion of integration defines phenomena, processes and actions, which take place in the economic, social, political, cultural, philosophical spheres. These spheres are difficult to dissociate. One can discuss and

analyse the "economic integration", the "political", "military", "cultural integration" etc.

The basic principles of the economic integration concern the creation of a shared economic space, the free movement of the production factors, setting up a customs union as well as a shared policy in the economic, monetary, financial and social fields.

The integration of the communist countries in the Comecom was a process imposed from both outside, by the political belonging to an international group and from inside, by the dominant and undemocratic action of a one-party system. Unless other economic alliances, Comecom gravitated round a dominant power and its decisions had a mandatory character. To Romania, history brings many examples of regional bodies, which have mainly promoted national security through defensive alliances, but also the economic security, by concrete elements in the contents of these agreements or through economic projects, which accompanied the regional political initiatives.

Most of the states of the world are now involved in one form or another of international economic co-operation, especially free commercial zones and customs unions, with specific features according to the region where they operate but with the observance of the general conditions. It is more obvious than ever that an economic autarchy cannot function and is doomed to fail with enormous suffering for the population. Perhaps with only one exception – North Korea – the other economic autarchies are not self-imposed, but induced by an international embargo. These situations are characteristic of the states where the national interest is not formulated in a democratic way and is false, perverted interest. It represents, in fact, the interest of a power group, which has and exerts the power in a discretionary way, a group interest imposed by force, a

undemocratic interest promoted to the status of a national interest.

Without claiming to make a detailed presentation of the "economic integration concept", we think it most appropriate to specify that – in relation to a specific geographic area, this is called "regional economic integration". The "total economic integration" supposes the unification of the monetary, fiscal, social policies and requires the setting up of a super-national authority where compulsory decisions are to be taken for all the member states.

The regional economic integration in the conditions of the contemporary globalized world economy consists in the unification of several national economies in coherent economic structures. Of all the regional structures, the European Union is the main economic model of the world of the future from both the perspective of the size of the agreed economic activity and the willingness to adhere expressed by more and more developed European countries. After the collapse of the European totalitarianism the new European democracies expressed their desire to join the European Union.

It should be understood that we should first of all "join" ourselves by the reconstruction and reshaping of our own system of values and only after that wish to join the united Europe. It is useful to point out that the present day Europe is not that of the Treaty of Rome, but that of the Maastricht Treaty of 1992. There is a big difference between what we understand now in Romania by integration and how it is defined in Western Europe. Thus, in Romania, nowadays by integration we understand rather an attempt to remedy the disintegration. In other words, this concept is very close to that of the economic and politician W. Ropke concerning the after war European integration. For the western European countries, which had long ago solved their after war problems, integration is defined as a process of "coupling" the economies and institutions, starting with the juridical ones, passing to the educational and finishing with the cultural ones. So the European Community functions as a whole under as many aspects as possible. Integration is thus the expression of a high economic, political, social and institutional consciousness of the integrating countries. Integration is to be achieved, and not decided upon! After the end of the "cold war" not only

did the European Union not witness the disintegration phenomenon, but due to the Maastricht Treaty it heads to an increased degree of integration.

In the context of the European integration process the term "transition" should be given a new significance. The notion of "transition to the market economy", even if of Marxist origin, includes the deep movements of systemic transformation occurred after 1989 in the Central and East-European space. It defines all the mutations occurred in the totalitarian and discretionary regimes, in the economic and social and political life, towards systems based on freedom, democracy, market economy and the values of the modern civilisation.

The transition period designates a particular phase in the evolution of a society. As our previous experience shows "the transition" from a political, economic and social system, whose viability had become impossible is a long lasting, difficult and unequal process, both in its own dynamics and in the countries where it is enforced. These difficulties are generated on one hand by the global and complex character of the transformations, and on the other hand by the peculiarities and specificity of each society, as well as by the lack of a coherent theory to be applied in the matter.

At present, when globalisation is the major trend of the beginning of the 21st century, we are witnessing, in fact, two great global transitions, which are simultaneous world transitions, namely:

- for the countries in the former soviet space, this is the "new transition to the market economy" – called like that because the countries in Central and eastern Europe, among which Romania have already had a transition to the market economy in the 18th – 19th centuries. This first transition divided Europe in two: the Western Europe, which built up modern industrial structures and Eastern Europe, which opted for a kind of merchandise economy with big gaps of productivity, which now proves to be impossible to recuperate.
- the transition to the intensive cultural informational economy, which is characteristic of the developed countries. This is a transition toward a knowledge-based society.

We can certainly say that the East-European countries, Romania included, are in the "new transition to the market economy" but no one can say where we shall reach at the end of these unprecedented transformations. It is not known, whether these countries will succeed in aligning themselves to the developed countries. These countries are know in the middle of another simultaneous transition, one which is wider and focused on another kind of economy, based on a high cultural and informational economy and to another kind of society, the informational society.

Immediately after 1989 in our country the changes occurred mainly in the political area, so that the pluralist dictatorship replaced rapidly the communist dictatorship. Already than the priority of the political, democratic transformations, the pluralist democracy, which absorbed most of the energies, generated different opinions on the most appropriate solutions for the Romanian economic realities in transition.

Looking back at the Romanian economy in 1989 we see with its huge problems, but in no way at the "0 level". This was an economy, which could have been successfully guided to a new path, integrating it into the world economy. Moreover, the total lack of external debts and the existence of an available amount of almost 2 billion offered the possibility to start introducing new technologies in economy and raising the real living standard of the population provided there was the necessary willingness and responsibility to do so. A coherent reform programme was needed, to carry out in an orderly and efficient way the changes in the system. But in the case of our country, as well as in other European countries, the start was not where it should have been and the beginning of this process had a decisive importance to its subsequent evolution. This was what made several western economists to state the possibility of the "wild capitalism" coming back to these transition countries, as it existed approximately two centuries ago.

The risk of the return to a wild capitalism is fed by several circumstances: the lack of protection of the population against the oppression by the new owners, the very low level of the labour productivity, which makes it impossible to build very soon a more civilised market economy. As no foundation was laid so far to an economic growth, which could occur "tomorrow", the economic situation will

continue to worsen and the conflict between the two poles of society is a proof that we are in the phase of a modern form of wild capitalism. It might happen that this model is the main particularity of the transition economy. The population will also have an important say as far as the transition duration, character and results are concerned. After so many years since its beginning, the population is deeply disappointed by the results reached.

In order to integrate the European structures, Romania makes at present big efforts to solve the serious problems the economy is confronted with. Romania should have permanently in view that the process of making decision in view to join the European Union is supposed to consider, on one hand, the specific Community interests and, on the other hand, the adaptability of the country to the dynamic requirements of the European Union, a system undergoing a permanent transformation.

The two transitions Romania has to perform concomitantly in the present historical stage, the post-socialist transition and the transition from the status of an associate country to that of a Union member state should be carried out in full coherence with the national interests.

In this period of profound structural changes in the Romanian economy and society, knowing the advantages and difficulties of joining the European Union, as well as the membership of other countries, sooner or later integrated, is a priority requirement both in economic and socio-political field. Ant this is so because in integration the human being and his dignity and freedom are at stake. They are expressed on wide democratic, integrated, economically reliable a socially just spaces.

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Implementation of International Standards on Auditing in the EU- Objective Necessity

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Abstract

The purpose of this article is to highlight the need to implement the Inter-Audit standards in Europe along with their international adoption. Thus we start from the necessity of adopting these tools at European level normalization as their main purposes strengthening the accounting profession and professional standards aimed at stimulating the basis of the auditors. We believe that conducting an audit in accordance with International Auditing Standards involves compliance by auditors to audit all relevant standards, understanding their correct and full text of the application. ISA adoption should be considered as one of the priority measures to restore confidence in the underlying economic recovery.

Then continue and show that although there are assumptions that the introduction of international auditing standards will bring great benefits to the European audit market there are still impediments to their convergence.

Key words: implementation, convergence, financial statements, users, financial audit

J.E.L. classification: G01, M42, P41

1. Introduction

International standardization are the main instruments of international audit standards - ISA and international declarations on audits, insurance, review related. They provide uniform international audit practices, applying the audit of financial statements and the provision of related services. They contain the principles, basic procedures, explanations, additional indications, which are exclusively applicable to all significant issues and how to apply them, except when a

paragraph of which mentions a standard limiting the scope of the standard. If national audit standards conflict with international auditing standards, professional organizations in this country should endeavor to assimilate international standards-obligation assumed by member states by signing the instrument of incorporation IFAC.

As prepared at present, international auditing standards presume the existence of implicit legal requirements, institutional and political ("preconditions") that, in many countries, often are developed or absent. The structure of national economies and the role of external financial reporting of high quality "preconditions" the extent to which these existing efforts to promote implementation of international standards should be regarded as specific issues. Mechanisms for public oversight of the audit function, including the establishment of auditing, quality assurance and control are almost entirely absent in some countries. Models recently introduced in more developed jurisdictions may not always be applicable in situations where the relative importance of different stakeholder groups is different, and national regulatory bodies do not always have easy access to best practices and the emerging international consensus time. There are inherent limitations to the extent that they can make based on international networks of audit firms and individual members at the national level to compensate for weaknesses in the regulatory regimes.

Given the governance arrangements and management of networks and that networks themselves are not regulated (only their member companies are regulated at national level), the main determinant for power quality audit is relevant domestic regulatory regimes, rather than the quality of member of a network.

2. The necessity of adopting ISA at European level

To strengthen the regulatory arrangements essential for the successful implementation of international standards, we believe that countries should pay greater attention to the regulatory preconditions. Relevant international organizations must work together to develop a consensus on a comprehensive framework of principles for the regulation of accounting and auditing and to support such a general framework adopted by the competent national authorities.

Challenges in auditing are largely centered around International Standards on Auditing clarified, as their main purposes strengthening the accounting profession and fostering professional standards, the objective of the statutory auditors. The final set of standards clarified, revised and redrafted ISA includes 17, 19 ISA only reformulated and standard quality control ISQC 1[1]. Given the need for a global language, FEE has always supported the adoption of ISAs at EU level, and clarify the translation of international standards using the experience of various professional bodies in adopting and implementing international standards. This point was on the work of the European Commission, which is why it was necessary to clarify the translation of ISAs in all 23 official EU languages.[2]. Thus, many voices could be said that the international audit standards were adjusted to current needs of a wide range of entities. EEF has urged the International Council for Auditing and Assurance Standards Board (IAASB) of IFAC that would be required to publish guidance to facilitate their adoption by small and medium-sized entities. The positive response received from the IAASB in this regard, FEE has shown, once again, as interest in the needs of its members are successful, in the form of concrete actions. We suppose that its mission is to serve the public interest, to strengthen the accounting profession worldwide and contribute to the development of strong international economies by promoting high professional standards of quality, increasing international convergence of such standards and debate issues of public interest that professional expertise is particularly relevant. The role of international standards is to promote

knowledge and use by auditors, the trainees in the financial audit and, in general, all professional accountants in Romania.

In June 2009, the Directorate General for Internal Market and Services launched a campaign [3] which was aimed at consulting the Member States the European Union in connection with the implementation of International Standards on Auditing. Certainly international standards are put on auditors performing an audit in accordance with the requirements of the law. Article 26 (2) of Directive lays down specific conditions for the European Commission audit. It may adopt auditing standards only if they are conducive to the European public good, have been developed with procedures, public oversight and transparency and are generally accepted international. Another condition is related to their contribution to ensuring a high level of credibility and quality of annual accounts and consolidated. In truth, the adoption of international standards clarified questions asked:

International Auditing Standards meet the requirements above?

Their european adoption benefits enough?

For the purposes of demonstration of the conditions for adoption of international auditing standards at European level, the European Commission refers to the IAASB, current government, which has reached a certain stage, that could justify the adoption of ISAs in the EU. Regarding the acceptance of international standards of auditing in Europe, there are far many of the documents which they can draw conclusions that are internationally accepted and it would be best and at European level. The question is whether these standards should be accepted directly, immediately, or they can be expected to be fully accepted and then taken to Europe International. The argument so far as members of IFAC (professional bodies, networks and audit firms) have played an important role in ensuring the widespread use of international auditing standards. More than 100 countries are using international standards or those that derive from these national. In addition, more than 20 major networks of audit firms were included in their audit methodologies to clarify these standards and develop an appropriate quality control policy ISQC 1 standard, since December

2009. We believe that the adoption of quality control standard across the EU ISQC1 encourage fundamental principles of governance in audit firms. Quality assurance is the primary way to show users of the auditors that the auditors are operating at a level consistent auditing standards and ethical rules. We go ahead and mention that a growing number of independent audit regulatory authorities were established in the world with the responsibility of performing quality inspections on work performed by audit firms. This is true both for the EU and countries such as USA and Japan. Moreover, many public authorities, including audit regulators in Australia, Canada, China, South Africa, Netherlands and United Kingdom and Ireland, have adopted the ISA or made public their decision to converge their standards to ISAs. Until now, some countries have announced clarified ISA convergence or adoption, but others have either done this convergence but have not submitted implementation or do not recognize the ISA (USA). Other countries such as Japan, have accepted the ISA standards, but without requiring the audits in the country.

Article 26(2) of Directive 43/2006 provides the option on the applicability of international auditing standards within the community, but does not contain any obligation to make the international standards set by a standardization body. Therefore, modify the standards already adopted if they fail to meet expectations regarding the proper procedures for international acceptance or general European interest. However, the Commission currently does not see what factors might justify a modification of the clarified ISAs. In the same vein, the role of the EU member states is essential . If international standards should be adopted in EU countries would suffer a series of changes in this respect .

I took the example of a number of states and present the main implications for the implementation of ISA [4].

Table1. Implications by implementing International Standards on Auditing

Country	Implication
Austria	The introduction of four new standards: ISA 540,610 620, 720

France	The introduction of new standards : ISA 220 260, 402, 550 and a ISQC 1
Germany	The adoption of ISA in the EU would not make any fundamental change to the required standards IDW
Italy	Possible extension of the use of ISA developed by the national securities regulator - CONSOB Introduction of quality control standard ISQC 1
Netherlands	No fundamental change in how audits are now conducted in accordance with national standards Introducing a standard ISQC 1
Spain	The introduction of three new standards ISA 260, 540 and 550 ISA 250 would limit the choice of auditor report if a company fails to comply with laws and regulations The auditor would be more flexibility to use an expert
Sweden	The adoption of ISA in the EU would not make any fundamental change
Poland	Professional standards are based on the same principles as the ISA, for matters not included in these standards, the auditors use ISA Introduction of quality control standard ISQC 1
UK and Ireland	Elimination of differences that exist between national standards and ISA 200, 210, 580, 600 and 620 Making amendments on quality auditing standards that apply to ISA 450, ISA 510, ISA 570 and ISA 720

Source: http://ec.europa.eu/internal_market/auditing/directive/index_en.htm

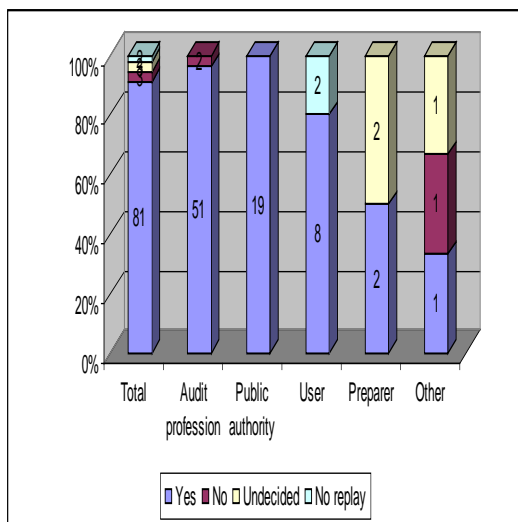
In accepting the international audit standards in Europe, also important in terms of investors, they can have the audit reports indicate that the audit was conducted in

accordance with applicable national standards or international standards.

In this situation we believe that reliance on audit reports could be improved if investors know that the EU uses a single set of international standards.

Regarding the implementation of international standards of auditing in the EU, a significant majority of organizations in different countries, support the application of ISA for all statutory audits of companies and small businesses that require an audit. Below ISA adoption, based on data submitted by them: professional auditors, users, public authorities, preparers and other categories[5].

Figure1. Graphic representation of the categories of users adopting ISA



Source: http://ec.europa.eu/internal_market/auditing/index_en.htm

It is found that 100% of public authorities, 96% of professional auditors, 80% of users, 50% and 33% of the junior category „Others” are in favor of adopting international standards on auditing.

Representatives of BDO, a large international network of audit, said they support greater convergence in a number of areas that would facilitate the provision of audit services across the EU, such as supervision of audit firms, the independence rules, schemes responsibility, saying that more than 40% of total turnover worldwide is made from EU member states companies. Next, they showed that adoption of international standards in Europe will

enhance audit quality throughout the EU and abroad and facilitate the practical difficulties encountered in audit. BDO has agreed to include in financial statements audit procedures, and clarified ISA standard ISQC1 quality control, because they reflect the idea of “reasonableness” and “soundness”, to eliminate gaps created between expectations and reality and to strengthen audits in pertinent current business environment. “It is difficult to approve the adoption of international auditing standards in the EU, without adopting the standard and quality control ISQC1”, stated representatives.

BDO audit network backs European Commission, showing that indeed the international audit standards meet the requirements of article 26(2) of Directive 43/2006.

The representatives of the ICAEW, the Institute of Chartered Accountants in England and Wales and supports its adoption of clarified ISAs at EU level for all EU statutory audits, which I believe they were developed in the public interest in a rigorous and transparent process. As we all know the financial crisis has highlighted the responsibility to ensure that market participants may rely on a high quality audit. Thus ISA adoption should be considered as one of the priority measures to restore confidence in the underlying economic recovery.

When asked for the audits should be implemented ISA: for auditing the consolidated accounts of listed companies (IFRS accounts); for the statutory audit for all companies except small business audits, where member states would be free to choose which standard should be applied to audit, for the statutory audit of all companies, including small businesses that require an audit? both institutions have opted for no.3 version, showing that this is the right action to serve the public interest and provide benefits ISA internal market.

Examples may continue, the conclusion being that many countries, both EU and non EU encourages convergence to International Standards on Auditing clarified.

European and international demands for integration, EU member states will require statutory auditors and audit firms to carry out statutory audits in accordance with

international auditing standards adopted by the Commission. An audit conducted in accordance with international auditing standards and ethics, under conditions of independence, integrity and professional competence, can bring many benefits to institutions, companies, financial systems and supervisory bodies. The Commission advocates a broad debate on the approaches to be made to ensure that both audits the financial statements and audit reports for purpose they were created.

AICPA and FASB have developed several useful recommendations for the auditors and those responsible for financial reporting and "Considerations about the entity ability to continue working with the principle of continuity", "The economic crisis: financial reporting and auditing considerations".[6]

In turn IFAC and the IAASB has issued several drafts guidelines for interpreting and amending the existing auditing standards : Audit Considerations in Respect of Going Concern in the Current Economic Environment; Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment si Report on the Financial Crisis [7].

Regarding the integration of international financial audit requirements of Romania, CAFR as a full member of the International Federation of Accountants and the professional body that organizes, coordinates and authorizes financial audit work is carried out in Romania, aimed primarily and the responsibility to coordinate the translation into Romanian of the International Standards on Auditing and Code of Ethics, to promote both knowledge and use by auditors and by trainees in financial audit, and other regulations as authority issued by the IAASB in continuing to engage in Compliance Program IFAC member bodies.

3. Impediments convergence ISA

What would change in the EU Member States if there was a single set of international auditing standards?

Would be a question I could answer in that the introduction of international auditing standards should be clarified to eliminate, to a large extent, issues related to :

- Misunderstanding of what this standard, we ask them and what adoption means
- False understanding of the actual gaps in the standards implementation and real challenges facing
- Disputes that arise between national auditing standards in different states and national law and the requirements of ISA
- Differences with a negative impact on efforts to monitor compliance and enforcement and legal framework
- Lack of adequate mechanisms to guarantee the national authority for the international audit standards
- Scope of inadequate international audit standards

There are inherent limitations on the ability to perform a proper audit of many smaller entities because of the ability of managers to circumvent controls, and because many countries have only limited capacity in terms of audit. Application of ISA to excessive numbers of firms always leads to problems in terms of general compliance.

- Failure users of financial statements, not the special negotiating leverage, you can determine if those who have prepared financial statements complied with appropriate standards, be able to understand the actual levels of compliance or to exert pressure for improvement, thereby reducing the motivation to comply with standards for those who prepare financial statements and auditors
- Inefficient use of resources, setting standards nationwide and worldwide, and subsequent inefficiencies caused by the fact that audit firms and their customers must adhere to several sets of standards
- Closing compromise when setting the standards, because of undesirable political influence and lobbying, the lack of detailed rules and areas not yet covered by international standards
- Robust application of international standards, which may not be perceived by certain influential stakeholders as being in their interests
- The distortion of public policy decisions that will not be for the benefit of the wider economy
- Failure mechanisms for cost allocation because of the problems of ISA implementation of inequity that are often

associated with the financing of public money

- Public financing, which may not constitute a viable alternative because of demands on resources confluctuale modest

4. Conclusions

It turns increasingly need to implement, both European and international, continue development of International Standards on Auditing, professional ethics, accounting education and public sector accounting, all of which relate directly to the public interest. We believe that conducting an audit in accordance with International Auditing Standards involves compliance by auditors to audit all relevant standards, understanding their correct and full text of the application. The importance of successful implementation can not be overestimated, and the implementation effort required should not be underestimated. Therefore, efforts are needed both at the level of regulators and members of IFAC, and the auditors.

As regulators and supervisors must complete statements and regulatory policies and enforcement of standards, to develop or update national training programs. Auditors and audit firms need to overhaul the system of quality control, audit methodology, manuals or software used by the company, to develop or update their trading programs and update programs and audit procedures.

To implement the clarified ISAs, requiring a period of stability in terms of standards. Thus, in the coming years IAASB not need to issue other auditing standards.

Continued progress in audit policy will require commitment and cooperation of all stakeholders at national, european and global. All market participants at national, European and global level must think hard lessons of the past two years and be ready to take the necessary measures to ensure the consolidation of economic stability and long-term sustainability.

Adoption of standard quality control ISQC1-part of the international audit standards could provide public oversight systems of EU Member States a common standard, to be assessed against the quality control systems of audit firms. It is necessary that control should be standard part of the adoption proceeding because ISQC1 and ISA are interlinked. Currently in Europe the situation is analyzed exceeded the state to accept the International Standards on Auditing, as was the case of IFRS, but I think we should consider adopting such an impact for all stakeholders. Commission reflects on the timing and manner of introduction of ISAs in the EU. Entering can be done through legal instruments binding or binding.

Most organizations from various countries have desirable convergence with international standards on auditing starting with the 2009-2010. However, they said they need time to prepare such an implementation and that at that time, 2009, and currently this is not possible. The term might be suitable in the opinion of some, the years 2011-2012, in the opinion of others, would be much later period.

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Emphasizing the Role of Financial Audit by World Financial Crisis

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Abstract

It is appropriate that the role and scope of audit to be made and investigated in the general context of reform of financial market regulation. The audit, along with corporate oversight and governance, should contribute heavily to financial stability, because its role is to provide a guarantee as to the truthfulness of all corporate financial health.

Auditors have been and will remain promoters of transparency, the reality of information, of ethics and of professionalism.

It is therefore important to understand, learn from the current economic environment and build a stronger profession. Auditor role is extremely important because it can contribute substantially to improving the quality of management decision process, by providing a dynamic balance of information, including those of financial and accounting can have a special significance.

Key words: financial audit, independent auditors, fraud, corporate governance, crisis of credibility

J.E.L. classification: G01, F36, M42

1. Introduction

The objective of financial statements is to provide information on the activities of an enterprise, useful to a wide range of users to make decisions. If we make a correlation between that goal and that of a company (for profit), we can say that financial statements should be formalized information to answer an efficient allocation of resources in their activity.

Currently, international policies on the definition, recognition and evaluation structures in the financial statements required by the general framework for drafting and presenting financial statements are detailed

and complete for each component of financial statements by IAS 1- Presentation of financial statements. Standard mainly to clarifying the elements to be presented in financial statements, the degree of detail or restriction of such information or component must provide certain information by which a company must consider when preparing financial statements.

We can summarize by saying that financial reporting normalized by IAS/IFRS is circumscribed by the minimum of formalized information and try to pull the financial reporting of a universal pattern used. By detailing all of the mandatory information in the financial statements, European directives are written down in the opposite side, the maximum intelligence, with strict observance of a typical financial reporting for unification in the EU [1].

The overall financial audit shows why the audit is considered a discipline that comes from practice, which seeks solutions to practical problems relevant, based upon theories, postulates, concepts that provides explanations in order to achieve concrete objectives.

Hence the role of the financial audit to certify financial statements through their professional accountants recognized by the public as giving credibility to these information. Since it does not provide accounting information at a time only one representation of reality, it is important that professionals have the endorsement of confirming that, at that moment and the restrictions imposed, this representation is much closer to the real situation. For auditors, the information system is the main source of information, but also one of its objectives. In fact between the message sender is interposed accounting and business users of financial auditor. The purpose of the auditor work is to restore trust between producers and consumers reasonable accounting information. Trust is in our

opinion one of the most important resources available to an economic entity, with capital and management. Thus, auditors can help protect the interests of different categories of beneficiaries of accounting information, when they take economic decisions.

The importance of auditing is to enhance the credibility of financial accounting information in financial statements for the future decisions of users of information [2]. Verification of financial statements that are made by an independent auditor, a professional, with great moral qualities to the completion of one of the qualities of accounting information, namely her credibility. For a company, and an audit is critical to the overall financial situation to evaluate a specific accounting. Critical assessment of the financial statements is made by an independent professional who must fulfill their mission without regard for possible conflicts of interest existing between external users of information and the audited units.

The financial audit is a complex activity that can not be regulated in detail, can not be established universal recipe that can be applied. For the situations faced by an auditor are very different, it :

- audit to consider the rules and fundamental principles that focuses its activities
- audit procedures appropriate to use their trial on a case by case basis, determining that the financial auditor reasoning to be raised to the rank of professional norms
- understand the economic, social and institutional environment in which business is conducted audited
- to comply with the requirements of institutional and business environment in which it operates

Auditing profession has developed due to needs imposed by business, occupying an important role in business environments. Auditor can not therefore be regarded as a mere clerk, hamper his work around professional reasoning involving complex professional training, ability, sense of responsibility, independence, professionalism, etc. The power of decision must be coupled with an exceptional personality, so it can resist any external pressure might change the opinion of the detriment of truth.

The auditor role is also to bring in extra security that accounting information was obtained, treated and presented in accordance with the standards, national and international accounting principles.

2. Understanding the role of financial audit

Financial and accounting audit role emerges from responses to the question :

For those who are in demand auditing?

The existence of an audit request may be explained by audit purposes, namely:

- audits provide assurance that the product is audited in accordance with the conceptual framework of accounting (principles, norms, rules, criteria)
- audit check how much internal control is adapted to specific enterprise, and operates effectively
- audit establish regular monitoring of the enterprise control procedures to ensure that it covers all activities

Public opinion believes that the role of an auditor is to detect fraud and error in the financial statements to have primary responsibility for issuing financial statements and to warn in advance about a possible business failure.

In reality, however, an audit is no guarantee of solvency or financial performance. Management, as one who draws up financial statements, is responsible for their content and, although auditors plan and carry out an audit by adopting an attitude of professional skepticism, an audit process does not guarantee that fraud will be detected.

What the audit is to instill discipline requisite financial, corporate governance can best and minimize the risk of fraud [3].

Auditor give reasonable assurance that such statements are not tainted by fraud, error, so that information in financial statements can be used in making decisions. This result and the International Standards on Auditing where he mentions that many users rely on financial statements as their main source of information because they are unable to obtain additional information to satisfy specific information needs. Because the information contained in the annual

financial information to meet the needs of all categories of users, they must be understandable, credible, relevant and comparable to what is fair reflection of economic reality image.

If the financial audit quality, then it will have positive effects on the economy, namely: give a true image of romanian companies; financial situations, help to combat tax evasion, increase credibility romanian economy to investors, business partners and system romanian banking. The audit is a key element in providing information on financial market risks. It requires becoming more of a close relationship between audit and functioning of financial markets.

Unable to reach financial stability without strong professional organization, professional accountants are competent, appropriate and effective regulatory framework, transparency and proper oversight of accounting, auditing and financial reporting, improved governance, high quality financial information, financial and economic management sustainability of public resources and a strong capital market thriving small and medium-sized entities [4]. Regarding small and medium-sized entities must take into account their needs and issues when formulating and implementing policies and financial reforms.

It is appropriate that the role and scope of audit to be made and investigated in the general context of reform of financial market regulation. The audit, along with corporate oversight and governance, should contribute heavily to financial stability, because its role is to provide a guarantee as to the truthfulness of all corporate financial health. This guarantee is designed to reduce risks of distortion and, as such, generate cost savings in bankruptcy, which would be supported in parallel by the company shareholders and society in general. The robustness of the audit is essential to restoring security and confidence in the market, helping to protect investors and reduce the cost of capital of companies. It is noted that an audit profession better designed and better market and organized the audit would lead to more effective audits, to reduce the bankruptcy cost and capital cost and increase confidence and protect investors. Audit market has a direct impact on how to practice the profession of auditor. Auditors have been and

will remain promoters of transparency, the reality of information, of ethics and of professionalism. It is therefore important to understand, learn from the current economic environment and build a stronger profession. Auditor role is extremely important because it can contribute substantially to improving the quality of management decision process, by providing a dynamic balance of information, including those of financial and accounting can have a special significance.

In the current economic context, both investors and regulators are interested in detailing the information presented in financial statements. Before including them in the current financial statements, companies must review the above information to determine if they are relevant and not misleading.

Another aspect that can be presented in financial statements is the strategy of a company response to changing economic climate and the effects felt in the past and future activity.

As the financial auditor profession has a key role in determining the proper course of economic activity entities, both supervisor and auditor to express a common interest in the application by credit institutions and non-bank financial institutions accounting policies are appropriate. Therefore, a continuous dialogue between supervisors and auditors could include important aspects of the audit and accounting issues off.

The audit is part of the operational mechanisms of the economy and capital markets success depends on it if there is a stable and competitive market for audit.

In any case, there is plenty of evidence showing that the public and other users of financial statements do not understand the role of an audit.

A "therapeutic" understanding of the role of the auditor may be a major element to represent the "compass" to guide management. Governance entity and the auditors communication with other users of information from audit reports can help the effort to overcome the current economic situation. And persevering dialogue with business is likely to provide a better understanding of the meaning of audit, specific activity competitive economy, the businessmen, entrepreneurs can find qualified support, relevant and objective [5].

3. Consolidation the role of financial audit

An issue that needs to be reviewed is the "discrepancy in terms of expectations" between what the public and users of financial statements believe that is what the role of an auditor and the audit profession to understand the role of the auditor.

It is certainly in the interest of both the audit profession and the public to make sure the gap in terms of expectations is reduced as much as possible. Possible ways to act include :

- 1) Establish clear role, methodology, scope and limitations of audit extend the role and responsibility
- 2) Extend the role and responsibility of auditors in the areas of fraud detection
- 3) Continue strengthening the independence of auditors that audit committees

It is unclear whether auditors are truly detached and watching with a critical eye of a company financial statements when the same client company is a current or potential, without regard to the audit staff that performs auditing firm that. Business climate should allow independent auditors. However, some doubts about the possibility of independence in the current climate and stresses that although certification of company accounts show their strength, in reality they were financially unstable.

Threats to this independence should be minimized. If such threats can not be minimized to an acceptable level, then the auditor should consider their ability, in order to continue the activity.

Threats to independence may arise in these circumstances [6] :

- the auditor is personally interested in – eg. can lose is afraid that the audit fee
 - intimidation - the auditor may be intimidated by the dominant or aggressive management
 - long association, if the auditor had a long association with the client, it may become more sympathetic to the customer
 - carrying out non-audit work and audit later - threat autorevizuire
- 4) Confidence that stakeholders have in the audited financial statements

This is why we try to understand why there are discordant between expectations and reality in terms of interested parties regarding the subject and audit methodology.

- 5) Remove the possibility of a systemic risk because of high concentration of the audit

There may be significant consequences for the financial system in general, if one of the major audit firm has a monopoly on the world market audit, would close.

It is recommended to avoid any interruption in services offered by the major audit firms to prevent their collapse. At the same time it must increase the size of smaller audit firms, tackling barriers to market entry and increase fluidity by creating a European market.

- 6) Risk-based approaches (eg. risks of material misstatement in the financial statements) which are much more efficient
- 7) Strengthening the role of audit committee oversight of risk management, understanding and reporting processes, risk management, and improve its communication with management
- 8) Understanding and enhancing the role of internal audit in risk management process and its contribution to improving processes and internal control environment of business
- 9) Process improvement tools needed to improve risk management and corporate governance
- 10) Role played by supervisors and the effectiveness of national surveillance
- 11) A real market potential for internal audit and eliminate barriers that currently make a market in the predominantly national audit. In this context, the concept of the european passport for auditors to be explored in more depth.
- 12) Specific needs of SMEs, to ensure proportionate application of audit standards
- 13) Global context. The audit is a global market in which companies operate as global networks, it is important to coordinate efforts by states worldwide.
- 14) Provide more information on the risks, judgments and estimates
- 15) Consolidation professional skepticism

Professional skepticism [7] is of major importance in the audit process, auditors should be aware of:

- Audit evidence that contradicts other evidence
 - Information that question the reliability of audit evidence
 - Conditions that may indicate a possible fraud
 - Circumstances that suggest the need for additional audit procedures required by the ISAs
- 16) Request by the auditors, users, information useful for them
 - 17) Provide educational services in an audit regarding the education of the public and users of financial statements on the limitations of audit
 - 18) A better communication between auditors, audit committees and stakeholders inside and outside that the audit report
 - 19) Align the auditor role more public expectations
 - 20) Provide assurance on financial statements based on historical data

Communication between auditors and users could be improved either by extending the potential scope of the audit (according to include information about risk management, internal control, corporate governance) the audit was to consider and comment on the financial assumptions underlying the business information.

The auditor should not issue opinions on financial statements, which only refers to information in the past but to look at those financial projections and are indicative of the future viability of the company.

Another way to improve communication might be possible modification of the audit report or by widening it, or by including information that is currently in a letter to management or the audit committee, to which investors have no access.

Consolidation the independence of auditors and audit firms that can be done by the elements [8]:

- compulsory rotation of audit firms and partners
- extending the prohibition of rendering of services unrelated to audit
- whether remuneration, remuneration of the auditor, during the engagement to be made by a third party

- limiting the proportion of fees that an audit firm may receive from one client to audit firm total revenue
- consolidation corporate governance and organizational requirements
- consolidation the role of auditor of a group

Financial auditor can positively influence corporate governance?

The answer is that the applicable professional standards, financial auditor has an important role in implementing the principles of corporate governance in the entities audited by:

- understanding by corporate officers charged with governance of their responsibility for: preparation of financial statements in accordance with the applicable financial reporting, internal control so that financial reports are free of material misstatement
- understanding by those charged with governance of the corporate auditor responsibility to express an opinion on the audited financial statements
- communication to officers charged with the significant corporate governance issues: policies, procedures and inadequate accounting practices applicable reporting framework, internal control unorganized or poorly functioning
- highlighting the risks arising from accounting estimates and disclosures on the value of assets, liabilities and equity inappropriate
- consideration by the financial auditor of the audited entity and integrity management of its employees [9]

Also to clarify some aspects of the relationship between financial auditor and internal auditor, the report of the internal auditor, the audit committee and auditor.

The crisis revealed deficiencies in the audit sector. They should be well analyzed found ways to remove the deficiencies and improving the audit sector activity.

Following the financial crisis in particular, has emerged the question of whether the role of auditors can be strengthened to reduce future any new financial risk.

4. Conclusion

The audit function has become a universal feature that is gained through organized and must execute all entities and all levels.

Financial auditing profession has a key role in modern economy, the quality, accuracy and reliability of the information and findings contained in audit reports depends decisively to adopt decisions on the purchase of shares or making important investments.

The content and status of their work, auditors may have an essential contribution in revitalizing the economy, business confidence. Thus we can say that we need strong and fully independent audit. Expense that the government make an audit companies for a contract he can have a full justification, businesses can add value to the extent that auditors do their job with competence, independence and objectivity, audit report so that it develops to provide credible assurance, both corporate governance, entity-investors and partners, creditors, financiers, customers, on the quality of management of that company, the seriousness, fairness and viability of the business .

The audit is relevant and important, as such, it is possible that the role of professional auditors to be necessary to evolve with the changes that will occur while. The role of audit is not static - it should evolve evolve as accounting, organizations and society. It must be sufficiently studied [10].

Increasing importance of auditors; work tends to increase in future due to the contribution that they should bring it along with the entities in Romania implementing International Financial Reporting Standards for financial statements.

If the initial purpose of financial audit was the detection of fraud, it has evolved over time, so that now serves to certify the accuracy of the information presented in financial statements and compliance with IAS/IFRS. Truthfulness of financial statements is essential for all financial actors, who must rely on data.

Although the auditor role is not to predict the future, but to ensure that the financial statements of companies provides a clear and accurate picture of the performance of a year,

it is possible that auditors ought to be skeptical of estimates made by management financial statements, however this would have seemed difficult [10].

The fact that current events in Romania, Europe and the world questioning the credibility of dedicated auditors and results of social work and create more and more doubt on the credibility of financial reports of companies.

Thus, we believe that auditors may be part of a new identity crisis of the entities, the corporate governance of companies, which is why we question :

How can auditors, to overcome the crisis of credibility, so do not be undermined public authority?

I think a possible answer to this question could be a unified and coherent approach to the activities managed by the profession, auditors working for the results to remove them from the scope of the blame for the current crisis and other shortcomings of the Romanian and European public life that participate.

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The Development of Transnational Companies under Big Umbrella of Globalization

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Abstract

Currently, on international level, operates a variety of companies. From all of these, the transnational corporation represent particular interest, being designated as an "entity-key of global economic activity, a creative net worth to devote a large proportion of global resources needed to sustain economic growth processes. The new trend in the STN sites emphasize efforts to promote corporate social responsibility that contributes to change the attitude of many corporations and individuals working for them. Company efforts are visible in contributions to community development and environmental impact. Corporations want to impose their own standards of development which reflects some positive attitude towards regulations that support behavioral codes which they argue. Globalization has opened the way for limited progress, offered alternatives to local development, has generated deep changes, n dimensional complex with sometimes unpredictable consequences on economic development and socio-institutional

Key words: globalization, transnational companies, social responsibilities, development

J.E.L. classifications: F23

1. Overview of contemporary reality

We all know and live a more difficult period of economic history, that of a global crisis. If until now almost all economists analyzing the phenomenon of rising global economic boom in globalization today, the same economists studying the phenomenon of global economic crisis, încearcând roots to find them, analyze them and to carve another route the great globalization. Liviu Voinea after witnessing the greatest economic crisis after 1929 and the systemic failure of capitalism, the profession of academic economics and the economy as understood and taught her all over the world. [Voinea, 2009].[1] Few were those who foresaw the crisis, but to no avail, because there was no time to be listening, indeed have been sidelined until reality gave them justice. The crisis has actually gone from securitization, sub-standard loans, but its scope of coverage was much higher. In other words, the crisis in the U.S. went out there with roots as determined by excessive investment in innovative financial derivatives, the chase after reporting profit while being driven by the phenomenon of deregulation and corruption. The next step of the crisis was made in Europe, where penetration and expansion mechanism was different in the West against East. Western Europe was transmitted mainly through toxic assets of financial institutions in East and was transmitted by reducing abrupt current account deficit financing. Romania, in this view can be joined Eastern economies as Hungary, Bulgaria and the Baltic countries.

2. Challenges in corporate governance

Currently, many businesses and massively expanded marketing, supply and production in the global market, managing to create global structures which allow them to quickly transmit information and ideas from other corners of the world. Businesses face a competitive environment than larger and more complex than in the past. Some believe that the world is run by giant companies, megacorporații those who are not only interested to sell as many goods on international markets but also to purchase, to produce various components and materials from or abroad. Therefore, transnational firms have to coordinate the functional operations across state borders by a rapid transfer of knowledge, helping them to increase efficiency. [Pandelica, 2007][2]. To meet the challenges of business globalization, many companies form strategic alliances and other business funcționează even competing. Mergers, acquisitions and strategic alliances are logical and inevitable consequence of competition in a global economy without barriers, and becoming more integrated. We are witnessing a globalized economy combined with information technology, which enables TNCs sites to strengthen the control on a scale that has not been possible until now.

Corporations today are open to everything new, able to respond rapidly to new information and changes in international markets, as these corporations adopt strategies based on the implementation of learning behavior. Equally important for TNCs sites is the ability to keep pace with the markets, they can adapt and respond to competition, may produce goods in conditions of efficiency, but also understand the phenomenon and to protect local companies, which is important to strengthen local communities both economically and as socially. Many transnational corporations have not done all it would be best to improve working conditions in developing countries. These companies have gradually come to understand one thing that home to them, I understood much more difficult. Providing better working conditions may actually

contribute to increased labor productivity and lower overall costs - or at least limiting their growth. [Stiglitz, 2005][3] Globalization of economy globalization require thought and work, which means the ability understand the world as a single market, the conditions and laws are very different. Manager with a true global mindset is one that has the capacity to adapt to national and regional particularities and which does not distinguish between inland and abroad.

Currently, globalization is contested by everyone. There are complaints about it, but not missing any praise. Globalization can be a force for spreading the good: the globalization of ideas about democracy and civil society has changed people's way of thinking, while political movements leading products worldwide to ease the debt burden. Globalization has led to hundreds of millions of people to achieve higher living standards, also, economic globalization has brought benefits to countries that have profited from it by identifying new export markets and attracting foreign investment. Stiglitz said that countries had benefited most were those who took their own fate and have realized the role the state can play in the development, abandoning the idea is also based on a market capable to solve their own problems. [Stiglitz, 2005][4] Globalization has had beneficial effects on democracy, national elites trying to replace dictatorship with the dictatorship of international finance. Some countries were obliged to markets and international financial institutions to give up their sovereignty, which allowed the capital markets, including speculators whose concerns were short-term economic growth, and long term growth of a country with living standards, to "bring order", telling them what to do and what not to do. For millions of people say that globalization has not brought anything, or even a negative impact because of their moral situation worsened, their jobs were abolished, people become powerless before the force of globalization that could not control, while attending to undermine democracy and the erosion of their own cultures. Growth - including that induced by globalization - will lead to urbanization, undermining traditional rural societies. Retailers that operate internationally and have a great shopping devastate small businesses and communities in which business is carried on those.

Developing countries that have been most successful, most of East Asia, opened to the world, but they did it slowly and following certain steps. Countries have benefited from globalization to boost exports, and therefore to develop a faster pace. They are abandoning the protectionist measures carefully and consistently, when they have created new jobs. These countries have ensured that there is sufficient capital to create new businesses and jobs or even have themselves contributed to this effort. China has eliminated trade barriers not a very long time but at a distance from when already begun to travel the road to market economy, during which has grown extremely fast. However, globalization is just one of many forces that affect our societies and economies. Technological changes have increased the importance of skills in certain markets, so that those who benefit the Synthesis today are those who have or can obtain those skills. Changes in technology may ultimately prove a more important factor than globalization, even in declining wages of unskilled sector. [Stiglitz, 2008][5]

3. Corporate social responsibilities and benefits versus private incentives

Everyone knows the key role of transnational corporations in the globalization process, which is manifested by: bringing the same level of markets, technology and capital to developing countries with production capacity of developing countries. Corporate social responsibility is the obligation of a corporation holding beyond those legal obligations or restrictions imposed by economic, to conduct business so as not to endanger the welfare of local community and to pursue long term goals are to benefit society . A company that falls only within the limits defined by law and imposed by the market to fulfill his obligation strictly social (Social Obligation), while a corporation trying to adapt to changing social conditions is characterized by social response (social responsiveness). Only if the company seeks to assess what is right and what is bad for the company long term

and acting accordingly can say that it shall conduct social responsibility (social responsibility).

From the perspective of socio - economic development of corporate social responsibility, multinational company would have to make the following objectives: to maximize long term profit, not short term, to consider the local community as an interested party, giving back to society through various activities a share in the profits of his operations, to recognize the importance of protecting the environment, to behave proactively to protect, and to encourage employees to behave, and the protection of existing and prospective customers. Corporate engagement in actions of socially desirable long-term without improving market position by increasing recognition and appreciation from consumers. Corporate social responsibility is manifested in four levels of influence. The first level is the work related to standards, quality procedures, as well as harmful emissions and waste management. The second level is the market related to the standards of distribution, marketing and consumption, vendors, business relationships. The third level is the community, influenced by the manufacturing and distribution. The fourth level is public policy that can be influenced by public institutions and social infrastructure. Corporate social responsibility manifests a shift from stage at the option of necessity. So some corporations have specialized departments of social responsibility and 90% of the world's top 500 corporations have ethical codes of conduct. The corporate social responsibility is considered to be more and more corporations as a characteristic of a good business (and some studies show that firms socially responsible record better results in stock, compared to others), for many firms, in terms of management and employees, social responsibility is more moral than the economic. Such a company is regarded as a small community working together to achieve a common goal, ie the big part, cares for others, avoid negative publicity and can receive high-quality workforce that attracts and with good conduct: thus their anjajații simpt better if working for a company is socially responsible. [Stiglitz, 2008]

Unfortunately in this world where ruthless competition manifests itself, the motivations of companies is acting sometimes at the expense of those who have the best intentions. The

reality is otherwise very well thought out and very carefully organized, as all companies, even those that pollute a lot and practicing bad policies to employees, hires public relations firms to their corporate responsibility and their concern elegeze the environment and to the rights of their employees. Thus, corporations are beginning to adopt through image manipulation and learned to support social responsibility even when not practică. Mișcarea for corporate social responsibility is important but it must be accompanied by stronger regulation. Corporations that want to impose higher standards must develop a positive attitude towards supporting regulations that support the behavioral codes and these regulations would protect them from competition without fair play from those who do not comply with these standards regulations would help to prevent market monopolization. [Stiglitz, 2008][6]

Advantages:

If companies are part of the community, the country of origin assume "sometimes" a moral responsibility for actions of their own, without being compelled by law or regulation, this recording some public scurt. Interesele term profits are low the responsibility of government, embodied by adopting protectionist laws.

Disadvantages:

- enormous accumulation of capital,
- moral responsibility is reduced to transnational corporations that operate in other countries (not treat employees and the environment of the host country as it is a home tn).
- serious consequences on society. Developing countries need jobs that create corporations, even if the environment or the workers suffer.
- ability to hide across borders
- move values from one country to another can be done fairly quickly if TNC's, and if a company is bound to pay a certain sum in a country, that amount is sometimes impossible to obtain.
- countries with more lenient / lax provisions in labor law and the environment are most sought by investors in this race to cut costs.

-made strong lobbying by corporations against environmental standards which reduces profits.

-creating favorable legal environment in poor countries.

-influence exerted by TNCs in developing links with international agreements, which led to distortion and greater social hierarchy and private motives.

The conclusion is that incentives are important, and governments and the international community must work harder to ensure that corporate motivations are closer to those of people they influence their actions, especially the least powerful in developing countries development.

If you look to the future, we can see everyone differently, or we can imagine him as we would like to be. The fact is that we make predictions about the future economic situation in light of current socio-political. An overview of the global space shows that Asia could produce strong waves in terms of savings, foreign exchange reserves, growth rates, expansion of exports and the accumulation of new technologies. Corporations in China and India increasingly acquiring more control stakes in other regions of the world, crave global players' roles, and especially the control of exhaustible resources: oil and gas. Thereby Asia by increasing its economic power could alter competitive hierarchies of power would reduce the influence exercised in the West overall space. So, would change the trajectory influences regional alliances would end any other color, international organizations could also be influenced decisions. Another consequence could be linked to control strategic resources that will give a great battle with more or less noise. Besides depleting resource competition was launched worldwide by travel and alternative energy sources, because consumption is increasing due to economic growth especially in Asia and food prices suffer major fluctuations.

To inspire optimism for the future, there should be cooperation, regulation, communication, change among international bodies, eliminating conflicts of interest and prevent future instability. All they can define a different globalization in which we live or where we live, that globalization seen as an open concept that defines the behavior of companies and corporations as an openness to

technological, economic and social progress of the search

Future of transatlantic relations will clearly be indispensable in many point of view of corporate structures, which have the objective of industrial policy, protectionism and not only selectively. If you look inside a corporation, the future would see this: In addition to the essential relations at regional or global, I can say that a corporation and changed priorities, not chasing the market because they have already won, no running even after accumulation, because they had doubts, but rather think how to exploit what they have gathered so far. Next step will be to corporations from my point of view that innovation, recreation and reinvention of the business, continuous improvement and progressive transparency, all started on the long term. To support such projects, corporations need ideas, people able, encouraging processes, principles and courage. Corporations will put greater emphasis on innovation, but the mere process of innovation but on value innovation. This process is based on the stock, which possesses the capability to operate from the inside out, all to create new applications and with it the creation of new businesses. Corporations will have to realize that the price of their assets consist largely of what is in the minds of people they employ.

4. Conclusions

In conclusion, I think of three possible scenarios on the future of corporations. A first scenario would be one in which a not too distant future corporations would come to rule the world, dividing it between them. Thus we live in a world that large corporations would go where it holds a monopoly position. In this context they should have the ability to control and manipulate the market. A possible form of monopoly position manifestare for example control global production levels, limiting its growth amid a trend of consumption clearly leading to a price spike. A second scenario would be to limit the power of multinational corporations in the future.

This could be achieved through legislative measures For instance local or regional trends and anticompetitive practices to limit or restrict the emergence and development of monopoly. A third possible scenario would counterbalance corporate power through incentives and support SME development. Moreover in some particular situations may even proceed to grind or large corporate reorganization in smaller companies, possibly narrower specialized competence in areas that can perform.

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Cluster – A Motor of Competitiveness and Innovation in Regional Development

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Abstract

The cluster policies have become an efficient instrument and experience in the field has proved it.

The various approaches to this concept have led to innovative clusters. In Romania, this concept has been approached within the industrial policy since 2008, cluster supporting and implementing through the co-ordination of various instruments being one of the objectives of European Union.

Clustering has already reached more than 50% of the of major countries economies; it serves as a new vector of the world system capitalism development. A. Toffler, citing the example of Italy, called clustering the «new wave» of the capitalism development.

Key words: industrial policy, cluster, regional competitiveness.

J.E.L. classification: O25, C38

1. Introduction

Against the background of global competition, regions and regional companies face the challenges provided by the global market. The competitiveness of a region is not determined by single companies, but more and more by the innovative activities of entire industries and branches. For the economic and technology policy of the European Union and its member states, the regional competitiveness has become the central topic. The main objectives of promoting to these policies are: innovation, co-operation and internalisation. An appropriate way to achieve these objectives is the development of cluster initiatives.

2. The Concept of Clusters

The inventor of the "cluster" term, Professor Michael PORTER [1], defined cluster as "a geographical concentration of interlinked companies and institutions from a certain economical field". From Porter's point of view [2], clusters have the following components:

- Interlinked industries and other entities, such as specialized suppliers and the according infrastructure;
- Distribution channels and customers, complementary product and service providers and companies affiliated as competencies, technologies etc are concerned;
- Linked institutions, such as research institutions, universities, benchmarking organisations, training entities and others.

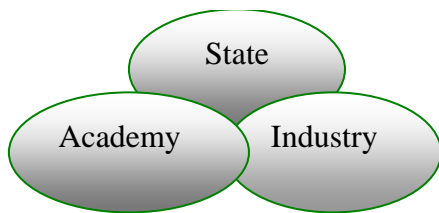
The New Diamond of Innovation

In today's economic context, one does not only speak about clusters. Often the discussion goes about innovative clusters. Innovation can be seen as a result of interactions between different actors from the innovative systems. The systemic view of innovation was first promoted by LUNDEVALL (1992) and NELSON (1993), and more recently by GUTH (2004). Considering these new ideas, the traditional linear model of innovation becomes less relevant. Learning, trust and social capital turn into foundation piles of this model. The "New Diamond of Innovation" Model was developed by GUTH, M. (2004), taking into consideration the competitive advantage theory of PORTER and the individual and institutional learning concepts (Research activity was financed by Hans Böckler Foundation, Germany, www.boeckler.de)

The Triple Helix Model

All theoretical and historical considerations revealed so far, concluded into today's paradigm of the "triple helix" as a model for successful cluster initiatives. According to this model a cluster developed, must consist of following categories of actors:

Figura 1. The Triple Helix



Adapted from the „ Triple Helix Model”, Etykowitz, H., 2002

- Universities, research institutes – as suppliers of innovative products, technologies, processes and services;
- Industry, especially SMEs – which represent the innovation demand and in an ideal case they should determine and absorb the offer mentioned above;
- Authorities responsible for the process facilitation (ministries, regional authorities, etc).

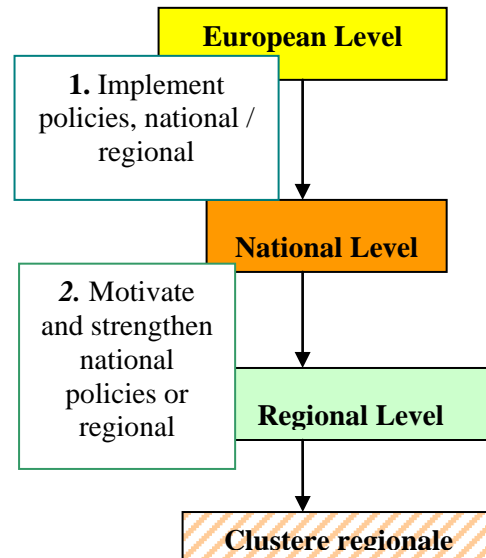
From a different view, **regional clusters** are a concentration of business firms, independent service firms, including their suppliers, the knowledge, technology and knowhow creators (universities, research institutes, engineering centres), the coupling of market institutions (brokers, consultants), financial institutions, industrial and social infrastructure, as well as consumers who interact with each other in a single chain of value creation, while closely being related to a specific region (in this case, an administrative unit is not a clear region boundary).

3. Cluster Policy

Some cluster initiatives emanate bottom-up, whereas others are inspired and mainly financed through a national or regional cluster program. The organization of cluster construction at

national, regional and local levels differs widely across nations.

Figura 2. Level Actors Involved in Cluster Construction



Adapted from the „Clusters – Balancing Evolutionary and Constructive Forces”, Örjan Sölvell, 2008

Types and contents of cluster policy vary considerably from country to country. As a rule, three types can be distinguished:

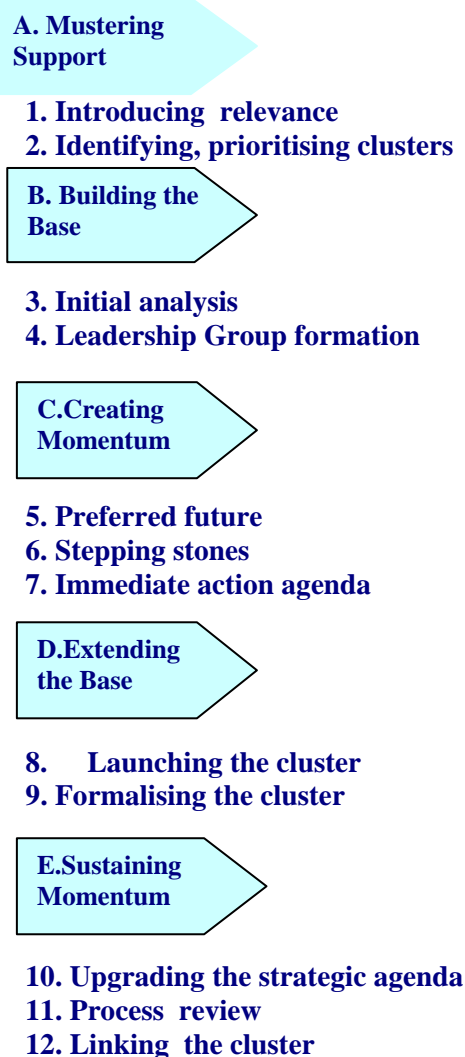
➤ A first type deals with the strengthening of `triple helix` relationships, particularly between industry, research and government agencies, such as regional development agencies or science and technology agencies.

➤ A second type focuses rather on R&D co-operation between companies and between companies and research organisation.

➤ A third type concentrates on encouraging co-operation among companies, regardless whether these collaborations take place with R&D-institutions or are carried out either horizontally between competitors, or vertically along the value chain.

The cluster development process can be broken down into five broad phases, containing 12 steps

*Figura 3. Cluster Development :
Five Phases, Twelve Steps*



Adapted from © Cluster Navigators Ltd 2004

While cluster development must be private-sector driven, government agencies have a core partnership role to play in the process of cluster development.

4. Benefits of Cluster Initiatives

The prospect of potential benefits from cluster initiatives for companies and regions encourages governments and other public actors to launch cluster promotion policies. In general, a well-developed concentration of related business promotes three important activities:

- Increased productivity (through specialised inputs, access to information, synergies, and access to public goods),

- Faster innovation (through cooperative research and more intense competition),
- New business formation (filling in niches and expanding the boundaries of the cluster map).

Cluster initiatives help regions govern their economic development and recruiting efforts. It also encourages communities to refocus their efforts on existing industries.

Strong domestic cluster initiatives also assist the regions in attracting foreign investments. As leading platforms for their industries, clusters are able to attract national and international key players. In fact, foreign-owned companies can enhance the leadership of the cluster and contribute to its upgrading.

Clusters are strongly project-oriented, their activities being often implemented within these projects.

Promoting innovation, which is crucial to the success of regions in general and industry in particular. Today, the enhancement of economic globalisation and the increasing use of information technologies put massive pressure on the acceleration of innovation processes.

Promoting co-operation, means fostering collaboration between industry, with a special focus on small and medium-sized enterprises (SME's), research institutions and academia. Supporting cooperation projects increases the rate of innovation processes and the technology transfer from R&D-institutions and academia to industry.

Fostering internationalisation, especially for small and medium sized companies do not possess enough resources and know-how to enter new markets. Therefore, internationalisation has become an essential factor for companies and regions to succeed in the global competition.

The Aho report gives as well a perspective of how clustering efforts can help regional development:

“Clusters and, more generally, regional agglomerations are often at the core of innovative development. It is widely recognised that new firms thrive in the proximity with other companies, investors, educational institutions and research centres afforded by clusters particularly in the presence of world class academic institutions. Mobility can be maximised when there is a local labour market that allows regular flows

of people from one situation to another, with accompanying diffusion of knowledge. As well as the greater opportunity range it is clear that barriers such as the need to move house or schooling for families are removed. However, it also emphasizes that minimising such barriers more generally will create a more functional society.

It is important to ensure that clusters are defined in terms of the new market and knowledge relationships needed for emerging sectors to thrive. It is even counter-productive to reinforce traditional sectoral clusters as these may inhibit the necessary mobility. Firms in traditional sectors are far more likely to find innovative growth by forming new linkages and applying new technology to their existing products and services. This can be facilitated by opening the clusters to cooperation with and learning from other clusters in the same or other sectors.

In order to improve human, financial and knowledge mobility in terms of human mobility, it is important to observe if the clustering efforts have resulted in the attraction of professionals from other areas of Europe and the world, creating a concentration of excellence in the field, or rather has given a label of "excellence" to the already existing pool of talent.

In terms of financial mobility, the cases look at whether the clustering efforts have been effective in attracting new financial resources to the area, willing to invest in the more innovative strategies and projects, or are just obtaining subsidies to already committed traditional investments.

In terms of knowledge mobility, have the clustering efforts lifted barriers to facilitate cross-fertilization among clusters, or are they just reinforcing the institutionalisation of traditional pools of knowledge (for example: through the creation of inappropriately defined research institutions).

The companies within the clusters are more innovative than those outside it, protect their brands and industrial copyright better than those outside it, provide more jobs, pay higher taxes and pay their employees higher wages.

Of the total European labour force, 38% is employed in entities within clusters.

The objective of the Europe 2020 Strategy is to promote smart, sustainable and inclusive

growth in Europe, and clusters are an important element of this strategy.

At the European Cluster Conference (September 2010, Brussels) was the presentation and further discussion of the final report of the European Cluster Policy Group (ECPG). This report calls for an improved coordination between the different EU initiatives in support of clusters and proposes that the "focus of cluster programmes needs to be shifted from capacity building and compensation for poor performance towards a clear orientation on excellence, focusing on clusters with the ability and the willingness to upgrade in the face of global competition and ensuring the consistent provision of public knowledge infrastructure to support them."

The European Cluster Conference has been the scene of launching three new support services for cluster stakeholders in Europe:

- Club of Cluster Managers'
<http://www.cluster-excellence.eu/club.html>
- European Cluster Collaboration Platform
<http://www.clustercollaboration.eu>
- European Cluster Observatory
<http://www.clusterobservatory.eu/index.html>

5. Conceptual Consequences for Romania in Innovative Clusters

For the Romanian reality the triple helix way of thinking needs to be modified to a "Four clover" model, where the fourth actor is being represented by catalyst institutions: service providers in the field of innovation and technological transfer, centres for technological transfers, chambers of commerce etc. Amongst these we can further differentiate between specialised service providers (experts in the industrial field of the clusters) and generalist consultants dealing with management, communication, project generation etc. It is obvious that the actors within this model have different contributions and interests, which have to be harmonised (Mapping Report GTZ, 2010).

Clusters are in compliance with the modern approach on « open innovation » which depends on the interaction between a strong academic research (universities),

dynamic entrepreneurship and the risk capital availability (private environment), as well as a supporting political framework (public administration).

6. Cluster Policy in Romania

-Industrial Policy document and the related Action Plan (2010-2013) with a specific chapter on cluster policies (www.minind.ro)

-National Program for increasing the competitiveness of industrial products (activities dedicated to clusters)

-Regional Development Strategies focused on clusters and networking

-Project INOVCLUSTER launched by the Ministry of Economy Trade and Business(2008-2010)

-Collaboration with GTZ from Germany for the « Romanian Cluster Mapping »

-Clustinova project and trans-borders cooperation projects

-Exchange of best practices with Hungary, Croatia, Poland, Turkey, Sweden, France, Germany, Slovenia, Italy-Ministry of Economic Development and IPI-Institute for Industrial promotion, Serbia, Macedonia etc

-Situation in Romania (Regional SWOT analyses, regional potential for clusters, initiatives, Interministerial Working Group, INCLUD Project-Industrial Cluster Development, INOV Cluster project, Romanian Cluster Mapping).

-Possibilities of financing (private and public funds, European funds, bilateral cooperation etc)

-Main stages in setting up a cluster and registering in the European Cluster Observatory.

In Romania there are 17 innovative clusters (bottom-up) in different areas, in 2010:

- Automotive, a regional cluster in Timisoara and Pitesti;

- ICT, in Timisoara and Craiova;

- Tourism, in Suceava, Drobeta Turnu Severin and Mamaia;

- Agro-food, in Arad, Iasi and Bucharest;

- Electro-technics in Brasov;

- Renewable energy in Sfantu-Gheorghe;

- Silviculture and Wood industry, furniture in Sfantu-Gheorghe and Targu Mures;

- Textile in Savinesti and Bucharest [8]

7. Conclusions

Cluster structures do exist in RO: regional concentration of firms, specialised R&D units and relatively sufficient labour force, but there are problems [6].

Problem 1: Hardly any cooperation amongst the partners

Problem 2: Lack of specialised innovation service providers and at the same time reluctance of RO firms to use external innovation services.

8. Acknowledgement

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The Agrotourism - a Vivid Chance for the Rural Life

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Abstract

The people's desire and need to leave the polluted, crowded and noisy urban areas made them to move to places where they can be closer to nature, in a relaxing atmosphere and without pollution. There has been developed a different kind of tourism that allows tourists to integrate themselves in the rural society.

This is also beneficial to the rural areas where these activities are carried on, allowing them to develop, especially to small localities which have a valuable tourist potential.

Key words: rural development, agrotourism, agrotourism sustainable development

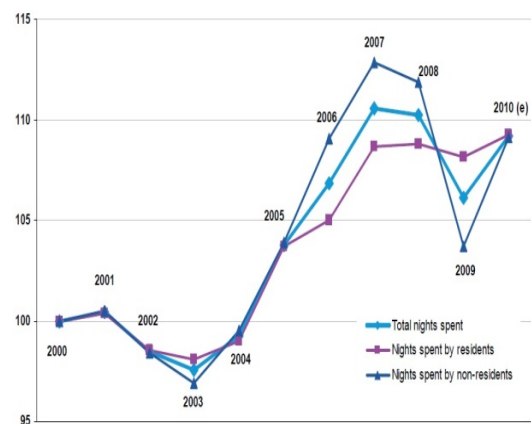
J.E.L. classification: O13, Q01, Q26

1. Introduction

The economic crisis that marked the world in the recent years has also affected, as expected, the tourism sector in Europe. In 2008-2009, the housing component of the tourist activity crossed a difficult period, so that in 2009, the number of nights spent by tourists in hotels and similar lodging facilities fell below the level reached in 2006 (Graphic 1).

Good news, however. In 2010, after two years of negative growth (during which only residents were the most important guests), there has been a tourism revival, so that the number of nights spent by non-residents this year compared to 2009 was higher (5.1%) than the number of nights spent by residents (+1.1%). [1]

Graphic 1. Total nights spent by tourists in hotels and similar lodging facilities



Source: Eurostat, Statistic in focus, 6/2011

In Romania, however, the change of the percentage of the number of nights spent in hotels and other similar accommodation facilities, for the same period of comparison, in 2010 compared to 2009, expressed an increase by + 3.2% for non-residents and a decrease by -10.9% for residents.

In the 27 European Union countries, in 2010 compared to 2009, the domestic market recorded the largest contraction on tours (-1.1%) compared with the number of trips abroad (-0.7%).

In terms of journey times, the longest ones (four or more nights) have decreased by 1.7% compared with the short ones (maximum 3 nights), where there was a decrease of 0.3%.

2. Agrotourism in Romania. Concept and evolution

The agrotourism (or the "Tourist adventure", as it was called, at the beginning, round the year 1840) first appeared in the

European alpine countries, namely in Switzerland, in the Château d'Oex area.

In this area, the English discovered wonderful mountain scenery, mountain waters, rich meadows with herds of cattle, welcoming people.

In *Romania*, the foundations of the agrotourism have been institutionalized in 1972, when the Ministry of Tourism selected 118 representative rural settlements, which were to become part of the national and international tourism (OMT 297/1972).

The *agrotourism* involves the stay at a peasant lodge - hostel, farm etc. -, the consumption of household agricultural products obtained in the respective lodge, that participation, in a greater or lesser extent, in specific agricultural activities [2].

The agrotourism includes two large components:

- the tourism industry itself, reflected in the accommodation, meal services, entertainment, other current services, and
- the economic activity (agriculture) carried on by the owner of the agritourist guest-house, reflected in the production and primary processing of food in household products and their marketing directly to tourists or through other commercial networks.

The adjacent practicing of agrotourism by peasants in rural areas leads to the development of agricultural products, primarily through the capitalization of their own agricultural products and also through the revenues from accommodation, part of which is used for investments and modernization.

Therefore, the agrotourism directly contributes to the support of the farmers and to the development of the respective area itself.

Moreover, as pointed out at the meeting of the European leaders of the European Associations of Rural Tourism, held in Abtwil, Switzerland, on June 1, 2009, even the crisis in the recent years has negatively affected only the business tourism (city tourism) and generated benefits for the tourism and agrotourism guest-houses in Europe.

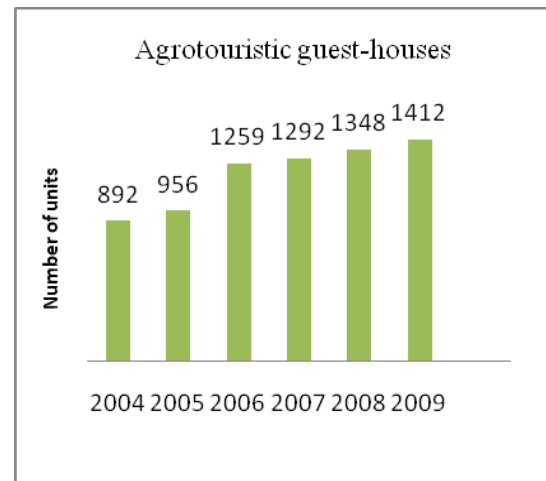
Thus, in Austria, Farm Holidays (holidays on the farm) have even more reservations than before the onset of the economic crisis. In France, the situation is similar, a feature

being the fact that people are no longer going very far from home. In England, there was an increase in the stays duration, but with a slightly lower frequency, and in Switzerland, although the stays became shorter, holidays on the farm are more and more required [3].

In Romania, in the recent years, the evolution of the agrotourism development is positive, as shown by the further analysis of this phenomenon, carried on based upon the 2004-2009 timeframe.

The evolution of the agrotourism during the period 2004-2009 will be analyzed based on indicators reflecting the tourist accommodation capacity (*the number of tourists reception structures with functions of tourist accommodation, the capacity of the existing accommodation in operation, the index of the net capacity in operation*) and indicators concerning the tourist activity (*number of arrivals, overnight stays at reception structures with tourist accommodation functions*), emphasized per tourist destinations, per types of facilities and per comfort categories.

Graphic 2. The number of agrotouristic guest-houses



Source: Statistical Yearbook 2010, National Statistics Institute

In the period under review, *the number of agrotouristic guest-houses* increased by almost 60% (Graphic 2) at the end of 2009, they represented 27.7% of the level of tourist reception structures with functions of tourist accommodation, compared to only 22.9% of total, during the year 2004.

The existing tourist accommodation capacity of the agritourist guest-houses is characterized by an upward trend different between 2004 -2009, the percentage increase from year to year being shown in Table 1.

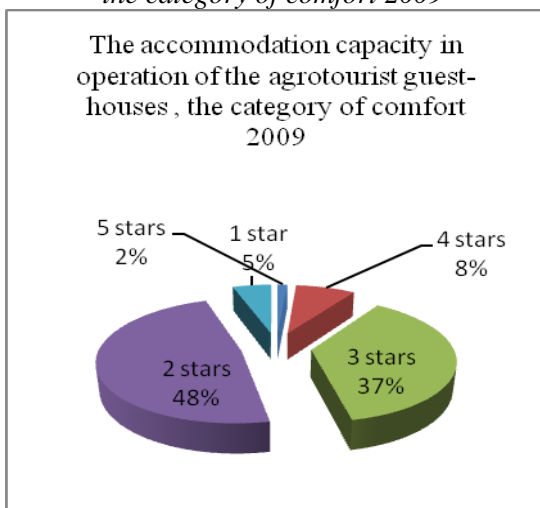
Table 1. Increase percentage of existing tourist accommodation capacity agrotouristic

Anul	2005/ 2004	2006/ 2005	2007 /2006	2008/ 2007	2009/ 2008
%	19,0	30,5	6,2	9,4	17,0

Source: Own calculations based on the data from the Statistical Yearbook 2010, National Statistics Institute

Between 2004 and 2009, the tourist accommodation capacity in operation of the agrotourist guest-houses had an upward trend from 2.132 thousand accommodations-days (3.95% of the total) to 4.735 thousand accommodations-days in 2009 (7.75% of the total tourist accommodation capacity in operation of the tourist reception structures). The accommodation capacity in operation of the agrotourist guest-houses during 2009, per categories of comfort, is shown in Figure 1.

Figure 1. The accommodation capacity in operation of the agrotourist guest-houses, on the category of comfort 2009



Source: Statistical Yearbook 2010, National Statistics Institute

Regarding the index of net use of the tourist accommodation capacity in operation, variations have been noted from year to year,

during the period under review, both for the total of the the reception structures and for the accommodations in the agrotourist guest-houses, the highest values being recorded during the years 2007 and 2008 (Table 2).

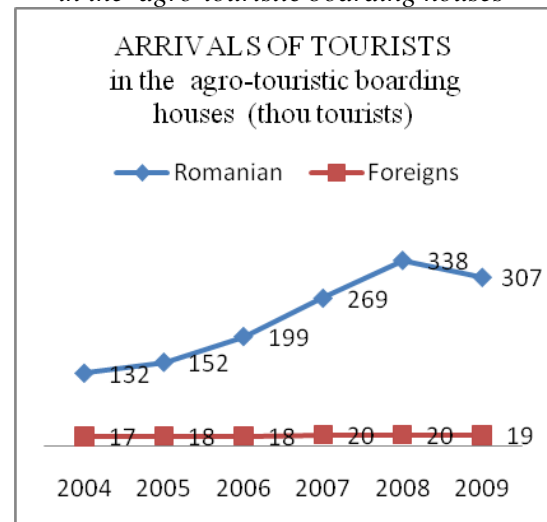
Table 2. The index of net use of the tourist accommodation capacity in operation

Year	Total (%)	Agrotourist guest-houses (%)
2004	34,3	15,0
2005	33,4	14,5
2006	33,6	14,4
2007	36,0	16,3
2008	35,0	18,4
2009	28,4	14,2

Source: Statistical Yearbook 2010, National Statistics Institute

The Romanian tourist arrivals recorded in agrotourist guest-houses during the period 2004-2009 showed, until the year 2008, a significant increase, but, during the year 2009, the number of arrivals fell by 9.2 percentage points compared to the year 2008. The same trend was noticed in the case of foreign tourists (growth during the first four years of the analysis), their share within the total arrivals arrivals being, however, much lower than that of the Romanian tourists (Graphic 3).

Graphic 3. Arrivals of tourists in the agro-touristic boarding houses



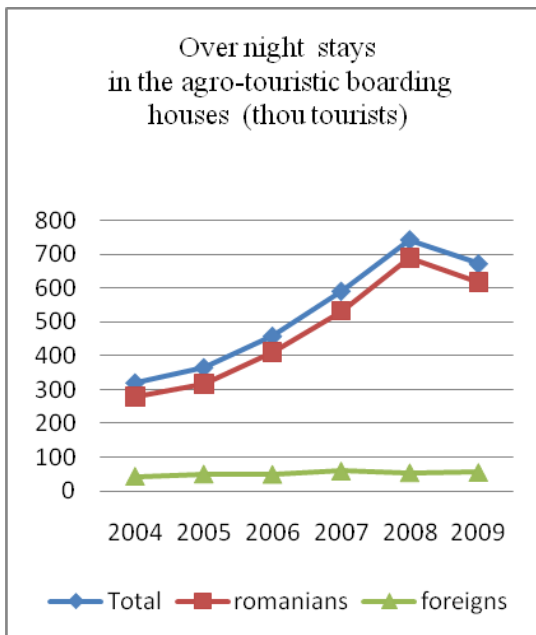
Source: Statistical Yearbook 2010, National Statistics Institute

The overnight stays registered in tourist reception structures had an upward trend during 2004-2008, the total increase reaching +12.3 percentage points.

That changed in 2009, when the overnight stays registered in tourist reception structures decreased by 16.4% compared to those during the year 2008. In 2009, the Romanian tourists' overnight stays in tourist reception structures with accommodation functions accounted for 84.6% of the total overnight stays, while the overnight stays of foreign tourists accounted for 15.4%.

Concerning the agrotourist guest-houses, the growth trend of the overnight stays was more pronounced in the period under review, so that the total was + 109.7% during the year 2008 compared to the year 2004 (Graphic 4).

Graphic 4 Over night stays in the agro-touristic boarding houses



Source: Statistical Yearbook 2010, National Statistics Institute

The Romanian tourists' overnight stays at agritourist guest-houses recorded during the year 2008, compared to the year 2004, saw an increase of + 148.2 percentage points, compared to only + 25.6 percentage points for the foreign tourists who still showed their preference for high comfort hotels.

3. The role of the agrotourism in the rural development

The two European Conferences of Rural Development, which took place in Cork (1996) [4] and, respectively, in Salzburg (2003) [5], marked the need for a new beginning for policy on the rural development through which the rural areas should become more attractive living and working spaces and should to promote sustainable development worldwide.

The basic principles of the rural development policies aim at: the preservation of a viable rural environment; the protection of the diversity of the European rural environment; the increase the agricultural farms competitiveness (a *key objective*); the rural development policies should apply in all rural areas in the extended EU; the rural development policies are designed to meet the needs of the whole rural society; the rural development policy should be promoted through the partnership between the public, private organizations and the civil society, in accordance with the principles of subsidiarity; greater responsibility for partnership programs and a significant simplification of the EU policy on rural development [6].

For, in the rural areas, only the agriculture itself cannot ensure their proper development, the agrotourism becomes an effective means of achieving that objective.

The agrotourism makes a significant contribution to the development of the rural areas (Hall et al., 2003), for:

- it generates income and jobs;
- it increases the awariness of the value of an area, such as its landscape, nature and culture, as well as their economic potential;
- it increases the diversity of the economic activities;
- it enables exchanges between rural and urban areas;
- improving infrastructure may also provide opportunities for other economic developments.

4. Conclusions

The rural areas account for more than 80% of the territory of the European Union where the fourth of its population live.

Hence, the involvement of the decision makers at community, regional and local levels in the development of these areas.

The agrotourism is a regenerating factor for the rural economies and an element of preservation of the rural environment.

People's need to escape from the urban space toward rural areas which increasingly satisfy the tourists' interest in health, safety, recreation issues, on the one hand, and the haste with which some entrepreneurs wish immediate gains as large as possible, on the other hand, lead to imbalances in rural areas.

However, the agrotourism, which is a chance for the rural life, must use today natural resources, and not only natural resources, without prejudicing to the options of the future generations. And for that we should always remember the words of Lester Brown: **"we have not inherited the earth from our parents, we borrow it from our children"**.

5. Acknowledgement

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Influence Factors on the Value of Reliability Estimators in Marketing Research

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Abstract

This paper is a literature review, with a conclusion that leaves open many doors for future research. In the first part are reviewed a series of qualitative and quantitative research characteristics. The second part explains briefly the reliability and validity of instruments used in qualitative and quantitative marketing research. The third part of the paper review a series of articles on the estimators of reliability, on their power, on their strengths and weaknesses.

The conclusions of the research paper urges to research on the factors that influence the values of reliability estimators to facilitate researchers' access to more powerful and more accurate instruments. A good control over the instruments will allow researchers to overcome cultural barriers or other barriers and to achieve wider and richer results.

Key words: reliability, validity, reliability estimators, Cronbach's Alpha.

J.E.L. classification: M310, C130.

1. Why influence factors?

Analysis of factors influencing the values of reliability estimators is not new, but, with few exceptions, research so far have focused primarily on internal factors, on the construction of the instrument, seeking to determine the cause between the levels of certain factors and the reliability coefficients value. If he master and know these factors that influence reliability, a researcher can choose, depending on the environmental characteristics that he investigates, the instrument that fits best in that environment,

having reliability estimators values located at the highest level.

2. Quantitative research vs. qualitative research

To understand better the differences and possible contraposition of the two types of research is useful and even necessary a characteristics description of the main elements of each and how reliability and validity are assured in these types of research. Before the reliability and validity analysis in quantitative and qualitative research is needed at least a brief description of the two concepts.

The *reliability* of an instrument is given by the consistency to measure a phenomenon. More precisely, the reliability requires that for more measurements of the same phenomenon the instrument to show the same results. This does not imply, however, that the result is correct.

Validity on the other hand involves the measurement accuracy, that an instrument is really measuring what it says it is measuring. For example, a scale that will show each time the value of 9 kg for an object weighing 10 kg is reliable, but is not valid. If the value indicated is 10 kg this instrument will be valid.

An valid instrument is also reliable but a reliable one is not necessarily valid. Validity is more difficult to obtain and to prove than reliability.

2.1. Quantitative research

Quantitative research involves the use of numerical methods, statistical and mathematical relationships, which to explain the existence, frequency, power or other

characteristics of the phenomena. Typically, quantitative researchers, backed by the scientific paradigm, lead us to a world view as it consists of observable and measurable facts, but working with issues of the assumption that social facts have an objective reality and the relationships between these variables may be identified and measured [1]. Measurement involves assigning numbers to material objects, in accord with a set of rules.

A quantitative researcher attempts to fragment and to define the measurable phenomena in common categories that can be extended to all subjects in similar situations. In this attempt the researcher is using standardized measures so that people's varied experiences and perspectives to fit a limited number of predetermined response categories [1].

Quantitative methods are used in research since the early nineteenth century. Florence Nightingale was among the pioneers of this type of research. Concerned by how much the results of such research may lead to a correct conclusion, statisticians have developed, with mathematical foundations, methods for estimating the accuracy and rigor of quantitative research measurements [2].

2.1.1. Reliability in quantitative research

Normally any research instrument should provide the same information if used by different individuals or at different time intervals. Internal consistency is the relationship between all the results obtained from a single test or investigation [2].

Kirk and Miller have identified three types of reliability for quantitative research. The first type refers to the degree to which a measurement repeatedly made, reveals the same result. The second one is related to the stability of measurement over time, and the third one is related to the similarity of measurement within a period of time.

One of the statistical methods for measuring reliability is the split-half test, which involves randomly dividing all responses to a question in two equal sets, aggregation of scores in the two sets and calculating the correlation between the two sets. A more sophisticated and complex method is Cronbach's alpha test, which involves the creation of all possible equal

sets and calculating the average correlation between all. For most research is recommended reliability between 0.8 and 0.9 [3].

Reliability estimation methods for measuring instruments also have some limitations. For example calculating the reliability with test-retest method may be subject to error because the respondents had been tested previously. Moreover, events that have occurred between the two times of administration can influence the development of different responses and contribute to an incorrect external validity [2].

2.1.2. Validity in quantitative research

Validity describes whether an instrument truly measures what it proposes to measure. There are two main types of validity: internal and external.

External validity refers to the ability of applying the study results with confidence on other people and situations and it ensures that the conditions under which the study was conducted are representative for the situation and time to which the results apply [2]. Extracted sample must be representative for the population and the variables must be relevant for study.

Internal validity is examined from three approaches: content validity, criteria validity and construct validity.

Content validity is the lowest level of validity and addresses to the relevance and representativeness of items. It is very important to measure this type of validity if the study is designed to determine knowledge of respondents in a particular area or to measure personal attributes such as attitudes. This type of validity may be acquired through a pilot study with a similar sample (from certain points of view) at what it meant to be studied. Where available, such validity can be supported by documentation and literature.

Criterion validity is the most powerful form of the three validity approaches and is determined when the instrument can be compared with other validated measurements of the same phenomenon. Where they do not exist, this type of validity is not achievable.

Construct validity involves demonstrating the relationship between the studied concept and the construct or the relevant theory.

There are several ways to demonstrate the validity of a construct, among which factor analysis. The factor analysis uses a number of statistical methods to determine the characteristics that share a link. The factor analysis is particularly useful for studying the relationship between a large number of variables, identifying clusters of variables that are closely related [2].

2.2. Qualitative research

Qualitative research uses exploratory methods to produce data and not to measure or quantify them [2]. Qualitative research uses naturalistic methods which seek to understand phenomena in specific contexts that they occur, and are defined, broadly, as any type of research that produces new information from the real world, where they naturally happens, without the involvement of quantitative or statistical methods. Unlike quantitative researchers, which seek causal determination, prediction and generalization of results, qualitative researchers seek illumination, understanding, and extrapolation to similar situations [1].

Just as with quantitative research, questions arise here about the rigor, accuracy and usefulness of results. In an attempt to use methods similar to those used by quantitative researchers, qualitative researchers have faced, as expected, a number of obstacles, which led them to develop a number of techniques and methods specific to qualitative research, with which to determine accuracy, accuracy and usefulness of results.

2.2.1. Reliability in qualitative research

Reliability in qualitative research can be regarded as a trust in the procedure used and in data generated. It deals with the extent to which a measurement results of a study are repeatable in different situations [4]. You must confirm the results by testing or resumption of them in different situations. Detailed notes during the study and other data necessary or useful in decisions helps assessment of research and its confidence.

Other methods for increasing reliability include ensuring the accuracy of the transcript and record. But not only audio registration and the transcripts are important, but non-verbal aspects of communication that

can be omitted in the transcript. For example, even when looking at verbal communication, are very important not only words but also the length or frequency of breaks.

Strong commitment in analyzing data, creating strong links between data and researcher's interpretations, using textual expressions of participants, may increase the reliability of a qualitative study. But it must be ensured that such processes should be used in proportion to their occurrence in the study, not to create errors.

2.2.2. Validity in qualitative research

Validity is understood in terms of how well the research instrument succeed to measure the phenomenon analyzed. A possible and likely difficulty in gaining validity in qualitative research is given by the bias caused by the researcher, bias that may arise from selection and recording of data or their interpretation, interpretation based on personal experiences and perspectives.

Where researchers are involved in or familiar with the subject studied, they may try to be non-reactive and to have a distancing from the subject to allow an objective analysis. Although it is difficult, researchers must suspend experience, judgments and beliefs and provide reliable and valid result [5].

Another method may include validation by respondents. This procedure involves sharing interpretations with respondents who will validate or not these interpretations and provide valuable feedback. But it is risky because some respondents may incorrectly validate the interpretations in response to support the study or the researcher.

A widely used and very robust method of validation is the triangulation. This involves applying two or more methods, theories, sources, converging eventually (and ideally) to the same results. There are used comparison, cross analysis and cross checks for research validation.

2.3. Quantitative vs. qualitative

As can be seen in the table above, both methods of research are needed in a broader research project, each with advantages and disadvantages and each matching a particular

stage of an investigation. The problem that remains to be analyzed refers to the ways of testing or estimating reliability (internal consistency) and validity of research in question. These issues are what we deal with below.

Carefully analyzing the two research methods, qualitative and quantitative we can see that in the center should not sit a "vs." but rather a "+" because they complement rather than contradict. It is true that differs much and that the followers of any of them will always find arguments to prove the supremacy of anyone of them, but be aware that they can only exist together. If a researcher knows exactly what is to quantitatively analyze, he knows that because these factors have been found in previous qualitative research. On the other hand a qualitative research results will be truly validated only by means of quantitative studies to strengthen its findings.

True is that it is very difficult to provide a high degree of reliability and especially of validity in qualitative research, but the fact remains that without this research, quantitative research would not have a starting point and would have nothing to test.

I believe that for a better description of reality it takes a succession of research such as qualitative-quantitative-qualitative-quantitative ..., each one improving and refining previous findings.

3. The current state of knowledge in the field

Research of any type is performed using instruments. For these tools to provide useful information they need to simultaneously fulfill two conditions: must be reliable and valid. Reliability is the instrument quality to measure the same readings for repeating measurements. Validity is the property of the instrument to measure what is really meant to be measured with its aid. Over the time they developed several methods of measuring or estimating the level of reliability and validity of various instruments used in research to ensure a greater fidelity and resemblance of the results collected to the reality.

Providing a high level on the value of reliability and validity estimators is one of the most important aspects in implementation

and use of a research tool. From this perspective, the discovery of the factors that may affect the value of reliability estimators and may influence the direction and intensity of these estimators is very useful to any researcher. Depending on the environment in which he need to conduct the research, the researcher can use the tool which gives the highest level of trust, or he can use certain factors to increase the reliability of the tool (as in the case of internal influence factors they use more items to increase the reliability estimator for that instrument).

3.1. Types of reliability

Reliability is linked to the quality of measurements and has the usual meaning of consistency or repeatability of measurements. Reliability can not be accurately calculated but only estimated. For this reason, over the years, they have emerged several types of reliability, each with a variety of estimating the confidence level of this type. There are four major types of reliability estimators, each estimating confidence in different ways.

- Inter-Rater or Inter-Observer reliability
- Used to describe the extent to which different observers give similar estimates of the same phenomenon;
- Test-retest reliability
- Used to show consistency of measurement in two different moments of time;
- Parallel test reliability
- Used to show consistency of the results of two tests constructed in the same manner and in the same area;
- Internal consistency
- Used to show consistency of results across items that build a test.

4. Evolution and directions

Introduced for the first time in 1937 by Kuder and Richardson, for dichotomous scale and generalized in 1951 by Cronbach, estimator Cronbach's Alpha was and is one of the most used estimators. Lately, however, researchers become increasingly skeptical about the estimation power of this indicator. This skepticism is mostly based on a growing number of studies that prove their relevance and correspondence with reality, but get a

low enough value on reliability estimators for the instruments they use.

As can be seen in the literature, Cronbach's Alpha is questioned by many years, how to interpret the results and its extensive use to estimate the reliability of a research tool are the issue of long and controversial debates.

If at the beginning there were considered reliable tools that score a minimum of 0.70, a number of authors like Bernard in 1994 come to validate studies with the value of Alpha below 0.70. Others such as Iacobucci and Duhachek (2001) [6] are more cautious in interpreting the results and suggest us to take into account the probability of estimator alpha and to consider his value as part of its range of confidence, not as a fixed value.

Thus, if the range falls too low, the tool may not have a high degree of reliability, even if, for example, its estimator value is above 0.70. In the opposite case, even if Alpha's value is below 0.70, its confidence interval can pass this border, so Alpha might be in that area and instrument might be valid, case that would explain demonstrations like the one made by Bernardi (1994) [7].

A number of other authors such as Christmann and Van Aelst (2005) [8] attempts to improve the power of Cronbach's Alpha estimator by eliminating some sensitivity toward the disturbance (outlier in this case). These changes create a more accurate estimator that will estimate the reliability obtained from the majority of the data, eliminating data from other sources.

Others such as Tarkkonen, Puntanen and Vehkalahti (2006) [9] go further, building a more powerful estimator with a wider coverage area, for which Cronbach's Alpha is just a particular one-dimensional case. The estimation power of this new estimator is much higher, because it exceeds the particularity problems that Cronbach's Alpha has and has to fulfill.

In recent years many authors focused on raising the value of Alpha estimator by manipulating internal factors such as number of items, number of constructs, the nature of the scale (formative or reflective) etc. Only a few researchers direct their attention to the influence manifested by a series of external factors on the level of Cronbach's Alpha value estimator. Among them is worth mentioning Montag (2008) [10], which made

a comprehensive study on the influence of speed of completing a questionnaire on the estimator's value. The results show an insignificant influence of this factor on the value of the indicator, but it is a step towards for consideration of external factors of the instrument as being possible factors influencing the value of the estimators.

5. Conclusion

From the sections above can be easily understood, on one hand, how important instruments reliability and validity estimators are for any kind of research, and on the other hand can be seen how controversial are these techniques and methods of estimation for these qualities.

For this reason I think it is very necessary a much better control of these estimators, of what it can influence them, and a better adjustment of them to the environment. If we will know and manipulate these factors that influence the properties of research instruments we will reach a higher research accuracy and the ability to overcome many obstacles that some researchers confront with.

6. Acknowledgment

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Motivation in Academic Research as an Important Factor in Increasing International Visibility

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Abstract

This paper aims to present the main factors that influence motivation in academic research: extrinsic/ intrinsic factors, motivator/ demotivator factors, personal/ interpersonal/ social factors, individual/ collective factors. Also brought into the discussion and the main theories related to motivation in academic research: self efficacy, self-concept and self-determination theory. As a conclusion it is emphasized the link between motivation and productivity and the need to increase the motivation in order to improve a country's international visibility.

Key words: motivation, self efficacy, Self Determination Theory, intrinsic/extrinsic factors, academic productivity.

J.E.L. classification: J21, J23, M30.

1. Introduction

The performance of academic employees who have a dual role as both teachers and researchers, determines the quality of educational act experienced by the students.

Most universities have a mission to provide students a quality education act. This mission can be accomplished only through teachers; therefore, their motivation is crucial. In addition, research has an important role. First, keep alive teacher interest on his topics of interest and secondly, help achieve a positive image of the institution they work for.

Authors such as Rowley believes that teachers that are well motivated publish a lot, and this leads to their international recognition and, hence the recognition of

university which they belong. This has a positive impact in terms of several aspects: valuable students are attracted, funds for research are attracted and consulting contracts are signed. For this reason, the motivation is considered the key to success in increasing the quality of higher education [1].

From this perspective, identifying factors that increase the motivation of university teachers is useful both in local level, to universities leadership and in the national level, for those in ministry that can sustain a national strategy to increase the country's international visibility.

2. Motivation models

Motivation, initially studied by researchers in psychology, is one factor which has sparked the interest of persons from various fields. Marketers turn to studies motivation in several circumstances: when they want to anticipate consumer behavior, when develop or promote a product, when they want to establish strategies for a product or a company etc.

Motivation is a force that makes us constantly move, act or do things [2]. The following lines present the most important models of motivation. Currently there are four well-known models of motivation [1]:

- *The rational-economic model (e.g. Taylor, 1947)*

This model assumes that people are motivated primarily by economic interests and act in such a way as to maximize financial and material gains. Another premise of this model is that people are passive and not willing to make more effort and take more responsibility, being interested only in activities that bring benefits.

Another model that is based on the same assumption, that people are passive is "mini-max" motivation model. Under this model, people want to get maximum benefits with minimum effort. The model not suggests that people do not get the maximum performance because wanting to do nothing or because they are lazy, but because they assess the benefits and costs of involving in a given activity [3].

- *The social model (e.g. Mayo, 1975)*

Unlike its predecessor, the social model assumes that people are motivated primarily by social needs, such as: the need for friendship and acceptance, the need for identity formed through relationships with others, etc. According to this model, people respond better to the group pressure than to the managerial pressures or incentives. People respond to management requirements when they overlap with their needs for affiliation, acceptance and identity.

- *The self - achievement model (e.g. Maslow, 1970)*

The self - achievement model was first developed by Maslow. He proposed a pyramid of needs, where the physiological needs are on the bottom of pyramid and the self-realization needs are at the top. The pyramid has five levels, the last step, the self-fulfillment can be achieved only if the needs of the four steps below have been fulfill. Under this model people like autonomy, independence and skill development for themselves. There is no conflict between self-realization and organizational performance, and people are happy to integrate their objectives with those of the organization where they work.

- *The complex model (e.g. Schein, 1980)*

Schein apud. Rowley criticize the three models presented above due to their tendency to universality and generality. According with this model, the human being is complex, with needs and different motivations depending on the circumstances, life experience, expectations and age. Thus, people are motivated to work when they believe they get what they want from their job. Included are: safety needs, pleasure to do challenging work, the ability to set and meet goals etc. Therefore, managers should seek to identify these needs and to adapt the motivation strategies based on expectations of each employee.

These theories are a relatively simplistic view of motivation. As several studies have been conducted it was found that this concept is very complex and difficult to measure due to the existence of links between variables and latent variables. In addition, was developed by a breakdown of the factors that influence the motivation in *intrinsic factors* and *extrinsic factors*. These factors are set up according to the analyzed topic. Next I will present the most important factors influencing *academic motivation*.

3. Motivation and self efficacy

Authors such as Scheel and Gonzalez have identified a link between academic motivation and self-efficacy. Students who have confidence in their abilities to perform tasks in school tend to be more motivated than those who do not believe in their abilities. The study also revealed a positive correlation between academic motivation and the school counseling [4].

The same relation, between academic motivation and self-efficacy is analyzed by Bailey in a study with a teachers sample. The results of this study show that doctoral graduates have a higher level of self-efficacy for doing research. Also, there are no gender differences regarding motivation to research and level of self-efficacy. In addition there is a direct link between productivity, motivation and self-efficacy [5].

Authors such as Bong and Clark link the motivation for academic research, alongside the concept of "self-efficacy" with the "self concept" term. The study insist on the differentiation of this two concepts: the self-concept is a complex construct that incorporates both affective and cognitive judgments about themselves, influenced mainly by social comparison, while self-efficacy is mostly judgments about the own cognitive capabilities [6]. The self-concept is an important predictor in education, correlated with various educational items such as: academic effort, educational aspirations and academic motivation [7].

Other authors have linked the concept of "motivation" with "achievement theory", namely, the distinction between achieving success and avoiding failure [8].

Other studies that analyze the students behavior to study/ research linking motivation with goals achievement. The behavior is explained either by achievement objectives to demonstrate/ develop skills, or by avoiding them to demonstrate the lack of ability [9]. Avoidance goals are labeled as "academic alienation" and are defined as attempts to allocate as little work and effort is possible to fulfill a requirement [10].

4. Motivation and Self Determination Theory

Self Determination Theory (SDT) is recognized as a fundamental element of motivation [11]. This theory is useful in determining the fluctuations in the strategies, performance and students' persistence. Researchers who developed the theory initially focused on *quality of motivation*. This is the type of motivation underlying learning behavior [12]. Thus, it was explored whether students are intrinsically or extrinsically motivated. *Intrinsic motivation* refers to engaging in an activity only for the activity itself. *Extrinsic motivation* refers to engaging in an activity to get a reward separable from the activity itself [8], [12], [13]. In SDT, intrinsic goals such as helping the community, health, personal development, affiliation are different by the extrinsic goals such as fame, financial success and physical appearance. Subsequent studies have led to differentiate the "goal content" concept (intrinsic vs. extrinsic) from the "goal motive" concept (autonomous vs. controlled). For example, a student can work after hours to get money (extrinsic goal content) because he feel pressured by parents (controlled motive), or because he wants money for college (autonomous motive) [12]. Another factor considered important in SDT is the amotivation (lack of motivation) which refers to the absence of a link between action and reward. People that have a lack of motivation don't have a specific behavior in achieving goals and they are acting in a systematic way [14].

Researchers that have investigated SDT also studied the environmental effects (autonomous/ supportive vs. controlled) on learning behavior. It was identified that students work better with autonomous factors

than with controlled factors and the autonomous/ supportive environment is associated with different benefits [12].

Results of the study conducted by Scheel and Gonzalez support the theory of "self-determination": students who perceive school activities as relevant to their future are generally more motivated. Also, students are rather self-motivated than external motivated (by the controlled factors) [4].

Initially, intrinsic and extrinsic motivations were seen as being antagonistic. Intrinsic motivation reflects the self-determination and extrinsic motivation reflects a lack of self-determination. Later researches showed that extrinsic motivation is not necessarily controlled, distinguishing between several types of extrinsic motivation based on the degree of autonomy or self-determination, given the extent to which people have been successful in internalizing factors that were initially external controlled. This process is called *internalization* and can operate with more or less success. Types of extrinsic motivation that make up this process are: external regulation, introjected regulation, identification and internalization [12]. Authors as Fairchild et. al. called the last type of external motivation as integrated motivation, concept equivalent with the internalization [15]. They placed the four types of extrinsic motivation into a motivational flow between lack of motivation and intrinsic motivation.

External regulation is the form of external motivation that had the lowest level of autonomy. In this case the behavior is explained as a result of external factors such as payment, penalty or deadline, the reason for doing the work is not internalized at all. For example, a student studying in the first place because it would be reward by his parents is externally regulated .

In *introjected regulation*, the second type of external motivation, people engage in an activity to comply with internal pressures often based on self-actualization or to avoid guilt or shame. An example for introjected regulation is a student who learns before play football in order to avoid guilt.

Identification refers to the process in which one person identified herself with an activity and accepts that activity regulation as something personal. An example for identification is a student who learns

statistics because he realizes the importance of statistics in its objectives to achieve empirical psychology studies.

Internalization is the central process of socialization and is defined in SDT as the need for competence, autonomy and links/relationships with others people. This type of extrinsic motivation is very similar with intrinsic motivation, because the competence and autonomy plays an important role, but for internalization the links with other people have also an important role. For example, in order that students to internalize the norms, standards and regulations from a university, they should be presented in a manner that facilitates their needs for autonomy, competence, and relationship/ connection with other people [12].

A different approach we find to authors such as Turner who analyzed the motivation for research according to three levels: personal, inter-personal and community [16].

5. Factors affecting motivation in academic research

Authors such as Dramanics examine the motivation for academic research from two perspectives, both for teachers and administrators from university. Motivational factors analyzed: the assessment of work done, good working conditions, pay, assistance in case of personal problems, involvement in decision making, job security, loyalty to employees, free choice of subjects to teach, promote and professional development and teaching field. The results revealed that managers believe that teachers are motivated primarily by the appreciation of work, while teachers responded that the most important criterion is salary, followed by good working conditions [17].

Mahagaonkar P. examines motivation for academic research by two dimensions: money and prestige. His conclusion is that researchers working with business field want reputation and visibility, making more certificates/ patents. Also, researchers which not cooperate with business field are more motivated by recognition and reputation than by financial benefits [18].

Manley examines the motivation for research around nine motivational factors: intellectual challenge, social status, career

advancement, professional recognition, contributing to the emergence of new knowledge, personal pleasure, material rewards, participation in professional organizations and the development of processes/ products. Applied on a sample of researchers from institutes, the study shows that the most important motivational factors are: intellectual challenge, personal pleasure and financial rewards [19].

Dekker and Fischer analyzed the motivation for academic research based on cultural differences (individualism/collectivism, egalitarianism/ hierarchy). The results showed that people from collectivism contexts are more motivated to prove their capabilities and equality contexts conduct to higher motivation because of freedom of expression [20].

Kiziltepe investigate academic motivation in terms of motivating factors and demotivating factors. His study, conducted on 300 university professors, highlights students as prime motivator factor, followed by career. Students also have been the main factor of demotivation (through lack of interest) [2].

In Romania there are no studies to examine motivation in academic research. In terms of academic research, there is a PHARE study [21] that analyzes the problems of the research system in Romania on various factors. They can be taken into account as a source of demotivation.

6. Motivational factors and productivity in academic research

Authors such as Chen et. al. examines the impact of various motivational factors on productivity in research. The study conducted on economics professors reveals that people strongly motivated by rewards (both intrinsic and extrinsic) publish significantly more articles. Teachers from state faculties are predominantly intrinsically motivated, while teachers from private universities are primarily extrinsically motivated [22].

Affiliation with a state/ private faculty and promotion are strong motivational factors for academic productivity [22]. Also, Long et. al. analyze the link between productivity in research, the affiliations and the school graduated by the researcher. Study results

show that affiliation is a important factor (predictor) of productivity in research both in terms of quantity (number of publications) and in terms of quality (number of citations). Contrary to expectations, the graduated school is not a predictor for research productivity [23].

Tien highlights that motivation to promote has an important impact on research productivity. The author considers variables such as: age, sex, field, Ph. D. status, the country where was prepared as researcher, institution and the personal values system, as predictors for researchers who are motivated by promotion. Respondents are divided into four groups, according with two criteria: (1) importance attributed to promotion shall be located above or below the average of importance attributed from the other respondents and (2) publishing/ not publishing articles or books and access/ not access research funds. The study concludes that universities that attributed high score to promoting importance tend to have younger researchers. Public faculties conduct research with more success than those in the private system. Men publish more books and articles than women. Natural sciences and engineering faculties publish fewer books than the social sciences and humanities faculties, however, ultimately access more funds for research than first ones. Faculties organizing doctoral programs are more productive than other faculties [24]. The same author, in a previous study showed that associated professors and trainers with a great incentive to promote are recording high performance in research, motivation for promotion serving as a significantly predictor for high performance even after controlling some intrinsic or extrinsic factors (rewards, age, sex, rank, the country where was prepared as researcher, affiliation, field) [25].

Some authors like Carayol and Matt focus their analysis on both individual determinants (age, position, field) and collective/ laboratory effect determinants (average age and position of colleagues, the quality of the institution and colleagues, the presence of non-permanent researchers, issues related to team size and financial funds). Conclusion of the study reveals that age and position have no significant influence on productivity, but the size of the laboratory (research group) has a strong and negative correlation:

permanent researchers publish more when they are part of a small laboratory. The same study concluded that local doctoral and post-doctoral students have no influence on research productivity, but foreign post-doctoral students affect positively the productivity [26]. The same authors, in a previous study, say that foreign doctoral and post-doctoral students positively affect the average number of publications conducted by permanent researchers [27].

Brusa et. al. examines the influence of doctoral program in finance on productivity in academic research. The results show that the curriculum does not affect the total number of publications of doctoral students, however, there is a significant relationship between academic program and the number of articles published in ranked journals: doctoral programs that include more math courses in study program recorded several publications in ranked journals [28].

7. Conclusion

Motivation for research is a construct very difficult to be measured, but particularly important for increase a country's international visibility. For this reason, numerous studies have been conducted to discover how you can increase the motivation of university researchers. In the analysis of this complex construct the studies have focused in different angles. The results of these studies have shown that there are many factors that influence motivation, factors that often are correlated, and this makes it even more difficult to measuring them. However, one of the main lines reached from these studies is that motivation is strongly correlated with the academic research productivity (both quantitatively and qualitatively speaking).

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Motivation to Join Maritime Sector - Norway's Case

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Abstract

Skilled and experienced crews are essential to the successful operation of today's technologically advanced vessels. The growing shortage of qualified seafarers of today has a dramatic impact for worldwide maritime transport. In order to prevent the disadvantages of seafarers' shortage for economy, a maritime country from Europe, Norway, has a complex approach for identifying best initiatives to attract young people to a seafarer career. This paper presents the reasons for why seafaring is not an attractive career anymore, the public initiatives of the Norwegian government for motivation to join the maritime sector and the private initiatives of Norwegian companies and foundations for solving the shortage problem.

Key words: motivation, seafarer, shortage, Norway, maritime transport

J.E.L. classification.: O15, O18, J24

1. Introduction

The shipping industry is central to the global economy, annually transporting goods – oil and gas, food stuffs and commodities, manufactured products for import and export – that account for approximately 90 percent of world trade. The global fleet of merchant ships is registered in over 150 countries and operated by more than one million crew members of all nationalities.

According to BIMCO and the International Shipping Federation (ISF) 2010 study of the worldwide supply and demand for seafarers, the worldwide supply of seafarers in 2010 was estimated to be

624,000 officers and 747,000 ratings, while the current worldwide demand for seafarers is 637,000 officers and 747,000 ratings. These figures suggest a growing shortage of seafarer. The BIMCO/ISF study highlights that shortages are more acute in specialised sectors such as tankers and offshore support vessels. With regard to certain nationalities, there is an underlying concern about the current and future availability of senior officers. But while there is some evidence of continuing recruitment and retention problems, these are not as severe as envisaged by the last Update produced by BIMCO and ISF in 2005. The data suggests a notable improvement in supply side numbers over the past 5 years, notably in China, India and the Philippines, but also in several OECD countries. The 2010 Update also presents various global supply/demand balance scenarios for the next decade. The results indicate that the industry will most probably face a tightening labour market, with recurrent shortages for officers, particularly as shipping markets recover. Unless measures are taken to ensure a continued rapid growth in qualified seafarer numbers, especially for officers, and/or to reduce wastage from the industry, existing shortages are likely to intensify over the next decade [1].

As European Community Shipowners Association has acknowledged, any government action will be influenced by the need to maintain the competitiveness of European shipping. Balancing strategic and economic needs, particularly in a time of both austerity and geopolitical uncertainty, will be a challenging task. With government spending being ruthlessly cut, any support for training and employing nationals at sea will be difficult to justify.

Even if the governments of European seafarers, like their counterparts in other OECD countries, are able to produce policies that help recruitment and training, decisions already taken by European companies to increase their reliance on non-OECD officers will be difficult to reverse [2].

Norway has the world's 5 largest shipping fleet. In Norway, there are ship finance and ship broker firms that are world leaders. There are also the world's leading companies in insurance, yards and equipment, short sea shipping, tankers, gas transport and car transportation. Norway leads the way in marine research and Europe's largest shipyard group located in Norway. Over 60 000 seafarers from 60 countries are working on Norwegian ships and approximately 20 000 of them are Norwegians [3].

The problem of qualified seafarers' shortage is more complex, as 80-90 percent of maritime accidents can be ascribed to human error.

2. Why seafaring is not an attractive career anymore ?

In order to find the best solutions for motivation to join the maritime sector, the causes that make seafaring unattractive should be carefully considered. Today, enough seafarers are not available to meet the requirements of the industry. Following there are some reasons for which seafaring is not attractive for young generation.

1. Expensive initial training: The course fees demanded by the training institutes are very high for a person to choose shipping as a profession. Further, many maritime institutes are not recognised by the government and legal bodies.

2. Vertical career growth: Some believe that career growth for the persons who take up shipping as their profession is limited. Like in any other profession where one can aspire to become the head of the organisation by competence, here in shipping no such vertical career growth is possible. One may become the Master or Chief Engineer of a Ship or find a job ashore in the maritime domain but vertical growth inside the company is limited or not possible.

3. Limited shore jobs: At some point of life, a seafarer has to take up shore job. But unfortunately, not enough shore jobs are

available for a seafarer. At the most he may get some marine based shore jobs in coastal area.

4. Unstable career: Very few seafarers only can take up shipping as their life time profession, without any career growth. At the end of their life, they realise that no significant achievements were made.

5. Less manpower and more work: Shipping companies, to attract more people in the shipping, tend to pay more salary. This is only an illusion. To pay more the shipping companies reduce the man power in ships. Ultimately the seafarer is made to work more.

6. Not able to cope up with technological developments: The navigational equipments and engine control systems in the ships are mostly electronic. Due to technological advancements, the seafarer has to update his working knowledge of these equipments. If the seafarer is not able to cope up with these developments, he is bound to fail in his profession.

7. Rough seas and sea sickness cause less productivity: As the ship is a three axis moving platform, rough seas cause sea sickness that affects the productivity of the seafarer which is unique in ships.

8. Piracy threats and marine terrorism: Piracy attacks and marine terrorism on the ships are increasing globally. Unlike storm warnings, no one can predict these surprise attacks.

9. Natural calamity: Though storms and rough weather can be predicted, there are increasing instances of ships getting caught in storms and rough weather that result in groundings, collisions and other emergency situations.

10. Multicultural environment issues: The ships are manned by multi cultural crews who have different lifestyles, religions and languages. The seafarer has to adapt himself to live in multicultural environment and a failure to adapt results in lesser productivity of the seafarer.

11. Frequent validations, training needed: To sustain in ships, seafarer has to undergo time bound validation courses in recognised institutes which are time consuming and expensive.

12. Unsafe ships: Ships have definite lifecycle and are not sea worthy beyond that. But shipping companies try their best to

extend their life cycle and sail the ships. The ships become unsafe and the seafarer has to face more marine accidents.

13. Increased suicides in ships: The instances of suicides by the seafarers in ships due to their frustration in work are increasing every year.

14. Salary not adequate: Considering the salary paid in other industries like Information Technology, cost of living and other professional hazards in shipping industry, the salary paid to the seafarers are not adequate.

15. Disturbed family life: A seafarer is not lucky to remain with his family members throughout his career like his shore based professionals.

16. Health: Due to work related stress, non availability of fresh food, lack of recreational facilities and inadequate medical facilities in ships, the health of a seafarer deteriorates faster.

17. Loneliness, boredom: As the seafarer is subjected to "Bigger ships and lesser Manpower" concept of shipping companies, the seafarer till he signs off has to face loneliness and boredom. This also reduces the productivity of the seafarer. To overcome loneliness and boredom, some of the seafarer slowly becomes alcoholics.

18. Faster turnarounds, no breaks in harbour: Due to better cargo unloading facilities available in ports, ships turnaround time has drastically reduced. Practically ships crew don't get any breaks in harbours to refresh themselves.

19. Communication issues: Though English is the universal language, as the ships are manned by multicultural crew, communication problems exist between the crew. In addition communication problems exist between ship and shore authorities. At times, this leads to misunderstandings and cause unwanted incidents.

20. Personal safety: A seafarer has to look after himself and if he is not able to get along with ships crew, his life is not safe.

21. Access to medical facilities: Similarly a seafarer is expected to remain fit and remain seaworthy. Medical facilities are inadequate in ships.

22. Anyone can not be a Seafarer: To become a seafarer, a person has to be psychologically fit in addition to medical or physical fitness. To assess the suitability to

become a seafarer, psychometric tests are conducted at entry level training of seafarers.

23. No recognition in society: A seafarer due to isolation from his family members gets slowly isolated from the society also and has no recognition in the society.

24. A seafarer is visualised by many in the society as high earning member whereas most of the seafarers spend more than they earn. Many seamen do not think of their retirement while they are working onboard vessels until very late in the career. Large number of seamen who do not save for the future and their career at sea came to a halt abruptly without sufficient notice, causing them and their families difficulties in managing day to day living.

The present situation is that the maritime industry is not attractive among young people. Shipping companies and the industry must address challenges in recruiting and retaining skilled officers and crew [4]. It is therefore important to profile maritime industry in a manner that makes it an exciting profession and attractive career alternative for young people.

3. Public initiatives of the Norwegian government for motivation to join the maritime sector

Industrial policies and political framework is very important to the maritime sector. The Norwegian government, a majority coalition dominated by the social democrats, stated in their new governing platform that the maritime strategy stays put. This means a tonnage tax-system and grant arrangements for employment of seafarers in accordance with the state aid guidelines for maritime transportation and a competitive state-supported export financing arrangement in accordance with the OECD regulations.

The focus of the Norwegian government, represented by the Ministry of Trade and Industry is on gaining expertise as a vital element in the development of the maritime industry's competitiveness and for the ability to create wealth.

The goals set out for the Norwegian maritime industry impose demands on education, the development of expertise and recruitment. These are decisive factors in maintaining and developing the ability to generate quality and innovation in the

Norwegian maritime industry. An important measure in meeting the challenges posed by the demand for expertise in maritime industry is the Foundation Norwegian Maritime Expertise (The Expertise Fund). The establishment of the fund in 2003 has resulted in an increase in the number of trainee positions at sea. Foundation Norwegian Maritime Expertise administers a scheme that gives grants in order to have apprentices on board. For the fishing fleet, this support has been limited to training on boats over 24 meters. The scheme has now been expanded to include training also qualified for fishing down to 15 meters. This initiative might encourage more skilled training places for fishing vessels. There will be an important signal to motivate more young people into a skilled marine and maritime education. The fishing vessel owners are asking for skilled labour will contribute to more young people seeking a skilled gateway to the industry. Interaction between marine and maritime sector has promoted new technologies and advanced further development in several important areas. The decision of the Foundation builds up under the cooperation between marine and maritime sector [5].

Regarding maritime education, there is a number of workplaces demand and/or wish to employ persons holding maritime certificates. The fisheries for example compete with the shipping industry for applicants with such qualifications. Access to skilled labour is crucial for the future development in the fisheries sector.

In 2005 the Norwegian maritime industry launched a two-year training programme under the auspices of the Norwegian Ship owner's Association called Maritime Trainee. The participating companies cover a wide segment of the Norwegian maritime environment. Response has been good both due to a large number of maritime companies offering trainee positions and the large number of well qualified applicants.

The Ministry of Education and Research has launched an initiative plan for science subjects with a particular emphasis on recruitment. A national recruitment campaign was implemented in the spring of 2008 with the intention of reaching young people who would not otherwise opt for science subjects,

and in particular female students. The recruitment campaign is co-financed by several parties amongst others: the Ministry of Education and Research, the Ministry of Trade and Industry and the Norwegian businesses and labour organisations.

The initiative plan for 2007/2008 is a follow up of the strategy "A joint effort for science subjects 2006-2009". The Ministry of Education and Research co-operates with Norwegian industry, labour organisations, the Norwegian Association of Local and Regional Authorities and the education sector. Good role models, improved contact with industry and focussed recruiting initiatives can result in an increase in recruitment.

4. Private initiatives of Norwegian companies and foundations for motivation to join the maritime sector

Maritimt Forum of Norway was established as a foundation in 1990. Since then, it has been engaged in bringing the urgent needs of the maritime industry, Norwegian seafarers and offshore into the political limelight. This includes promoting the industry outside Norway as well as fostering co-operation among its several hundred members, national authorities and employee organizations, buyers and sellers. The foundation seeks to strengthen contacts within Norway's maritime cluster, enabling all stakeholders from ship owners to equipment producers to thrive, to enhance their competitiveness and to increase their value. According to the foundation research, there are approximately 97.000 people employed in the maritime sector, Norway's second largest export industry after the petroleum industry. The Maritime Forum is focused on promoting a positive image of the sector among the Norwegian public and to encourage young people, especially those living in coastal districts, to pursue careers in the industry's various branches and in offshore. They constitute the group which will ensure Norway's continued status as a leading maritime nation. The Forum is also working on making a strong case to politicians to take into account the importance of the sector for the national economy and put in place an advantageous

competitive framework - long-term supportive policies and operating conditions that will ensure stability and profitability - on par with competing nations [6].

Maritimt Forum Norway has developed the initiative of establishing an information and recruiting campaign that started in January 2007. The recruitment campaign "Ikke for alle" (Not for everyone) was a three-year campaign that had the objective of attracting young people to take up maritime studies. The project was supported by grants from the Foundation Norwegian Maritime Expertise.

The main target was to reach the youth 15 – 19 year olds and the aim was to inform and getting them to consider a maritime education and life at sea. The campaign was called "Ikke for alle - en utdanning du kommer langt med" which means something like: "Not for all – an education that can take you a long way". A very up to date and functional internet-site has been the centre of the campaign. The initiative has been a success and a negative trend has been broken. After three years Norway experience an increase in applications for a maritime education by 40 percent.

The website Ikkeforalle.no is designed precisely to competent and motivated young people to consider whether a maritime education is something right for them and whether they want a more practical or theoretical training. In cooperation with the maritime training offices in Norway, Maritimt Forum ensures that young people should be aware of what a maritime education and a profession in the industry entails. Shipping companies and training offices work in addition to facilitating apprenticeships for those students who qualify for it.

According to Maritimt Forum research, the number of Norwegian employees in maritime domain is close to 100,000. There are in excess of 95,300 direct employees in the maritime industry in Norway. Number of employees is relatively evenly distributed between the four main groups. Shipping companies have 26 per cent, 27 per cent equipment manufacturers, service providers 28 per cent and 21 per cent of the yards. Number of people working at the shipyards is significantly higher, because the yards have hired labour, for example, from Romania,

Poland, etc., by staffing companies. After a declining trend in employment since the end of the 1990s, there has been a marked increase in employment since 2005, before it goes back down marginally in 2008. Norwegian ship owners employ about 40,000 foreign seamen [7].

The company STX OSV, a major global shipbuilder, constructing offshore and specialized vessels used in the offshore oil and gas exploration & production and oil services industries, has its own initiative to involve actively in recruitment of skilled maritime personnel. The company participates in a student exchange program and through scholarships for students undertaking relevant education and R&D projects. Research related to innovative shipbuilding, new advanced technology and environmental solutions are of particular high interest and their co-funding of a professorship within environment and technology at the University College of Aalesund, exemplifies this [8].

Another maritime company, Ulstein Group, is involved in sustaining research and development initiatives. Ulstein Group is a part of a Norwegian maritime cluster and it considers important to focus on R&D and develop expertise in the maritime domain. Consequently, they have chosen to finance a professorship at Ålesund University College for five years. They also collaborate with Molde University College, drawing on the expertise of its logistics professor in the company's development work. They have also hired in a doctoral research fellow to work on skills development and follow up R&D and innovation projects. Work methods that reduce costs at all levels, while enabling the company to work more efficiently and handle larger volumes, help boost their competitive edge and make them more attractive to the customer [9].

The international work environment and the pressing need for labour contributes to a situation where the maritime industry should expend greater effort in approaching prospective employees with minority backgrounds. The shipping company Høegh is a partner company in the Alarga programme. Alarga is a non-profit special interest organisation that has the objective of creating space in private industry for skilled, young people with two foreign parents of

non-western origin. Active recruitment of young people from minority backgrounds provides an opportunity for shipping companies to reach a larger section of the general public [10].

5. Conclusions

In conclusion, the impact of a shortage in the number of European seafarers would be likely to have serious implications on the operation European fleet and it would also have very serious commercial and strategic implications for the entire European maritime cluster.

In Norway, the maritime industry is among the leading knowledge industries. The maritime industry provides employment to about 100 000 Norwegians and create value over 100 billion. This makes the maritime industry to become the second biggest value creator, for oil and gas.

Norway's initiative to attract young people to a seafarer career can be taken as a model by other European countries that share the same issue, shortage of seafarers, and especially a shortage of well-qualified and competitive seafarers.

Efforts to reverse the decline by governments individually and through the European Union (EU) have had limited success. But in Norway, the existing measures for shipping companies and seafarers (the tonnage tax system and grant arrangements for the employment of seafarers), have had a significant impact not only on the shipping industry itself but on the maritime cluster as a whole. Specialized offshore activities are a central part of the European shipping industry. These activities represent high-tech, high paying jobs and value creation, and face the same global competitive challenges as more traditional shipping. Thus this segment makes a valuable contribution to the maritime cluster and therefore motivation strategies for joining the maritime sector should be focused also in this direction.

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Synopsis of Competition in the Shipping Market

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Abstract

Given the speed with which we can sail nowadays, the over-loading of road and rail infrastructure and the need to minimize pollution, the seas and oceans gain a crucial importance in the context of globalization.

The shipping industry represents an important component of the global economy, having a major role in the temporal-spatial relationship set between different geographical areas. This industry creates links of value between regions and human groups in order to organize complex categories of commercial and economic activities.

Regarding the specific competition issues of the shipping markets, they are represented by the anti-competitive agreements of the liner trades, known as liner conferences and by the pool agreements which are specific to tramp markets.

Key words: oligopolistic competition, perfect competition, conferences, tramp market, liner market

J.E.L. classification: D41, D43

1. Introduction

The shipping industry has developed in tandem with the global economy, witnessing both ascending and descending slopes of the international trade, gradually turning into a global industry. Nowadays, the shipping industry is represented by an international consolidated community which has modern fleets, advanced communication systems and representative experts, enjoying the fundamental principle of a free trade. Since its appearance, the shipping industry not only

that kept up with developments in global economy, but has also greatly and effectively contributed to the development of global economy.

Due to the diversity and multitude of transported goods, as well as of the large routes which have to be completed, the shipping industry boasts a strong segmentation. Depending on the regularity with which the transport service is required, we have two categories: liner maritime services and tramp maritime services.

2. The liner trades

The liner trades differ radically from other sectors of the shipping industry. Consequently, it cannot be defined on the basis of the individual specialized technology of the vessel, as, for example, tankers. Therefore, it is more appropriate to seek a definition in terms of their operational features, rather than technology used. The main feature which distinguishes liner trades from other sectors is that they are engaged in the provision of scheduled services between specific ports. Scheduled services are those operating at a regular frequency on a particular trade route, according to a published timetable[1].

Essentially, the liner trades may be analyzed in economic terms as being an oligopolistic market structure, in contrast to the competitive markets of the tramp trades. However, it must be emphasized that this does not mean an absence of competition in this type of market. It means that the forms of competition that are present are not plainly observable in the market price. Perfect competition implies that participants compete only on a price basis, but once market structures alter, many other types of

competitive behavior between companies can be observed.

Regarding the demand for liner services, thousands of different cargo types are moved by liner services, with many different goods being carried in the same vessel. As a result of dealing with so many cargoes, liner companies have created a highly complex structure of pricing for classes of commodities. Therefore, every potentially transportable commodity is allocated a product group or class, and charged accordingly.

Regarding the pricing behavior, the striking feature of the rates charged for liner services is their constancy over the time. There is no variation in the rates quoted by the Lloyd's Shipping Economist on the conference routes over the time, in contrast to the single voyage dry bulk rate. The explanation is offered by the economist's concept of administered prices. In certain market situations, the market price does not reflect the daily fluctuations in demand relative to supply. Administered prices are practiced in markets where supply is controlled by the main company or group of companies providing the product, which represents a feature of oligopolistic market structures. Administered prices may exist either if it is expensive to alter them frequently, or if the supply companies cooperate to regulate prices practiced by all companies that operate similar services on a particular route. Both explanations have an element of truth.

Many liner routes are characterized by the presence of a conference which organizes and coordinates economic activities of member lines. These functions may appear to be inconsistent with normal competitive behavior, where rivals act independently in all key decisions. In economic terms, this convenience usually means less competition, higher benefits for liner companies, less innovation and dynamism than in a competitive industry.

In essence, a conference, if it is able to include all liner companies serving a particular trade between named ports, becomes a monopoly supplier of the shipping capacity on that route. It is important to observe that this monopoly exists only over the liner service component of the trade. Liner conference members still face

competition from tramp operators and from air transport, for certain types of cargoes. But the key element in the conference is that members limit the degree of internal competition between themselves. An open conference tries to regulate tariffs and capacity on a particular route, but new members are free to join if they satisfy the rules and obligations of membership.

Regarding the way that conferences set their tariffs, there are two key factors which determine the rate structure, namely the unit value of the commodity and the cargo stowage factor. Companies are entitled to charge by unit value as long as differences in unit value reflect differences in the underlying price elasticity of demand for the commodity.

Conferences have developed certain methods that are designed to limit competitive pressures on the market. There are two sources of competitive pressure, namely one external and one internal. External pressure is brought to bear from air freight competition and tramp shipping. Competition from air freight and tramps is useful to determine the nature of the tariff structure set in the liner trades. It also implies that demand might be price sensitive at the top end, price insensitive in the middle and price sensitive again at the low unit value end of the market, given the competition from air freight and tramps.

In addition to the tariff structure, conferences often provide one of two types of tariff rebate scheme in order to increase shipper loyalty. These are known as the deferred rebate scheme and the exclusive contract scheme. In the case of the deferred rebate scheme, the conferences offer a refund on the published tariff rate to a shipper, if he can show that over the previous six months he has not used a non-conference member's services to move his cargoes. In the case of the exclusive contract scheme, the shipper agrees to move all his cargoes on conference member vessels, in exchange for a lower tariff.

Concerning internal pressure, this type of pressure arises when individual liner companies try to cheat or swindle on the agreement. Conferences try to deal this kind of problems by setting up more complex agreements between members, permitting the central organization to monitor the activities

of individual lines, to ensure that agreements are honored.

In the last thirty years, liner companies have got bigger, operating larger fleets and using larger capacity vessels. The capital needed to support such expansion has led to the appearance of container consortia providing such services jointly and which can be found both inside and outside the conference system. By combining in strategic alliances, liner companies offer shippers fast, regular and reliable sailings. The advent of such agreements, known as global strategic alliances, can be considered as a substantial breakthrough because they are not limited to a single trade lane, but aim to cover every major route. At the same time, these strategic alliances extend their area of influence beyond vessel operations, towards the shared use of terminals, joint equipment management, inland transport and logistics, joint purchasing and procurement[2].

Regarding the position of the European Commission, articles 81 of the Treaty of Rome prohibits anti-competitive agreements which significantly affect trade between its member states. Article 82 prohibits abuse of dominant market positions[3]. Generally, the European Commission accepted that strategic alliances and co-operative arrangements are within the law, because they do not involve price setting or exchanging information on prices.

In conclusion, liner maritime services are more expensive than tramp maritime services, because they have to be provided irrespective of the available quantities of cargoes. Because of the connections with particular charging and discharging ports, liner companies could establish more easily anti-competitive agreements on a particular route or could abuse of a dominant position. The liner trades have been transformed over the past 35 years, as the containerization revolution disseminated throughout the globe. Despite this huge transformation, certain key features still exist, namely the application of price discrimination and the conference system.

3. The tramp trades

The cargoes carried on board tramp vessels are physical cargoes which are themselves being traded, meaning that the tramp vessel service represents only part of the overall supply chain. Cargo can be classified into liquid and dry cargo. A third category is called neo-bulk and comprises non-free-flowing homogeneous bulk commodities. Demand for tramp shipping is closely, but not exclusively, dependent on the underlying physical trade flows. Therefore, there is a close interdependency between the various shipping markets and the underlying markets for the different raw materials, semi-refined products and finished goods.

The tramp trade, due to its features, is very close to the perfect competition model. Tramp services are provided by a large number of owners which operate at major ports around the world, satisfying the demand of a large number of economic operators. The tramp trade forms at the point where the demand and supply are brought together, because there are no fixed destinations, routes or tariffs. The tramp vessels sail over world's seas and oceans, seeking freight transport and mooring at those ports which bring the best transport conditions. All transport conditions are being freely negotiated on freight markets between owner and beneficiary.

Tramp market is an extremely competitive one. Moreover, the trends over the past twenty years have made the market more competitive than it was, especially in the crude oil sector. Perfect competition requires the following four parameters to be fulfilled: atomicity, homogeneity, perfect and complete information and freedom of entry and exit. In such a market, prices would normally move instantaneously to economic equilibrium.

Atomicity represents a feature of a market in which there are a large number of producers and consumers, each so small that their individual actions have no significant impact on others. On tramp market, the producers are the ship owners or operators and the consumers are the charterers. At the beginning of 2006, the world's total merchant fleet comprised about 38 000 vessels of 300 gross tones or more (excluding passenger and special ships, but including

container vessels) [4]. According to Clarkson's, about 26 000 of these vessels were controlled by almost 5 000 companies which means that almost 90% of the companies control less than 10 vessels; on average they each control less than three vessels[5]. It is more difficult to count the number of cargo owners. Anyway, in each transaction involving transportation there are always at least three potential customers. Thus, theoretically, there are several thousand potential customers. Furthermore, in the tramp markets, the producers can also become customers. A shipping company may have entered into a contract of affreightment and for one or more cargoes they may decide to charter in a vessel from the market. Or it may be the result of a shipping company having made contracts for several cargoes, which they intend to transport on one ship.

In some trades (e.g. the iron ore trade), the natural resources are controlled by only a few companies, but the demand side is concentrated too. In 2005, the global maritime trade in iron ore was approximately 670 million tones. Out of this, three companies were responsible for almost three quarters of the volumes annually transported[6]. However, these companies appear to have relatively little control over sea transport, controlling together only about 17% of the chartering. Regarding the demand, the balance of their exports is controlled by their customers who, basically, comprise the global steel industry. Thus, for this cargo the market presents a concentrated supply and although the market as a whole should not be described as atomistic, the sea transport element appears is competitive.

Homogeneity means that goods and services are perfect substitutes and there is no product differentiation. Hypothetically, this is correct in the sense that all vessels of similar types can offer similar services. However, there will most likely be a differentiation in price. For instance, oil exports from the Middle East Gulf to India are shipped in tankers between 10 000 dwt and 320 00 dwt. As freight per unit of cargo declines with increased ship size, the ship owner's total costs increase with size. Furthermore, in most tramp shipping markets, age tends not to be a major factor in determining price, although charterers generally aim for the newest available vessel. This means that an older and

cheaper vessel may earn the same freight rate as a modern vessel. It can be observed that for certain products there is substitutability between different ship types. For example, forest products are shipped in both ro-ro carriers and OHBC's. Further, chemical carriers transport refined oil products as well as chemicals and certain clean petroleum product tankers carry some types of chemicals.

Regarding the perfect and complete information, for the tramp shipping market this is very largely true. For the dry bulk and liquid bulk markets price information is available from a variety of sources to owners and charterers on a continuous basis. Most shipbrokers provide daily and weekly assessments, as well as daily reports regarding individual fixtures concluded. Minute by minute, information is available to clients. Furthermore, the Baltic Exchange publishes daily reports covering over 64 individual routes for tankers, bulk carriers and gas carriers. For more specialized types of vessels, information on prices may be obtained not so easily. However, some shipbrokers operate in specialized shipping segments that monitor and regularly assess freight conditions. This information is not always published, but is often available upon request.

The last parameter that has to be fulfilled is represented by the freedom of entry and exit. The main factor which determines the ease of entry is access to capital to pay for a new or second-hand vessel. Many new ships are purchased with a mortgage, usually for 70% of the initial price, 30% being paid for the shipping company. Many of these investments are made at the top of the shipping business cycle, when freight rates and time charter fixtures are relatively attractive. Exit may be by scrapping the vessel, or for an individual company, selling to another operator. Since there are so many buyers and sellers, only in exceptionally bad market conditions might be a problem with exiting the market.

Specific to the tramp markets are the pooling arrangements which usually involve a number of separate legal contracts designed to give the pool manager the relevant powers to administer and manage the pools on the members' behalf and to provide for the chartering out of the pooled vessels to the

customers of the pool. Generally there are two levels of chartering, e.g. a charter from the relevant owners to the pool manager, and then a sub-charter from the pool manager to the ultimate customer. Many pools offer their customers a range of contract types. The tramp markets also have other horizontal arrangements known as "co-service agreement" and cross-space charter arrangements under which shippers are able to obtain shipping services from two or more operators at the same price and on the same terms.

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The Sensitivity of the Taxes as Fiscal Stabilizers for Economic Crises in Turkey

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Abstract

Turkey faced with two important economic crises in the last decade. The faults in Turkish fiscal system have had important shares in these economic crises. The crises have also affected Turkish fiscal system. Moreover, the indirect taxes in a considerable amount are the most important feature of Turkish fiscal system. So, Turkish tax system is often criticized as unjust. It is argued that Turkish economy has overcome the last economic crisis sooner by means of its tax system, because the indirect taxes are more sensitive to conjecture and more elastic than the direct taxes in Turkish economy. In this paper, after the cyclical sensitivity of the taxes in Turkish economy is tested for the period of 1998:01-2010:06, their sensitivity to the crises and their efficiencies as automatic stabilizers are analyzed.

Key words: Turkey, Automatic stabilizer, Output gap, cyclical sensitivity of taxes.

J.E.L. classification: E62, H21, H30, H60

1. Introduction

In the last decade, the fiscal discipline was established successfully in Turkey. On the one hand, the expenditures were tried to be diminished; on the other hand, the structure of the taxes were reestablished to be compatible with this situation.

The Global Economical Crisis 2007-08 affected Turkish economy especially in 2009. But, in contradistinction to the expectations, the economic indicators began to improve. It is argued that the fiscal discipline which was

appeared in Turkish economy had important effects in this improvement.

In addition to the fiscal discipline, the cyclical sensitivity of the taxes in Turkey must to be considered in. The tax elasticity, so the cyclical sensitivity of taxes is important especially in economic crises. If the cyclical sensitivity of taxes is high, the resistance of a country against economic crises will increase. Turkey, especially its fiscal system, put in good performance in the last crisis. The effectiveness of the cyclical sensitivity of taxes must be examined in detail within the frame of this successful performance.

2. Theoretical Framework

The cyclical sensitivity of taxes is examined within the frame of the automatic fiscal stabilizers. When the issue of the automatic stabilizers is taken into consideration, especially progressive income taxes, come to mind at first. In the anti-cyclical budget policy, taxes are only one side of the front.

Automatic fiscal stabilizers are defined as the public revenues and public expenditures which are associated with the economic cycle. The automatic fiscal stabilizers are the fiscal policy factors diminishing output fluctuations without direct government intervention. In this context, as taxes are decreased and public expenditures are increased in economic recessions, some public budget items are used to remove the effective demand fluctuations in economic recovery [1].

According to the main essence of Keynesian model, the effect of the total demand-oriented endogenous shock on output and total current expenditures is diminished by the automatic stabilizers which decrease these effects of the shocks on disposable current income. Personal income and taxes which determine the consumption demand must only be underlined as key components. Automatic stabilizers decrease multipliers as shown in the formula below [2];

$$at/(1-\alpha+\beta) (1-\alpha+at+\beta) \quad (1)$$

α = after-tax income's marginal propensity to consume

t = marginal tax rate

β = a coefficient which shows the crowding out effect of prices and high interest rates on total demand

In addition to the sensitivity of budget for cyclical developments, the size and operational mechanism of the automatic stabilizers also depend on the government size, the economic structure and the nature of economic shocks. In theoretical models, the effect of the automatic stabilizers on government budget is defined implicitly. In practice, the size of the automatic stabilizers is determined by favor of deducing from the cyclical sensitivity of the fiscal variables which are estimated on the base of accessible data [3].

The automatic stabilizers which are considered as taxes have a rule-based advantage because they give reactions to the changes in activities immediately and ensure opposite-direction expectations which can limit more public borrowing over long-run high interest rates[4]. As the automatic fiscal stabilizers support the growth in the first year after the recession, they can also play a role to turn some possible recessions into normal compensate growth period. Fiscal stabilizers prevent sharp economic fluctuations and in this way they can increase long-run economic performance and prevent the changes in the rates of expenditures and taxes which are occurred frequently [5].

When people believe that the change in tax revenues don't change the inter-period budget constraint of the government, the automatic stabilizers partly decrease the uncertainty about future revenues and become effective if they create wealth effect.

Automatic stabilizers will have strong effect if households come across debt or budget constraint. The households having high liquidity constrained cause the tax changes which are dispersed between different brackets. These households and low income injustice help the development of automatic stabilizers' effect [6].

The cyclical sensitivities of taxes as automatic stabilizers are estimated by means of tax elasticity. In a given tax rate, the change in income causes the same direct change in tax revenues. In this way, the elasticity of taxes can be increased. This elasticity's effect decreases the value of multiplier. Thus, if the tax elasticity becomes high level, it means that the taxes have the feature of automatic stabilizer.

There are some differences about the effectiveness of the automatic fiscal stabilizers between countries; because each country has different economic structure and economic system. Moreover, the comparisons between the country groups can be significant. There are also differences between developed and developing countries about the ability of using automatic stabilizers and the successful of getting result from them [7].

3. Model

In this paper, the cyclical sensitivity of the taxes in Turkey is tested for the period of 1998:01-2010:06. Monthly data are used for the given period. After these data are made real, they are adjusted seasonally.

The potential output and output deficit are estimated in the first stage. In spite of different definitions about the potential output, it can be defined briefly as the aggregate growth rate in the long run. The potential output level and output deficit which are to be used while the cyclical components of the tax revenues are estimated in this paper are calculated by means of Hodrick-Prescott Filtration analysis. This method determines the output serial (Y_t) as two components which are growth (Y_t^p) and periodical variable (C_t). In this context, the growth represents the potential output and the periodical variable represents the output deficit.

$$Y_t = Y_t^p + C_t \quad (2)$$

In this method, the difference between the current output and the trend output and also the difference between the trend output and the growth rate of trend output must be minimized together. The aim of the leveling is to make the actual output serial represent in correct. Anyway, trend variable is also based on leveled form.

After the potential output and the output deficit are estimated, the cyclical sensitivity of taxes can be measured. Thus, the taxes are separated to their structural and cyclical components. To find their structural and cyclical components, the point elasticities of the taxes must be estimated [8]. When the methodology of Van den Noord is followed, the cyclical components of the tax revenues are calculated by subtracting the estimated structural components of tax revenues from their actual levels. The structural components, in turn, are calculated from actual tax revenues, adjusted proportionally according to the ratio of potential output to actual output and the assumed built-in elasticities [9]. Thus:

$$b^{**} = b - b^* \quad (3)$$

b^{**} = cyclical component of category of tax
 b^* = structural component of category of tax
 b = actual tax revenue

$$T_i^*/T_i = (Y^*/Y)^\alpha \quad (4)$$

T_i^* = structural component for the i_{th} category of tax
 T_i = actual tax revenue for the i_{th} category of tax
 Y^* = level of potential output
 Y = actual output
 α = elasticity coefficient

To investigate the change in the composition of the tax revenues, the taxes are separated as direct taxes and indirect taxes. Then, the same analyses are also made for the income and gain taxes, the good and service taxes and the foreign trade taxes which are the components of another tax classification. First of all, the point elasticities are estimated for each period. Then, by means of the estimated point elasticities, the structural and cyclical components of direct and indirect taxes are determined.

After that, the direction and intensity of the relationship between the variables is tried to determine by means of the analyses of regression and correlation. The simple linear regression analyses are made to determine any relationship between the tax types and GDP. In the regression, while the tax types are presumed as dependent variables, GDP is presumed as independent variable. In this way, how the changes in GDP affect the tax types is determined. For these analyses, the program of SPSS 16.00 is used. The used regression model can be shown as below:

$$Y_i = \alpha + \beta X_i + \varepsilon \quad (5)$$

Y_i = Tax Category (Dependent variable)

X_i = Gross Domestic Product (Independent Variable)

α = Intersection Term (When $X_i = 0$, it shows the value of Y_i)

β = The Slope of the Line (The ratio of the unit change in X_i to the change Y_i)

ε = Error Term.

After the regression analyses, tax elasticity is estimated for each tax category. By means of the tax elasticities, the cyclical sensitivity of the taxes is tested. In this way, the effectiveness of the taxes as automatic stabilizer is measured. Tax elasticity is estimated by means of the elasticity formula shown below:

$$e = (\partial y / \partial x) * (\bar{x} / \bar{y}) \quad (6)$$

As the elasticity expresses the ratio between the changes in percentages occurred in two variables, the slope is the ratio between the absolute changes occurred in two variables. In the formula above, $(\partial y / \partial x)$ represents the slope. This slope expresses the ratio of the absolute change in dependent variable to the absolute change in independent variable. β coefficient which shows the coefficients in regression represents the slope in model. This ratio shows the first term in the elasticity formula above. The value \bar{x} taken place in the formula is the aggregate of the real GDP serial which is an independent variable. The value \bar{y} represents the aggregate of the tax revenues which are dependent variables. So the formula can be written as below:

$$e = \beta * (\bar{x} / \bar{y}) \quad (7)$$

If the elasticity coefficient is high, the feature of the automatic stabilizers of taxes is

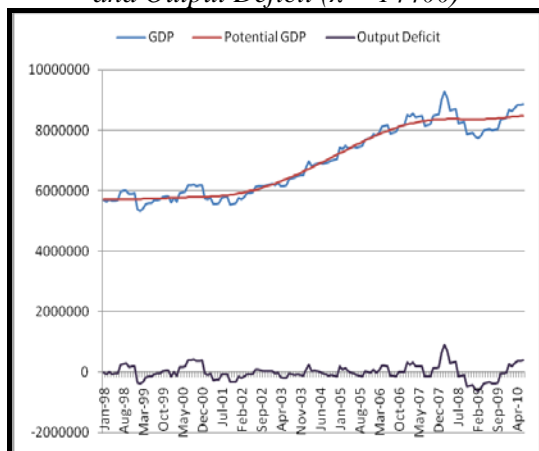
also high. In this paper, the elasticities of total, direct and indirect taxes are estimated and these values are compared to each other.

4. Analyses Results

In this paper, the cyclical sensitivity of the tax revenues in Turkey and their automatic stabilizer feature are tried to test. In this context, the tax revenues of the central administration budget are separated as direct and indirect taxes. And, this classification is used in the analyses. The total taxes, direct taxes and indirect taxes are analyzed respectively. The data which are used in the analyses are gathered together from the statistical databases of Central Bank of The Republic of Turkey [10] and The Republic of Turkey Prime Ministry Undersecretariat of Treasury [11]. Firstly, the development of tax revenues is examined for the given period. Then, total taxes, direct taxes and indirect taxes are analyzed to test their cyclical sensitivity for the period of 1998:01-2010:06.

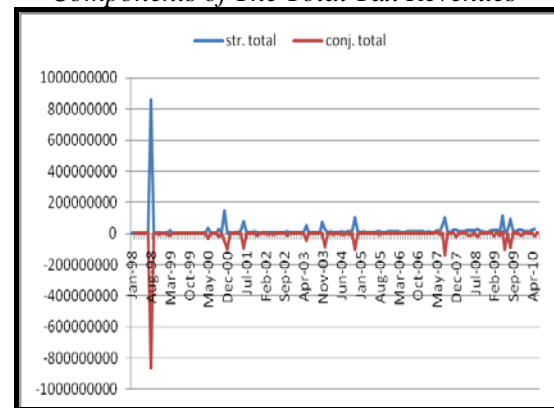
The actual GDP, potential GDP and output deficit are shown in Graph 1. Actual GDP has deviated from its trend value by years. The size of this deviation is quite high in the base years. As it is seen from Graph 1, the maximum deviation year is 2009 which is the crisis year in Turkey. The value of actual GDP is substantially lower than the trend value of GDP in this year. Thus, it can be said that the output deficit in 2009 reflects the effect of the crisis clearly.

Graph 1. Actual Output, Potential Output and Output Deficit ($\lambda = 14400$)

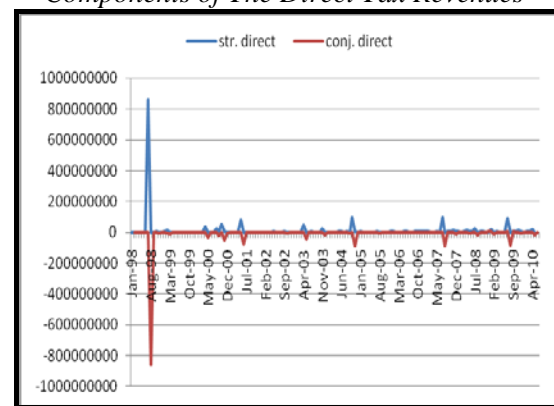


The structural and cyclical components of the total, direct and indirect tax revenues are shown in Graph 2, Graph 3 and Graph 4, respectively. It is seen that the significant fluctuations were appeared in the cyclical component of the total tax revenues in the crises periods of 2007-09 and 1999-2001. Nevertheless, the fluctuation in 2004 was delivered from the voluntary arrangements. In the structural and cyclical components of the direct tax revenues, a significant deviation was appeared in 1998. The deviations in the years of 2001 and 2007-09 were relatively unimportant.

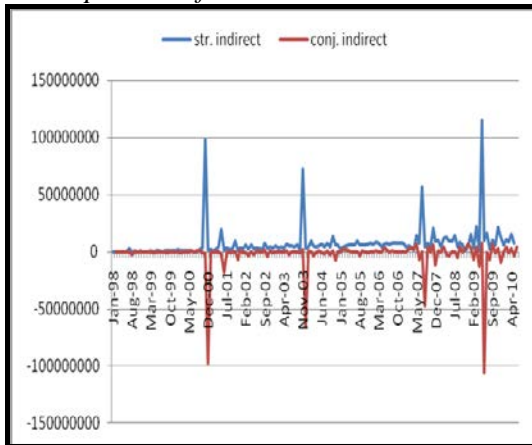
Graph 2. The Structural and Cyclical Components of The Total Tax Revenues



Graph 3: The Structural and Cyclical Components of The Direct Tax Revenues



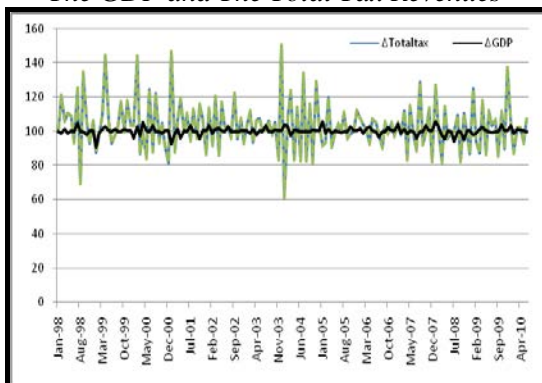
Graph 4: The Structural and Cyclical Components of the Indirect Tax Revenues



The cyclical and structural components of indirect tax revenues are shown in Graph 8. The deviations in the structural and cyclical components of indirect tax revenues which were appeared in the years of 2000-01 and 2009 are remarkable. Especially, the negative forms of the tax revenues in 2007 and 2009 show the size of the crisis.

The significant deviations from the trend value of GDP are seen in 1999, 2001 and 2009. The changes in tax revenues also show significant deviations in the crises periods of 1999-2001 and 2008-09. As it is seen from Graph 5, the tax revenues react to the changes in GDP more intensely in Turkey.

Graph 5. Percentage Changes in The GDP and The Total Tax Revenues



To answer the question of how much the development in GDP explain the tax revenues, another twist is taken and correlation and regression analysis made. The results of regression analyses made for the direct and indirect taxes by means of the package program of SPSS 16.00 are shown in Table 1. In addition, the tax elasticities (β)

are calculated by use of the slope coefficients derived from the regression analyses. These elasticities are also shown in Table 2.

Table 1. The Regression Between The Taxes and GDP and Their Elasticities

	Indirect Taxes	Direct Taxes	Total Taxes
Pearson Correlation	0,951	0,920	0,947
R Square	0,904	0,847	0,896
Std. Error of the Estimate	1063864	629450	1467318
F	1389,1	817,6	1275,3
Sig.	0,000	0,000	0,000
Beta	0,951	,920	0,947
Elasticity	2,7	1,27	0,96

The correlation coefficient (R) is calculated to determine the level and direction of the relationship between two variables. If the correlation coefficient is positive ($r > 0$), it means that when the data of variable increases/decreases, the data of the other variable also increases/decreases at the same time. This situation is the evidence of a linear relationship between variables. If the correlation coefficient is negative ($r < 0$), it means that when the data of variable increases/decreases, the data of the other variable decreases/increases. This situation is the evidence of a reverse direction relationship between variables. As the correlation coefficient of the total taxes is calculated as 1,947, this coefficient for the direct taxes and indirect taxes is calculated as 0,920 and 0,951 respectively.

R^2 represents that how much the independent variable determines the dependent variable. As R^2 approaches to (1), the independent variable's determination degree of the dependent variable increases. The relationships between GDP and the direct, indirect and total taxes are statistical significant at the level of one percent, because p is smaller than 0,01 in the regression made. As the determination coefficient (R^2) for the total taxes is calculated as 0,896, this coefficient for the direct taxes and indirect taxes is calculated as 0,847 and 0,904 respectively. In sum, the change in GDP explains the change in the tax revenues at the level of 0,896 and the change in the indirect taxes at the level of 0,904.

Similarly the change in GDP explains the change in direct taxes at the level of 0,847.

As it is mentioned above, β is the slope of the regression analysis. By means of the slopes, the elasticities are calculated. As the elasticity coefficient of the total taxes is calculated as 0,96 ($e=0,96$), this coefficient for the direct taxes and indirect taxes is calculated as 1,27 ($e=1,27$) and 2,7 ($e=2,7$). The elasticity coefficient measures the intensity of the changes in tax revenues when GDP changes. In other words, it is the sensitivity degree of tax revenues to the change in GDP. The change in GDP explains the change in the tax revenues at 96 percent. The elasticity coefficient of the direct taxes is calculated as 1,27. This situation shows that if GDP changes at the level of one percent, the tax revenues change at the level of 1,27 percent. The sign of elasticity coefficient can be negative or positive. If the sign is positive, it means that direct tax revenues change in the same direction with GDP. The elasticity coefficient of the indirect taxes is calculated as 2,7. This situation shows that if GDP changes at the level one percent, indirect tax revenues change at the level of 2,7 percent. In addition, it can be also said the indirect tax revenues change in the same direction with GDP.

5. Conclusion

In this paper, the effectiveness of automatic fiscal stabilizers in Turkey which is a developing country is examined. According to the analyses results, the direct and indirect taxes have been effective as automatic stabilizers in Turkey since 1998. The remarkable result which is reached that contrary to the expectations, the feature of being automatic stabilizer is much more evident in the indirect taxes in Turkey. In short, the indirect taxes are more sensitive to cyclical than the direct taxes in Turkey. There are some factors to cause this situation. First of all, the share of indirect taxes in total taxes is quite high. In other words, Turkish tax system is based on the indirect taxes. Secondly, indirect taxes are rather taken on expenditures. Lastly, when cyclical changes these taxes also change at the same time. In this context, these conditions increase the cyclical sensitivity of the indirect taxes in Turkey.

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The Internet of Things: the Electronic Passport

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Abstract

For many people, the Internet of things represents the future of technology. The Internet will constitute the connective tissue which binds reality together, and will be easy to access for people, animals and even objects.

The birth of technologies such as wireless sensors, nanotechnologies and intelligent labels has brought about a turning point in communication methods; both inside the organisation and production processes of many firms, and within the private spheres of individuals.

Taking as a starting point the analysis of a key technology for the Internet of Things, RFID, the purpose of this study is to display the strengths and weaknesses of one of the most highly discussed technological innovations of the last decade; the digital passport.

Key words: internet of things technology, RFID technology, electronic passport.

J.E.L. classification: O 14

1. Introduction

In 2005, the agency ITU - *International Telecommunication Union*, used the term "*Internet of Things - (IOT)*", for the first time, to define the capacity possessed by things, objects and machines to connect autonomously to the internet. In other words, access to the Internet would no longer be limited to personal computers. Rather, any individual or thing would be able to connect at any point in time, and in any location. The key concept behind IOT, now recognised by governments, universities and industry, is the idea that objects, especially those of

everyday use, can be read, recognised, located and controlled via the Internet.

While up until just a few years ago this aspect might have seemed an almost space age concept, this is no longer the case today. In fact, with their capillary distribution, intelligent technologies such as nanotechnologies, intelligent labels and *wireless* sensor networks have permitted *real-time* communication and information exchange, not only between individuals connected to the network, but even everyday objects. In order to achieve this objective, it has been necessary to call upon the many potentialities of the internet, a platform which, since its origin as a small network, has now come to comprise more than a billion users. Internet development over the years has been so great as to ratify the movement from protocol IPv4 to IPv6: these protocols specify the amount of space dedicated to Internet users. The former, IPv4, can generate 4 billion (4×10^9) addresses, which is still insufficient to meet the actual requests on the web. As a result, ICANN (*Internet Corporation for Assigned Names and Numbers*) decided to expand the address assignment possibilities through protocol IPv6, which allows the number of addresses to go up to $3,4 \times 10^{38}$. [1]

In the world of the *Internet of Things*, the Internet constitutes a connecting fabric for all those electronic devices (mobile phones *in primis*, but also cars and household appliances) which "surround" man.

Although initially designed in the industrial field and used for the management of production processes, these applications are now also widely applied in people's private spheres, and inevitably come to condition their way of doing things and daily habits. Practical examples of this can be seen in projects connected with domotics, so-

called "intelligent homes" and household appliances which can be programmed using the internet, as well as all the new opportunities linked with e-commerce and personal security management (such as access control systems). Even the mobile telephone has now become inescapable, an integral part of daily life: From its original form as a "simple" wireless communication instrument, it can now be used for the fast transmission of data, files and images, to receive and send emails via Bluetooth or Wi-Fi technologies, surf the Internet and make payments.

The notion of a world closely connected with technology raises many perplexing questions, however. What will the implications be for the security of data transmitted, the protection of people's privacy and the reliability of information received? New codes, passwords, real time sharing of information, and technologies capable of anticipating our demands; are such things really indispensable for everyday life?

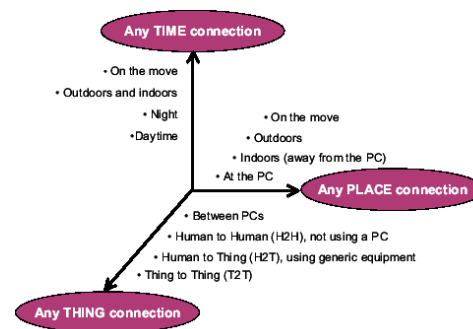
Beginning with an analysis of the *Internet of Things* and a closely connected technology, RFID, the purpose of this study is to analyse the potentialities and criticalities of one recent innovation: the digital passport.

2. The IOT and information technologies: some considerations

As suggested thus far, the *Internet of Things* is destined to signal a new era of communication; one in which people can be connected to any sort of object, as can objects between themselves. We are faced with a "worldwide network of networks", based on standard communication protocols, in which single objects can be interconnected and operate in cooperation with each other.

If personal computers already enabled more precise and faster processing and sharing of data, with the introduction of first the Internet and then mobile networks, many "space and time" barriers have been abolished, enabling the acquisition of an "any-time" and "any-place" connection. [2]

Figure 1. New space and time barriers



Source: International
Telecommunication Union, Geneva, 2005

Communication thus takes place in "3D", i.e. involving the three dimensions of TIME, SPACE and, above all, ALL THINGS and PEOPLE. As can be seen in Fig.1., there are no longer any limitations relating to; physical connection spaces (from the PC in movement, for example through a mobile phone, outdoors, in an office even leaving aside the use of a PC); connection timeframes (it is possible to connect to the web at any time, be it at home, in the office, for short periods of time or for a more extended periods, etc.); and above all the subjects/objects that can enter into communication: people with other people, computers belonging to the same information network, people with objects and even objects with other objects.

These last two points represent the very essence of IOT: a general communication system is in fact capable of transferring information from one "machine" (on its own functioning mode, its own location, the value of a parameter detected) either to another "machine", which can register the datum or activate a series of predefined actions, or to a mobile device (mobile phones, smart-phones or the like), managed directly by a person who will deal with registering and managing the information received. [3]

These communication solutions can have a substantial impact both on the organisational processes of many firms, and on people's private spheres. One therefore comes into increasing contact with electronic consumer devices fitted with integrated microprocessors capable of communicating independently with central supervision systems, increasingly without the

involvement of a human component to control the flux of data.

The aim is to improve and speed up the exchange of information, in that every entity connected to the web possesses their own "identity", and is able to recognise and therefore communicate with other elements on the global network.

In order to give a concrete form to what has been said thus far, an example of technology used in IOT can be seen in *Radio Frequency Identification* (RFID). This system is based on the transmission of data contained inside a *tag* (equipped with a *microchip*) through the modulation of radio waves. Subsequently, these data are converted into digital signals and transmitted to a computer to be shared on the web. [4]

RFID can be considered to be the evolution of mono-dimensional barcodes. Currently, these barcodes are the most widely used solution, since they are more economically advantageously than other types of labels. Nonetheless, recent technological developments (such as new production materials, the implementation of software applications etc.) are contributing to the large-scale use of RFID.

So, to consider the question in greater detail, what exactly are the potentialities of RFID? Firstly, its application versatility: a *tag* can be integrated into a wide range of materials (paper, powders, fabrics, metals, foods, etc.); it can withstand different temperatures and can be designed in dimensions tailored to specific requirements and environmental conditions. Moreover, the memory of the microchip inside the tag can be extended up to many Bytes; depending on the data which it contains. [5]

In this light, any object can be identified and geolocalised. Moreover, by fitting the chip with particular sensors, it is ultimately possible to detect data such as temperature, environmental humidity, brightness, etc. It thereby becomes a fundamental instrument also for monitoring important parameters for the management, for example, of production processes. [6]

As already stated, these automatic identification technologies are already in use in everyday life: the most common examples are the 'telepass' (remote toll payment system), subcutaneous tags for identifying animals, anti-theft systems (used primarily

by large-scale distributors) [7] and, more recently, the electronic passport.

Adopted in Italy from 1 January 2006 through Law n. 43, art. 7-vicies-ter dated 31 March 2005, although this last application has on the one hand introduced undisputed advantages, it has also given rise to considerable perplexity. While one of the advantages of IOT is that it permits rational, high precision management of highly complex communication processes, a lot of attention must still be given to the manner in which such technologies are used. In particular, if the virtual world is able to "trace" the real world, it is necessary to lay down "behavioural codes" which protect individuals' confidentiality, in particular as regards personal, habits and consumer data.

3. The electronic passport

The digital passport, or electronic passport, is a travel document fitted with RFID technology; identical to a paper passport and with the same purpose of identifying travellers. It differs from the latter in that it is fitted with an RFID proximity microprocessor inserted into the first page of the cover. By using radiofrequency functionalities, it is therefore possible to memorise a series of sensitive data so as to immediately identify the passport holder. The purpose is to guarantee greater security in airports, at customs, etc. [8] These necessities have been noted above all following the terrorist attacks which have occurred internationally in the last decade. [9]

Figure 2. Electronic passport



Source: Cards&More.com

The first State to introduce this innovation was Malaysia in 1998, followed by the United States in 2006. In that same year, via a publication in the Official Gazette –

General Series, dated 14/04/2006, the Italian government approved the Ministerial Decree, dated 31/03/2006, "Electronic Passport Regulations". This led to the aforementioned Law of 2005 which stipulated the substitution of the paper passport with the new, electronic version. In the early months of 2009, a modification was then made to this measure, requiring the addition of two digital stamps on the travel document. The new regulations were to be applied from 28 June of that year.

Decree no. 303/13 dated 23 March 2010, "Regulations regarding ordinary passport books" defines the characteristics of these passports in greater detail. In particular, the chip inserted into the passport must be in conformity with directive ISO 14443 (used to define the standard of *contactless smartcards* used in electronic ticketing systems, the identification of people and objects, payment systems, access control systems) and must meet the specifications of the *International Civil Aviation Organization (ICAO)*, with a minimum capacity of 80kb and durability of at least ten years. The ICAO standard has introduced a group of cryptographic protocols to meet the minimum security and privacy requirements for information contained in the chip. It stipulates particular characters, placed on the first page of the travel document, known as MRZ (*Machine Readable Zone*). Without these, it would not be possible to identify the passport holder. [8]

But what data is actually registered inside the microprocessor?

Again in accordance with Decree no. 303/13, the image of the holder's face and their digital prints must be recorded in an intra-operative format. At the time of the request, citizens must therefore place both the index finger of their left hand and that of their right hand on a special optical reader, the purpose of which is to "translate" into electronic language the biometric print, which will subsequently be inserted into the *chip*. This print detection process is to be repeated three times for each finger, for a total of six prints; from these, the highest quality print will then be selected. [10]

Moreover, all the data already present on the paper version must be copied onto the microchip (vital statistics of the owner and passport number), as well as information

codes for the protection and inter-operability of the data [11]. Figure 3 shows an image of an optical reader of digital prints.

Figure 3. Optical reader of digital prints



Source: State Police [10]

It is therefore apparent that the correct management of data contained in the passport constitutes an extremely delicate issue; the greatest fear is that devices fitted with a receiver similar to that of the RFID antenna will be able to intercept the signal transmitted by the *tag*, with a not too remote risk of identity theft. The protection of sensitive data relating to an individual has led the CAO to set out certain security protocols, among the other data [12]. These include:

- *Passive Authentication (PA)*. The sole purpose of passive authentication is to check the veracity of the passport by testing the digital signature contained therein, as issued by the competent authorities. Via a series of codified data (called LDS), the protocol checks that the signature issued by the RFID reader coincides with the one memorised in the document;
- *Basic Access Control (BAC)*. The basic access control protocol avoids the danger of *skimming* (unauthorised reading of the document by equipment able to intercept communication between the *tag* and the antenna) and *eavesdropping* (interception of communication). Because of its importance, this is the first process to be activated upon the connection between *transceiver* and passport. As stated above, the document is fitted with a sequence of characters called MRZ, which are fundamental for reading it. At the beginning of the communication via radio waves, both the *microchip* and the reader receive a copy of "reading keys" from the MRZ. Following this, numerous coded

strings are sent, which are required to check the personal data of the document holder.

- *Chip Authentication* (CA). The purpose of the *chip* authentication is to avert any potential cloning of the *microchip* contained in the electronic passport. Protocol stipulates the insertion, inside the *tag*, of a secret piece of information, which can be read by and transmitted to the reader only;

- *Terminal Authentication* (TA). This form of protocol checks the veracity of the reader, in order to avoid readings by unauthorised equipment. This is activated via an exchange of keys containing coded messages, between the passport and the correct reader. In particular, the latter sends a form of personal digital signature to the *chip*, which will test its authenticity.

It should be noted that, in order to activate each of the protocols described above, an RFID reader is absolutely indispensable for digital passports, as in Figure 4.

Figure 4. Image of an RFID reader for digital



passports

Source: R.M. Capocelli, "The security of Italian electronic passports" [12]

4. Advantages and disadvantages of the RFID technology applied to passports

What are the main advantages to be gained from the introduction of electronic passports?

In primis, the certified and immediate identification of travellers, thanks to the data contained in the *tag* and the biometric components recently added. Moreover, it is of note that particular importance has been accorded to this demand since the tragic events of 11 September 2001. It has in fact become indispensable not only to recognise

individuals, but to be certain both of their identity and their place of origin.

Secondly, the electronic passport can represent a further obstacle for the forgery of travel documents.

Thanks to the countless coding systems for information exchanged between *chips* and antennae, as well as biometric data such as iris scanners and digital prints, forging an electronic passport has become anything but simple. This innovation therefore represents a noteworthy deterrent for clandestine immigration through false or manipulated travel documents. This is also a help for staff at passport controls, in customs offices, for example at the airport. On the one hand, the control procedures are accelerated, in that all you have to do is insert the book into the reader. On the other hand, the risk of not recognising a counterfeit passport from an original one, after a first manual and visual analysis, is drastically reduced.

One aspect to be highlighted, and which has already been mentioned, is the protection and *privacy* of personal data through complex coding keys, with the aim of avoiding identity theft.

Despite the adoption of preventive measures, in the past various points of weakness have nonetheless arisen following the adoption of such passports. In Belgium, the first passports distributed were immediately withdrawn, as a result of their being possible to intercept, and easy to tamper with. Is this still the case? Does identity theft still constitute a well-founded fear?

Many experts maintain that *contactless* reading is the primary criticality of the RFID system [13]. Fitted with particular devices, called *transceivers*, capable of intercepting the transmission of radio waves, it is possible to decode the data contained within them without difficulty. And if this were not enough, some distributions of Linux programs available for sale, such as *Backtrack* and *OSWA Assistant*, are capable of neutralising the cryptographic protocol which protects the information contained in the *chip*. Even more simply, according to the BBC (the British television broadcasting station), it is possible to clone a travel document using a reader purchased on *Ebay* at the modest price of € 200.00. The equipment is in fact capable of decoding the

information contained in the RF tag and appropriating it, thereby eliminating any type of difficulty related to the creation of a new international passport. [14]

5. Conclusions

With this study, the authors have attempted to give an in-depth examination of aspects related to the diffusion, in everyday life, of so-called "intelligent" technologies.

The electronic passport might be seen to represent the very emblem of these applications. We have therefore highlighted the innumerable advantages it would bring to the general community, without overlooking the unavoidable ethical and practical problems which its use could cause.

Every new technology brings with it inevitable risks; we therefore need both an attentive control procedure and the adoption of application restrictions.

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Regional Development Strategy

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Abstract

The development policy promoted by the European Union is a policy of social and economic cohesion, based mainly on active development measures. Political and financial support granted by the European Union aims at achieving a higher level of development capable of delivering economic and social benefits both internally and externally.

Regionalization is a common trend of the evolution of territorial organization of European states and the regions that ensure decentralization of decision at the local, provincial or regional level have developed as a consequence of the high level of funds intended for economic and social cohesion across the European Union by eliminating and preventing imbalances between regions..

Key words: regional development, regional policy, social cohesion, development policy

J.E.L. classification: R10, R11, R19

Locating the economic activities in the territory is carried out mainly under the private interest that in principle is the making of profit. The consequences of applying this principle at local level are explained by the way the local councils exercise their power. Their scope of action withdraws from the areas reserved for private initiative, the adjustment mechanisms from a particular market being the ones specific to competitive markets.

In conditions of multi polarity of a decentralized economy, both the state and local collectivities are formed as autonomous decision centers for the realization of objectives of local or general interest, hence, as independent economic agents, partners among themselves and also private equity partners. The territorial councils have attributions such as ensuring free trade and

fair competition, protecting and supporting free enterprise.

The present reality highlighted the functionality, the effective adaptability of the competitive economic system, within certain limits (and failures) of the mechanisms of (self)adjustment of the market due to factors of influence from the sphere of entropic and antientropic measures. To that end we specify the appearance of: imbalances and disparities in economic growth rates; of accelerator factors of regional underemployment of the labor force, of environmental pollution, etc..

The development policy promoted by the European Union is a policy of social and economic cohesion, based mainly on active development measures. Political and financial support granted by the European Union aims at achieving a higher level of development capable of delivering economic and social benefits both internally and externally.

Regionalization is a common trend of the evolution of territorial organization of European states and the regions that ensure decentralization of decision at the local, provincial or regional level have developed as a consequence of the high level of funds intended for economic and social cohesion across the European Union by eliminating and preventing imbalances between regions[1].

According to the National Development Plan 2007-2013, the regional development priority is "to support the balanced development of all regions of the country".

Within the development of the National Regional Development Strategy NDP 2007-2013 there have been found the following problems[2]:

- inter regional disparities in economic and social development;
- increasing development disparities between the region Bucharest- Ilfov and other development regions;

- low degree of attractivity of most regions;

- massive decline of many cities;

Based on the found problems, it has been set the overall strategic objective of the National Regional Development Strategy to be: "The reducing of development disparities between regions and within regions (between different areas, urban-rural environment, urban areas and *adjacent areas*), at the same time with the stimulation of the development of urban centers with the potential of polarization of regional development "

The specific objectives of the strategy are[3]:

- increasing the competitiveness of regions as business locations;

- supporting the development of regional/local economies affected by industrial restructuring or traditionally underdeveloped;

- capitalizing on the tourism and on the cultural potential of regions and increasing the contribution of these areas in developing regions;

- halting the decline of urban areas and their revitalization;

- strengthening the capacity of local authorities to plan and manage the development.

Starting from the specific objectives of the Regional Operational Program 2007 - 2013 the priorities were:

1. improvement and development of local and regional public infrastructure:

- improving and developing transport networks and associated utilities;

- supporting and developing of the health and social services;

- rehabilitating and developing of the educational infrastructure;

2.supporting the development of regional and local economies:

- creating/developing of the business infrastructure;

- supporting the local business activities of of innovative character;

- supporting the innovative business services;

3. regional and local tourism development:

- rehabilitation of tourism areas, renovation of historic and cultural heritage;

- protection, rehabilitation of the natural heritage;

- supporting the income generating tourism activities;

4.supporting the urban development:

- supporting the integrated urban programs;
- improving the urban transport infrastructure, public utilities and related public services;

- rehabilitation of decommissioned areas into sites for the development of new business.

The fifth priority of the National Development Plan aims to promote balanced participation of all regions of Romania in the process social and economic development.

Romania's experience of transition to a market economy shows that market forces left alone, tend to unevenly distribute economic growth and employment opportunities. The result was massive migration to Bucharest, Timisoara etc., of the active population, where growth tends to concentrate.

In Romania there are the necessary conditions for the regional development policy to grow. Compared with traditional market economies, the inequalities are still relatively low, existing a network of urban centers in which it can be invested for the creation of regional markets and the educational level of the population is quite evenly distributed in the country.

Further efforts are needed to implement a regional policy to ensure a balanced participation of all regions in the country's economic development, regional development issues being addressed in the context of the broader objective of the NDP: realization of economic and social cohesion.

The priorities identified in the NDP on regional development plans proposes three specific objectives:

- combating regional and sub-regional disparities through adequate policies;

- combating the phenomenon of urban decline and revitalization of urban areas;

- creating jobs in marginal / disadvantaged areas.

Combating the process of deepening regional and sub-regional disparities needs to have as a result the maintaining of the current level of economic disparity between regions, and in particular the increasing disparities between Bucharest and the rest of the country, and, where possible, changing migration flows from Bucharest to other

areas of the country. This could lead to lower intra regional disparities by supporting the creation of local integrated labor markets and a better use of urban-rural economic relations.

Creating employment opportunities in marginal / disadvantaged areas refers to creating jobs in the new agriculture sector, in areas defined as marginal and disadvantaged, which could enable the realization of a minimum of economic activities across the whole country and thus resolving possible emergency situations in the social plan.

Achieving regional development requires an integrated strategy based on a combination of public investment in infrastructure, the allocation of financial support, consisting of direct support to companies and incentives for creating economic opportunities: in the marginal and in the disadvantaged area.

Regional development strategy needs to place greater emphasis on the public investment component and the improvement of the overall business environment. Efforts will be made for focusing direct support in some areas where this work is indeed necessary to influence the choice of the investors regarding the location of the new businesses (start-up) or to compensate other inefficiencies of the market.

The strategy focuses on improving the overall business environment in the regions through investment in transport infrastructure and supporting businesses and improving the basic conditions in which businesses operate. This means first of all investment in water supply systems and sanitation, as well as investments in improving recycling. They are regarded as basic conditions for attracting private investment and a better accessibility and communication. It is expected that these types of investments to positively affect business costs, and overall competitiveness[5].

Industrial parks are regarded as true drivers of growth at regional and local levels and at the same time, as the core of the urban growth poles. Focusing public investment in small towns will allow Romania to maintain its network of centers of consumption, many of them living on outside resources (farms, working abroad) as it presently happens, to centers capable of developing sustainable production sectors and services.

Another important component of regional development strategy is the investment in human resources, which completes the investments in creating a favorable business environment.

To achieve this objective, the strategy takes into account both the basic measures and the improvement of infrastructure and promotion of entrepreneurship and educational and professional training measures, which often have difficulty in accessing these services under current conditions.

The regional dimension of these measures will allow to take into account the specific needs of different areas and maintain a balanced and reasonable level of investment in school infrastructure across the country, aimed at keeping in the region, at least at current, quite close levels, the training of the human resource.

It is recognized that tourism offers the best, and in many cases, the only realistic prospect for economic development in marginal and underdeveloped areas. Therefore, for the capitalization of this potential are needed public investments to increase the attractiveness and accessibility of tourist areas with potential, adequately promoting them being a precondition for stimulation of private investment in these areas.

Thus, the North-East region will receive 708 million euros, the South East region, 575 million euros, and the South, 618 million. For the South-West region will be allocated 608 million euros while the West region will receive funds worth 449 million euros. For the projects implemented in North-West they will spend 524 million euros while the Central region will receive funding of 473 million euros and the Bucharest-Ilfov, 384 million.

To receive these funds, the applicants must prepare eligible projects or they will lose the funds, that can be allocated from one region to another depending on absorption capacity. These amounts do not include funds for technical assistance that will benefit all regions, the funds will be managed by the Managing Authority for ROP.

European forums are yet to rule on the Regional Operational Program.

In accessing the Phare funds that Romania failed to absorb in the pre-accession process, one of the targeted direction is regional transport. Projects will aim to improve or build new bypass roads and bypass roads linking national highways. The proposed infrastructure projects may receive up to 5 million euros each, plus 33% national co-financing. The grant may not exceed 90% of the total eligible project, the difference being covered by the project beneficiaries from their own resources or from donations and provided in cash.

It should aim to increase the quality of county roads and traffic safety measures in order to increase their rate of use. The specific eligibility criteria requires that projects of ring roads and bypass roads must demonstrate that they are included in the Urban Plan (PUG) of the city, in the County Spatial Plan (PATJ) or in the National Rehabilitation Strategy applicable in 2001 - 2015.

Applicants must make available to those who made the selection of projects, a CESTRIM study of counting of vehicles, if they wish to allocate funds for construction of ring roads and bypass roads.

The study must certify that by implementing the project it will increase the transit capacity and the saved time will be greater than 30% compared with the main transit routes across the city. The average daily traffic is greater than 2,000 standard vehicles, on the main transit routes and for heavy vehicles the figure must be over 150, while the daily number of conventional vehicles will exceed 1500.

Projects must be based on a census of traffic of transit routes attached to the Feasibility Study to demonstrate there will be reduced vehicle operating costs. Projects of this type can not be co-financed by other institutions or programs.

Targeted are the cities and towns with high levels of air pollution and those with high traffic, particularly trans-national trafficking. Priority is given to projects that aim to raise the level regarding the access to public transport, to improve access to the industrial areas or tourist areas. To be eligible, projects must have as its objectives, increasing the daily number of vehicles passing through the area and the volume of transported goods, reducing traffic in city

centers and decreasing the level of noise and air pollution.

The strategy was prepared in accordance with the principle of subsidiarity, which was prepared on the basis of Regional Development Strategies, developed at a regional level working in large partnership groups. The strategy has realistically taken into account the existing limited strategic and financial planning capacity at the local level, particularly in the less developed areas and therefore takes into account primarily, that the project is to be managed at local level and the central level is to conduct a consistent supervision of the whole program.

The ROP strategy complies with the National Strategic Reference Framework, contributing to achieving the global and specific objectives, regarding the reducing of disparities in economic and social development between Romania and other EU member states. The Regional Operational Program addresses the five priorities of the NSRF, being related to the majority of the development issues which it covers. In comparison with the EU-25, the regions of Romania are among the least developed and will take many years and significant resources to achieve convergence with other Member States. Based on what has been achieved to date through the investment in the pre-accession period, ROP aims to spur the development of the regions of Romania for the purpose of achieving convergence.

The Regional Development Strategy arises from key issues identified in the socio-economic analysis, namely:

- the concentration of economic growth driven by foreign direct investment around Bucharest and thus the emergence of capital city congestion problems;
- the recurrence of historical imbalance in development between the eastern half and western half of the country, due to the reorientation of trade flows and access to western markets, as well as the difficulties which the Western side of the country appears to have in connecting to global markets outside Europe ;
- the economic decoupling process of traditionally underdeveloped areas in the north and along the Danube;

- the existence of large areas of the country, whose future development is marked by labor shortages and a temporary phenomenon of massive migration;
- the loss of urban functions of many small and medium-sized cities, especially those mono industrial ones, a phenomenon generated by industrial restructuring;
 - the importance of accessibility as a key prerequisite for local development
 - the possible occurrence of an economic stagnation phenomenon in the mountains;
 - the limited experience of local authorities in the regional / local development management;
 - the socio-economic decline of many large urban centers and reducing their role in the development of adjacent areas.

It is obvious that the solution of these problems depends largely on factors that are outside the influence the ROP may exercise such as: primary sector productivity, industrial competitiveness, the competitiveness of productive activities, the existence of functional national transport corridors, well-qualified human resources and adequate administrative capacity. What ROP aims to create are appropriate conditions so that the above policies may have the highest impact at the local level, which requires a flexible approach, because the problems of development differs substantially within the region, impacting on intra regional economic and social disparities. In some cases, these disparities are extremely fluid and with recovery opportunities, as they are not chronic long as happened in the old market economies.

EU accession offers Romania the possibility of no longer considering the historic Danube as a boundary that prevents trade but rather as a waterway that creates opportunities for trade and promotes the mobility of the population; this is because the river can be used not only to connect Romania to Western Europe, but also as a way to link to the Black Sea, allowing opportunities offered by both the domestic and the globalization process and thereby providing an opening for the economies of those riverside counties that are suffering from historic economic underdevelopment, generated by their location along the Danube.

Increased labor mobility will be an inevitable result of the accession and the convergence of wages will increase further the role played by the existence and the quality of infrastructure (including social infrastructure) as a key factor that conditions the attracting of foreign direct investments. Many areas of Romania will have to face the consequences of underfunding of the public services if they wish to have a chance in the increasing competition in the increasingly mobile international markets.

However, the political leaders need, which are not to be overlooked for the near period and the next election, may be inconsistent with the needs of those that invest, needs that to look a long time and after tax income from investments. The search for funds by politicians to provide benefits to their supporters can use people's inability to meet short-term tax increases.

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The Sources of Regional Development Funding and the European Regional Development Fund

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Abstract

To achieve the objectives of regional development, local collectivities must have financial resources. These resources come mainly from local taxes, from the revenues of their own activities, are thus, directly proportional to the volume of economic activity in the territory. Therefore, for the local collectivities a particular importance is the attracting of new businesses along with the development of the existing ones

Key words: regional development, regional policy, social cohesion

J.E.L. classification: R10, R11, R19

In terms of declining economic activity, economic recession or crisis it is extremely difficult to attract new businesses in underdeveloped regions and expansion of the ones already located in those areas.

Therefore, the main features of regional policy instruments refers primarily to the creation of favorable conditions for attracting private investment in terms of reduced public funding sources. Of these features we present the following:

- The instruments of intervention in the evolution of regional variables are found, usually in the forms and procedures of the management of government consumption and the expenditures from the budget of other public institutions in the sphere of local taxes, public investment and subventions for public and private investments .

Depending on the specific economic policy promoted, the presented instruments, may be related (filled) to other particular instruments.

Aid for regional development and financial incentives are granted under joint programs, national and regional.

- In countries with experience in the field, the instruments of regional policy are derived from instruments of economic policy (fiscal, budgetary, monetary) and can be divided in two broad categories:

1. Direct intervention to locate and develop activities or for endowment of the territory with certain utilities:

2. Incentives for development

In the category of direct interventions, fit these measures:

- government participation in the development of economic and social infrastructure elements;

These elements of infrastructure are made be the local collectivities. The central government shall assist local communities in the form of investment subventions to: development of the transport network, creation and improvement of water distribution network, electrical and thermal energy, etc..

Association of public and private capital for making investments, particularly for developing local interest services. This association can be made in imposing the condition that the investment does not lead to major labor force movements;

The stimulation of locating activities and local development can be achieved by regional policy measures, which by nature are divided into two classes[1]:

- a) the providing of financial incentives;

- b) the adopting of compensation measures to eliminate or reduce the additional costs generated by locating activities in a given space.

- a) In most countries, one of the main instruments of regional policy is to grant financial incentives for public and private companies to encourage and stimulate the location or development of sustainable activities in certain areas to prevent their decline.

The main characteristics of the group of financial incentives for regional development policies are:

- budgetary funds which are one of the most powerful instruments of regional policy;
- there is no uniformity from one country to another or in relation to the type of incentives offered in support of regional development, nor in the level of support provided or size of the beneficiary due to the particular circumstances of each country;
- the conditions for financial aid granted to enterprises vary from country to country (the company must belong to the assisted area or region; it needs to work in the nominated region, to benefit from the project for which assistance is sought, it must be compatible with the general and / or specific regional policy, etc..)
- financial incentive schemes are selective, so that regions facing the most serious problems are to receive the most aid;
- financial incentive schemes are modified periodically based on the interests of the authorities, the developments and results;
- to reduce the overall incidence of imbalances in the most deprived regions or areas, the trend observed in different countries is that the incentive measures and financial incentives become more selective over those granted automatically - it requires multi delimitation of assisted regions.

As is clear from international practice, the main types of financial incentives include: investment premiums (a percentage of the total cost of investment) in assisted areas, granted subject to demonstrate the basic effect (the ratio between supply and demand), grants for investment definitively granted for public or private establishments to mitigate or offset the costs to encourage actions (the creation of developed enterprises, rationalization and reorganization of existing units); transfer premiums welcome subventions for firms (location premium) ; giving loans on favorable terms (long-term interest rate to be below those prevailing on the capital market), providing loan guarantees, etc..

- providing facilities for the purchase or rental of land (premiums: subventions (rebates) for prices, loans on favorable terms, etc.); providing tax exemption from payment of customs duties (to encourage investment), providing local tax incentives (tax cuts on investments, income, profits, etc.) for a number of years, granting preferential treatment in the award of market segments, granting special permits depreciation regime (eg, acceptance of accelerated depreciation allowances and / or exemption from taxes of the amounts from the depreciation of certain elements of fixed capital), etc..

b) Compensation measures on the removal or reduction of additional shares generated by the location of activities in a certain space.

Obviously, any measure to attract investment in certain areas aims to reduce or offset the actual costs of opportunity costs.

There are compensatory regional policy instruments aiming to eliminate some costs directly related to operating, training, resettlement and labor force use, transport, etc..

Among the countervailing measures found in the regional policy of various countries we can identify:

- aid granted to reduce operating costs;
- subventions for labor charges (extra benefits given in certain areas);
- premiums for the creation of each job (or jobs for certain majors or certain categories of applicants - youth, women etc..).
- grants to support certain social security or social services;
- aid to support labor mobility and resettlement (transfer premiums or allowances, subventions and indemnities for transfers etc..).
- aid granted for the training of employees;
- subventions for transport and other public services, etc..

Direct interventions, financial incentives or compensatory measures are part of the range of tools that facilitate the achievement of financial policy objectives.

The effects and effectiveness of these instruments are difficult to isolate and evaluate.

The role of these regional policy instruments, from an analysis of OCDE countries, is the following[3]:

- a) measures the ability to exert a considerable influence on the profitability of companies throughout their lifetime;
- b) the scope of measures must be broad enough to exert a substantial effect on the economy of the regions concerned;
- c) public authorities must ensure that financial incentives and compensatory measures are limited, they having only the role of "points" proportionate to the desired results and their structure;
- d) a system of financial incentives can lead to results contrary to the aim pursued, if it is too large or too dispersed to countries and is therefore likely to attract upward pressure on the initial amounts over what is possible.

To achieve the objectives of regional economic development strategies, given the limited character of the volume and structure of financial incentives and compensatory measures, each country (defined as a complex and open system) calls for structural measures to international organisms it joined or is hoping to join. Referring to the European Union in the context of structural complementary regional funds we can say that it raises two issues: the need to ensure the coherence of European Union regional policy in the context of the particularities of countries and regions that apply this policy; the insurance that it will be taken into account the wide variety of regional problems in the European Union and support the most urgent in the context of fairness to member or aspirant countries.

To achieve the objectives of economic policy promoted by various countries, given that national financial incentives are limited (size and structure is dependent on the level of development) to the financial incentives granted by the European Union (or other international bodies). In the category of these financial incentives are the following structural funds:

- European Regional Development Fund (ERDF);
- European Social Fund (ESF);
- European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF-O)

Financial incentives took the form of aid for productive investment, the employment of available labor force and harmonious development of regions lagging behind. These financial incentives are granted as subventions, grants, allowances, bonuses or any other sources of non-refundable character, discounts on goods supplied and services rendered by the state, the cancelation or reduction of debts to the state, cancelation or reduction of interest loans taken with preferential interest, granting of state guarantees, exemptions, reductions or exemptions from customs duties and other taxes and duties depend on these, reductions or exemptions from taxes and financial obligations, discounts or exemptions to pay increases delay, etc..., amortization and other fixed facilities, subventions for the use of labor force and its employment, facilities granted to improve infrastructure[4].

The granting of such state aid, both nationally and locally, is made following impact assessment of their allocation from the point of view of efficiency of spending public money and in terms of competitiveness taking into account the nature of state aid and the specific way to quantify it. All these are made to identify the degree of realization of the main objective pursued, as well as to identify the major recipients of state aid.

In modern economies, including in EU practice, there are many disturbing factors that call into question the "fairness" of the prices charged by firms with different locations and how that affects the competition and the quality of competitors. From the long list of circumstances we remind some as:

a) differences that exist between private and social costs (seen on the product, the fields, on the different types of producers and consumers). The greater the differences are, the more affected is the quality of the competitive environment. Beyond the inherent differences arising from externalities (positive and negative), the quality of the competitive environment and hence the competitive tender prices are influenced by the legal framework on: taxation, environment, business finance, social welfare, fiscal policy, trade customs;

a) existence of public goods (local, national, european) different in time and space, different weight that they hold in total consumption factors. In some countries and industries, the consumption of these goods is high which reduces production costs. In others, such inputs are small and thus there are relatively higher costs;

b) the public actions (and private) that establish the rules and standards (quality, technical, environmental and population protection) disrupt the accuracy of export prices by:

- additional costs that rise to meet non tariff conditions imposed by partners or legislation;
- artificial reduction of the scale economies due to lower production to meet explicit quantitative limits (quotas, "voluntary" limitations, quantitative thresholds, etc.), and non-tariff requirements specific to every national markets to where the exports are bound;
- additional costs that customs procedures and more sophisticated control impose that have proliferated in the contemporary conditions in the EU (documentation, quality surveys, certificates of origin, specific labeling and packaging etc.)

c) regulations regarding: the access to local public services, state aid facilities on the fees, taxes and other tax liabilities (deferred, rescheduling, tax reductions and exemptions), plus various agreements, abuse of dominance etc.

d) lately, with the price competition (selling competition), is amplified the non-price competition (quality, supply differentiation, attraction and "capture" of buyers) the advertising having a determinant role. Advertising as a tool of competition and a component of the competitive environment has an important role when it is diverse and extensive, and his targets are makers of acquisition: workers in marketing departments (for the needs of companies), children (toys and some food, clothing), women (for convenience goods and food), men (for cars and some consumer durables), physicians (especially for medicines and equipment and miscellaneous supplies) and so on.

A key role in the competition - beyond price – has innovation.

Innovation is one that provides sustainable competitive advantages that firms possess.

As mentioned, the competitive environment is a social creation, founded on the legislative and organizational framework - promoted and applied by governments, national and european - with the involvement of private operators and market structures.

The nature and consistency of policies (economic, social, environmental, etc.) and the legal framework (developed and applied equally) ultimately determines the quality of the competitive environment, for they depend on the functioning of the market, rewards / restrictions to private operators, the way that the property institution is represented in the social consciousness. Through the quite restrictive policies can be build into policies and anti competitive actions which are promoted by the employers that with the support of the authorities. In the short term, monetary policy and exchange rate exerts a strong influence on competitiveness, as direct taxation influences long-term exercise[5].

Assessing the economic policies in terms of economic interests and of the short to medium term, they exercised a contradictory influence on the competition. Compared to the restrictive economic policies, negatively appreciated by the companies, the market reaction is immediate: the most rapid response to poor economic policy decisions have the international capital markets, "the electronic herd", ready to create panic at the first sign of economic and political weakness. Instead, it takes many years for lax economic policies to gain the trust of the market (primarily capital one) and to improve the competitive environment[6].

The issue of economic structures can be approached from many angles. Here, our analysis is confined to market structures, seen in terms of the number and the potential of the producers, buyers and brokers. They are subject to technological configurations, assortment, of branch and territorial, of communicability and the connections between different markets, from national and international market (European Community). The competitive environment is friendly when the number of agents is high, the supply is diversified, the demand is dynamic

and heterogeneous, the entry-exit barriers are low, or easily overcome due to increased mobility of production factors (territorial, branch and items), adaptability and their substitutability. An defining element of the competitive environment in terms of economic structures is the configuration of system of companies including business class configuration in terms of size (force) and performance is very relevant.

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Econometric Modeling of Healthcare Expenditure – EU-27 Panel Study

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Abstract

The purpose of our paper is to analyze the total healthcare expenditure of the EU-27 member states in relation to different explanatory variables. The only strong direct correlation we could determine statistically is that between the per capita healthcare expenses and the per capita GDP. All panel data models were estimated in Gretl. Results have been interpreted and commented.

Key words: total healthcare expenditure, panel data, linear regression, correlation.

J.E.L. classification: I10, C20.

1. Introduction and literature review

Healthcare has been defined as the prevention, treatment and management of illness and the preservation of mental and physical well being through the services offered by the medical, nursing and allied health professions.

Because health is an important priority for Europeans, many of today's European healthcare policies include not only cures but also prevention and detection. A new health strategy "Together for Health: A Strategic Approach for the EU 2008-2013" was adopted in 2007, putting in place a framework to improve health in the EU through a value-driven approach, recognizing the links between health and economic prosperity, integrating health in all policies, and strengthening the EU's voice in global health. The White Paper sets out a coherent framework and a health strategy, giving direction to community activities in health,

and establishing fundamental principles for action on health.

The weight of the current healthcare expenditure within the GDP of a country has been growing rapidly in almost all developed countries. Although these represent a major public concern, little aspects are known about the factors that determine the rapid growth of these expenditures. Thus, in 1994, Hoffmeyer and McCarthy [5] concluded their research by affirming that "there was only one clear and well-defined statistical factor that influenced the healthcare costs, namely their correlation with the GDP. Other robust and stable correlations had not been found yet". Actually, over the past thirty years research on the determinants of healthcare expenditure has focused on evaluating the strength of the relationship between the volume of public healthcare spending and the GDP. Attempts to determine other suitable exogenous variables have failed, despite the fact that the correlation between public healthcare spending and GDP doesn't explain very much in terms of their causal relationship. Even the apparent obvious factor of the weight of population aged 65 and above in the total population hasn't been proved to contribute and to explain the public healthcare expenditure to a certain extent, except for a very limited number of studies, such as Hitiris and Posnett [4] and Di Matteo [2]. The investigations upon the explanatory factors of healthcare expenditure have been updated by Hartwig [3] and Baltagi and Moscone [1].

After reviewing the literature written on the field, it may be concluded that, despite the intensive research efforts, little is known about the potential exogenous variables that

would explicit the healthcare expenses of a nation as an endogenous variable [6].

2. Research methodology

There are few empiric papers that estimate the healthcare expenditure of a nation, most papers directly correlating them with the country's GDP. The total health expenditure measures the final use of resident units of healthcare goods and services plus gross capital formation in healthcare provider industries, being the sum of public health expenditure and private health expenditure. We've simulated the per capita total healthcare expenditure (both public and private) for the EU-27 member states with the help of a linear econometric model, by considering the per capita healthcare expenditure of a country as an endogenous (dependent) variable.

Firstly, the per capita GDP of a country was used as an exogenous (explanatory) variable, as follows:

$$\text{HealthcareExpenditure} = \alpha + \beta * \text{GDP} + \varepsilon$$

Our study uses Eurostat data for the 27 member states of the EU. The data are real annual data, expressed in euros per capita, for the 2003-2008 time interval. The total number of observations is of 162 (the 27 member states over the six year period of time). The estimations were carried out using the panel technique and the coefficients were at first estimated with the least squares method for panel data, further on choosing a fix effects model.

For the first simulation, the per capita GDP has been chosen as the single dependent variable:

$$\text{HealthcareExpenditure}_{it} = a_0 + a_1 \text{GDP}_{it} + \varepsilon_{it}$$

where:

$\text{HealthcareExpenditure}_{it}$ = the total per capita healthcare expenditure of country i , year t ;

GDP_{it} = the per capita GDP of country i , year t ;

ε_{it} = the error (an aleatory variable that

synthesizes the effect of other factors besides the ones included in the model as explanatory variables).

For the next simulation, besides the per capita gross domestic product, we've introduced the weight of the population aged 65 and above in the total population as another explanatory variable, which was previously proved significant in a reduced number of studies, like that of Di Matteo [2]. The model is as follows:

$$\text{HealthcareExpenditure}_{it} = a_0 + a_1 \text{GDP}_{it} + a_2 P_{it} + \varepsilon_{it}$$

where:

$\text{HealthcareExpenditure}_{it}$ = the total per capita healthcare expenditure of country i , year t ;

GDP_{it} = the per capita GDP of country i , year t ;

P_{it} = the weight of population aged 65 and above in the total population of country i , for the year t .

3. Results and comments

For the first simulation, the linear simple correlation coefficient is very close to 1 (0.915840), thus confirming the strong correlation between the endogenous variable and the exogenous variable, and the coefficient of the exogenous variable is significant with a 1% chance of rejecting the null hypothesis. A one unit increase of the per capita GDP determines an average increase of 0.0815332 units for the per capita healthcare expenditure, in the EU-27 member states.

When sampling for Romania, we obtained that:

$$\text{HealthcareExpenditure}_{RO,t} = a_0 + a_1 \text{GDP}_{RO,t} + \varepsilon_{it}$$

where $a_0 = - 8.36389$ (0.1210), and $a_1 = 0.0278349$ (0.0000***), with $R^2 = 0.995466$, pointing out an extremely strong correlation between the two variables. Thus, at a 1 euro increase of the per capita GDP, the per capita healthcare expenditure increase with

approximatively 3 eurocents.

For the second simulation, we obtained a multiple linear correlation coefficient very close to 1 (0.917984), thus confirming the strong correlation between the endogenous variable and the explanatory variables. Moreover, the coefficients of all the exogenous variables are significant with a 1% chance of rejecting the null hypothesis when it is true.

As expected, there's a direct correlation between the per capita real GDP and the per capita real healthcare expenditure, and an indirect correlation between the weight of population aged 65 and above in the total population and the healthcare expenses. At a one unit increase in the per capita GDP (1 euro), the per capita healthcare expenditure rise on average with 0.08154 units (0.08154 euro), while the other explanatory variable doesn't modify.

As opposed to this, the obtained results reveal that a one percent increase in the weight of the population aged 65 and above in the total population would lead to an average decrease of 31.59 euros of per capita healthcare expenditure, which is not too realistic. Paradoxally, it seems that this age segment isn't among the ones that would explicit the evolution in healthcare expenditure.

When performing the analysis on Romania's sample, we obtained that

$$HealthcareExpenditure_{RO,t} = -217.108 + 0.0254074 GDP_{RO,t} + 14.9587 P_{RO,t},$$

with the corresponding thresholds of (0.3010), (0.0014***) and (0.3166) respectively, while R² gets to be 0.986467, a little lower than for the first sample.

For the EU member states we obtained the following regressions:

$$(1) HealthcareExpenditure_{it} = -409.221 + 0,08153 GDP_{it}$$

$$(2) HealthcareExpenditure_{it} = 90.46 + 0,08154 GDP_{it} - 31.59 P_{it}$$

These estimations reveal the dependency relationship between the healthcare expenditure and certain macroeconomic aggregates that may be their approximation, according to the data synthesized in Table no. 1, through the least squares method for panel data (OLS), and the fixed effects model (FEM), obtaining better performances for the latter, as follows:

Table no 1. The estimation of healthcare expenditure

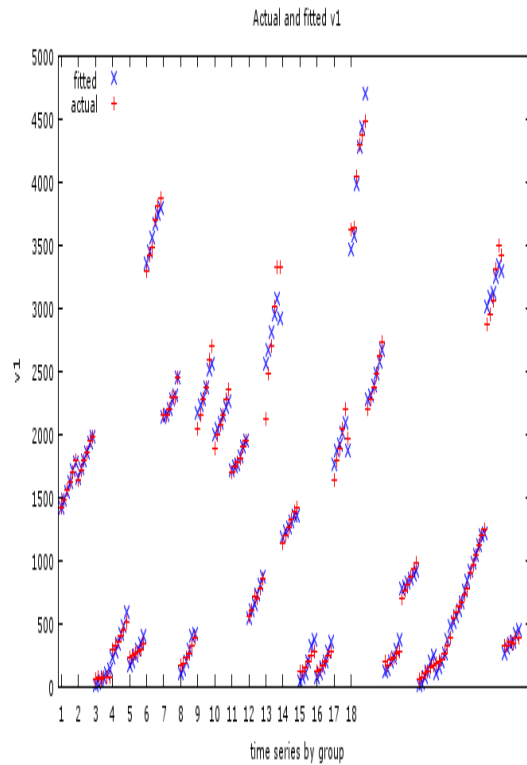
The Healthcare Expenditure independent variable	OLS		FEM	
	(1)	(2)	(1)	(2)
Constant term	.	90.46	113.048*	637.228**
	-409.221*** (0.00)	(0.68)	(0.06)	(0.0432)
GDP	0.08153*** (0.00)	0.08154*** (0.00)	0.05754*** (0.00)	0.06049*** (0.00)
P		-31.59** (0.02)		-37.196* (0.08)
No. of observations	162	162	162	162
R ²	0.916362	0.919003	0.995529	0.995625

Source: Authors' processing

Note: Within parentheses there are the p-values, and *** designates the 1% significant coefficients, ** designates the 5% significant coefficients while * designates the 10% significant coefficients. Estimations were carried out using the panel technique and the Gretl software.

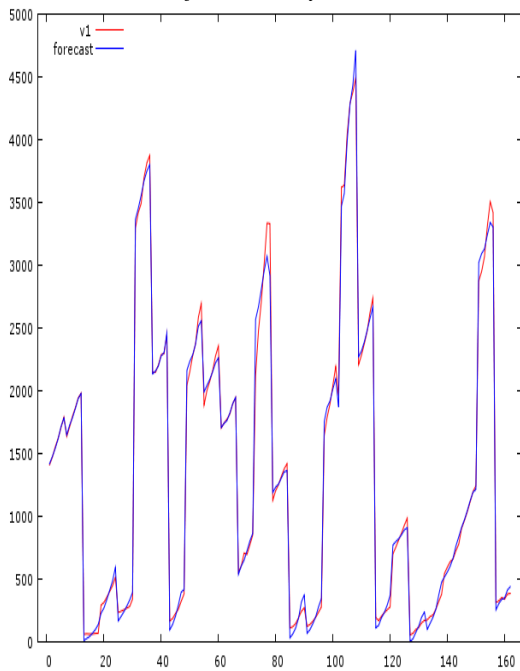
The graphic representation of the data for the optimum model i.e. the fixed effects panel is represented in the following figures. *vI* represents the total healthcare expenditure, expressed in euros/per capita, annual values for the EU-27. The 27 cross sectional units are represented processing the data with the Gretl software. The length of the times series is of six years (the 2003-2008 time interval), i.e. a total number of 162 observations; furthermore, the experimental values are represented in red + and the ones adjusted by the optimum chosen model in blue x.

Figure no. 1. Experimental values of the European per capita healthcare expenses and the ones adjusted through the FEM model



Source: Authors' processing in Gretl

Figure no. 2. Experimental values of the European per capita healthcare expenses and the ones foreseen by the FEM model



Source: Authors' processing in Gretl

Moreover, among the countries that have a high level of healthcare expenditure there are Sweden and Ireland. Then, among the countries whose real healthcare expenditure is situated in the 2.000-3.000 euros/per capita annual interval there are Holland, Finland, Switzerland and France. According to Văidean [6], a precise correlation among the level of these expenditures and the type of healthcare system held by the country cannot be established: Sweden, Ireland and Finland mainly finance their healthcare system through taxes while Holland and France finance their healthcare system through social health insurances. But these countries also have a very well fundamented and developed private healthcare sector.

Unfortunately Romania is situated on the penultimate position of this top, annually allocating for the healthcare sector less than 200 euros per capita, while Bulgaria is situated on the last position of this top, with less than 100 euros per capita spent on healthcare. Summing up, the healthcare expenditure of a country seems to highlight the development level of a country even more.

4. Conclusions

The connections between mass economic phenomena are characterized by the fact that one phenomenon or another vary under the influence of a complex range of factors, some of which have a crucial influence and others are of a secondary importance. We've tried to identify the exogenous variables that would explain to a certain extent the total healthcare expenditures of the EU-27 countries.

Our six year panel study on the EU-27 total healthcare expenditure proved that they are explicated to a great extent by the GDP of the member state. Other strong correlation variables were not found statistically significant, this being the purpose of our future research in the field.

Nevertheless, the competence for the organization and delivery of health services and healthcare is largely held by the Member States, although the EU has the responsibility to give added value. And although many would help the countries to have a healthier population.

studies [6] have previously shown that the population health status depends on the combined effects of several factors, certainly if health sector performance improved, it

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Management Control and Remuneration System

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Abstract

Many businesses still adopt pay practices in a sequential manner, without regard to strategic vision and organization values (Tremblay M., 2001). To earn the epithet "strategic" management remuneration must be aligned to the strategies of the business and be in synergy with the other human resource management practices. Thus, firms face more choices in terms of remuneration policies. One of the basic principles of the remuneration policy is that of its periodic review, due to its short life cycle. Earnings management implies the existence of diagnostic tools to monitor developments, to anticipate the drift and track environmental changes. This paper discusses the new issues affecting the purposes and pays the balance of a system of control and management role in seizing and removing them. Thus this paper includes social balance sheet and a number of potential indicators of how to refer matters to ensure compatibility between business strategy and social policy.

Key words: remuneration policy, management control, diagnosis, audit of earnings, external competitiveness

J.E.L. classification: M12, M41

1. Earnings Control

Social audit practices have evolved along the lines of financial audit and, from this point of view, occurred in the specific management activities of social function, such as remuneration, training, recruiting etc. Thus, the social audit has become a dimension of internal audit and within the audit of remuneration was a promising start (Igalens, 2002).

The more the number of firms increases, the more it becomes imperative to the presence of some objective analysis of earnings. If in small organizations an analysis of wages can be achieved through a subjective and individual knowledge, to a number of over one hundred employees this is not possible, and thus it requires having collective data as objectively as possible.

The finalities of remunerations audit can be considered as follows:

- the examination of the system and of remuneration policy, of some issues that are relevant for the good of the two elements, can be mentioned as examples the policy enforcement, compliance with conventional instructions;

- the forecast of evolution earnings by through can be identified risk areas, outline the wage bill etc.;

- the understanding and action on the system and remuneration policy, which seeks to know reality in designing an action plan, the way in which the pilotage of policy and implementation is made, and, where appropriate, of individual and collective adjustments.

Another problem that must be considered when carrying out an audit of earnings regards *the determination of the angle from which you phase out the analysis*. Thus, the diagnosis (audit) may address one or more of the following areas:

- legal and social field, through which is pursued their legal compliances;

- economic and financial field, to optimize the benefits, to control the registered drift control in payroll;

- managerial field, which aims the internal equity of basic wages, identification of explanatory factors of wages etc;

- marketing-communication domain; in this respect audit examines the links between remuneration policy, recruitment of personnel and social image of the

organization, the impact that remuneration of managers has on the social rating etc.

Making the best condition for an audit and remuneration is dependence on accurately defining the perimeter of the analysis. From this point of view has to be precisely defined the content (basic wage and variable wage alone, benefits etc.) and its scope (all employees, a geographic area, a service, a subsidiary etc.). The status and the system developments and remuneration policy are reviewed regularly through groups of indicators that are included either in the social balance sheet or are belonging to audit or remuneration diagnosis.

Social balance sheet is a unique document that contains the main digital data that allow assessment of the firm's position in the social field, recording achievements and measure changes that occur during the previous year preceding and the current situation in the previous two years. It contains information about jobs, about their remuneration and other costs, about the conditions of hygiene and safety, other working conditions, training, professional relationships, and living conditions of the employees and their families, to the extent where these conditions depend on the company.

Several European countries (France, Germany, Italy, United Kingdom etc.) adopted such a social instrument for companies in excess of 300 employees. Indicators of wages that can be identified in the social balance sheet are presented below in table 1.

1. In addition to these indicators, remunerations' audit calculates and analyzes the trend of a general indicator of balance, ie the relative importance of wages, with the benchmark value added or turnover of the company.

Table. 1. Remunerations and social balance sheet

No	Group of indicators
I.	The level of earnings
1	Levels of remuneration / total annual wage bill Total annual payroll includes all the taxable Monthly average amount calculated as the ratio between monthly total herd (all employees enrolled in the herd at the end) and the number of

	months (12)
2	Average remuneration / permanent effect
II.	Companies with more than 2000 employees
3	Average monthly remuneration = amount of wages granted in a year / paid employees The number refers to paid employees who worked 8 hours/day all year round
4	Grid earnings (at least six groups are distinguished)
III	Hierarchy
6	Superior decile/inferior decile = average earnings of 10% of the highest paid employees / average remuneration 10% of the most poorly paid employees The number refers to the employees who worked 8 hours/day all year round
7	average earnings of senior staff / average earnings of workers
IV	Structure
8	The percentage of workers whose salary depends, totally or partially, on performance

Source: Martory B., Contrôle de Gestion Social Vuibert Edition, Paris, 2007, p.37-38

This indicator plays the importance of wage commitments and performance of personnel development. Comparisons of this indicator are made on the dynamics, a few years earlier, in the organization, or with the values registered by competitors, with the media of the industry, etc. If this indicator is degraded (ie, where it grows), it requires a thorough analysis of its effects on the line of profitability and trajectory. Its' mode of calculation is relatively simple:

$$P_s = \frac{\sum_{i=1}^{nj} si \times ni}{VA} \quad (1) \text{ or}$$

$$P_s = \frac{\sum_{i=1}^n ri \times ni}{VA} \quad (2)$$

$$\text{or } P_s = \frac{\sum ri \times ni}{CA} \times (3), \text{ whereat:}$$

P_s - the relative weight of wages,
 s_i - wage i ,
 n_i - number of employees with salary i ;
 r_i - remuneration i , including social and related expenses;
 VA - value-added;
 CA - turnover.

This indicator can be calculated on categories of personnel or jobs, on types of subunits.

2. *Information about wages fund and its' structure.* Developments in wages fund can be analyzed by three significant indicators:

- *the sheer size of the wage fund and its evolution*, which can be decomposed into the specific part related to permanent employees and employees with labour contracts of limited duration;
- *the share of wages fund in total costs and its evolution*, calculated with the equation:

$$I_{FS} = \text{Wages fund} / \text{Total costs} \times 100;$$

- *wages fund structure (of its' components)*, which can be given in absolute values of remunerations, various bonuses, employers' social costs, or percentages of the total.

3. *Wages and costs level.* Most indicators used are:

- *medium wage (\bar{S})*, calculated with the equation:

$$\bar{S} = \text{sum of annual earnings of permanent employees} / \text{number of employees}$$

- *the median wage (S_m)*, as determined by the statistical procedure known.

The two indicators are determined by professional categories (for external comparisons) or types of jobs within organization, by location or budgetary subunit, by sexes etc.

- *average salary cost (\bar{Cs})*, calculated by category or budgetary subunit, is calculated with the equation:

$$\bar{Cs} = \text{cost of hours worked, the interim, the extra/ number of hours worked, the interim, additional}$$

- *earnings hierarchy*, which is calculated at organization level, subunit, or job category, with the equation:

$$i_r = \text{minimum wage} / \text{maximum wage}$$

- *the overall magnitude of earnings (a_r)*, leading indicator, for it calculation using the following relationship:

a_r = average salary or the median of lowest paid jobs/ average salary or the median of highest paid jobs

- *the level of social commitments* that can be measured and assessed through various indicators and highlights the importance of peripheral elements of remuneration, such as:

- share of premiums that are paid monthly to wages fund;
- the importance of social work in relation to wages fund;
- the benefits in kind;
- the importance of complementary social protection, provided over the legal minimum.

2. Structural control

This type of diagnostic aims to assess the hierarchy, composition and evolution of earnings, characterizing the system of remuneration and providing a basis for comparison with other competitors in labor practices, in branch etc. Wage structure is a key element in the assessment of a system and remuneration policy.

Regarding the individual structure, the information system should provide for a specific individual or an average salary of a category, pay level and progress on its five components: base salary and bonuses, remuneration for employment mode job, legal peripherals, benefits in kind and more remote peripherals. Collective examination of remunerations refers to the structure and the hierarchy of categories of personal earnings that are used relatively homogeneous labor practices. It seeks to control the architecture of remuneration system of the enterprise and the way this architecture evolves. The structure is characterized on the one hand, with a deviation of earnings in the same level of employment, performance or between

different average and median hierarchical levels.

The structure is assessed by viewing the incidence of various elements that determine the remuneration level, such as the degree of appreciation for employees, registered length, hierarchical level in a post.

In practice, it is associated, in schematic form, to a batch or continuous variable, representative for the impact factor and level of real wages to be paid. The structure will appear in two forms:

- *scheme of progression*, representing different levels of remuneration in terms of explanatory variables and evolution in wage levels. This grid is representative for the extreme possibilities of minimum or maximum wages, where wages are positioned.

- *cloud of points*, linking all real earnings in terms of wage levels. In practice is used a curve adjustment, which translates the trend of earnings development.

Regarding the control structure, it is clear that there is no type-structure that is always optimal, as a remuneration system is a variant translation of human resource management. Therefore, management control is exercised at the level of consistency that exists between:

- real pay system and prior options in terms of system architecture;
- the calculation of the earnings of borderer categories;
- developments of the system of remuneration and human resources management;
- market practices and organizations' form of remuneration.

An illustrative example is provided by J-M. Fleury who classify the forms of remuneration according to three main goals of modern wage policy, ie security, motivation and association. This pyramid allows you to view strategic goals that are associated to wage policy.

3. Acknowledgement

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The Credit Risk Control in the Context of the Economic Crisis

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Abstract

The market economy refers to the implicit presence of a banking system which could ensure the mobilization of all the monetary resources of the respective economy and their temporary orientation towards the development of efficient economic activities.

The financial risks originate in the impossibility of foreseeing the evolution of the variation of the financial and banking risks. When employing their resources, the banks are confronted with a series of risks determined either by the quality of the organization providing the loan or by the general economic evolution or by the general structure of the bank.

For those banks operating in Romania, the risks are even more evident due to the hostile environment in which they operate, but also due to the specificity of the Romanian banking system which is still evolving and adapting to the competitive stringencies of the market economy.

Key words: crisis, credit risk, bad loans, banking supervision

J.E.L. classification: G21

The financial risks originate in the impossibility of foreseeing the evolution of the variation of the financial and banking risks. When employing their resources, the banks are confronted with a series of risks determined either by the quality of the organization providing the loan or by the general economic evolution or by the general structure of the bank.

The market economy refers to the implicit presence of a banking system which could ensure the mobilization of all the monetary resources of the respective economy and their temporary orientation towards the development of efficient economic activities.

By means of their activity of collecting financial resources and at the same time investing them in those institutions which have temporary supplementary needs, the banks fulfil an important role acting as an intermediary. In this respect, the credit becomes an active instrument in the stimulation of economic development since it encourages the emergence of certain phenomena according to the objectives that are to be followed in perspective.

For those banks operating in Romania, the risks are even more evident due to the hostile environment in which they operate, but also due to the specificity of the Romanian banking system which is still evolving and adapting to the competitive stringencies of the market economy.

Detecting the potential banking risks presupposes familiarity with the emergence and evolution of the release factors. The quantification of their manifestation parameters and the tracking down of those indicators which can lead to their identification are very important.

Due to the authentication and prudential monitoring norms of The National Bank of Romania, the **credit risk** is defined as “the risk of recording losses or of not making the estimate profits as a consequence of the inobservance of the promissory notes.”

From an economic agent’s point of view, the *credit risk* is defined by means of the losses registered because the advance cash flow was not collected till due as a result of

the degradation of the *debtor's crediting quality*. From this perspective, the credit risk has two coordinates: rating the risk and its quality.

Rating the risk shows the kind of loss the creditor has suffered as a consequence of the debtor's inability to refund the credit whereas *the quality of the risk* results from both the possibility that the payment may take place and from the guarantees which can cut down losses in case of non-payment. The impossibility of refunding a debt represents an insecure event. In addition, the future exposures are not known for a fact till due because crediting on the basis of refunding programs established according to solid contract clauses is to be applied only in a limited number of situations. The advance refunding of the outstanding loans displays a credit risk because in this situation the bank has to ensure a refinancing of the unattainable income and to cover the expenses generated by the credit granting.

Starting from these assumptions, the credit risk could be divided into three types of risk: *default risk, exposure risk and recovery risk*.

The Default Risk

This risk resides in the probability of non-payment of an outstanding debt. There are several possible definitions for *non-payment*: failure to keep to a payment bond, violation of a convention or economic non-payment. The default risk is proclaimed when the scheduled payment has not been carried through in a minimum period of time from the due date. *The economic non-payment* takes place when the economic value of the debtor's assets decreases beyond the value of the outstanding liabilities, a situation which can stop the debt repayment.

The deterioration of some economic and financial indicators as compared to the assumed level at the credit contracting date could be associated with *technical non-payment*. This non-payment usually triggers negotiations even if the failure to reimburse the credits till due does not jeopardize the debtor's creditworthiness. In certain situations, the bank can even make use its right to ask for a prompt reimbursement of all outstanding debts.

The probability of non-payment cannot be directly measured but one can use the historical statistics of internal non-payment, of the rating agencies and of the central

authorities. The most representative types of ratings are: the rating of the current debts, the emitter's rating and the industry rating. In most of the cases, the rating agencies assess the quality risk of a debt which is conditioned both by the probability of non-payment and by the possible recovery in case of non-payment.

The Exposure Risk

The exposure risk quantifies the degree of uncertainty regarding the borrowed sums. If the credit is reimbursed according to a firm contract program the exposure risk could be considered reduced or insignificant. Unfortunately, this thing does not hold valid for all crediting lines. If the crediting lines allow the debtor to access them whenever he wishes according to his needs and a maximum limit established by the bank, then the bank's risk of exposure is considerable.

The Recovery Risk

In case of non-payment, the recovery is not predictable. It depends on the type of non-payment and other factors such as: the debtor's guarantees and the type of these guarantees which can be correlated with those of a third party. A non-payment does not mean that the debtor will never pay but draws the initiation of certain actions such as renegotiation or the incumbency to reimburse the outstanding loans. If no corrective action is to be taken into consideration then legal procedures step in: the legal instrumentation of the guarantees (which differ according to the type of guarantee accepted) and the foreclosure of the guarantees.

For the assessment of the credit risk Basel II proposes two alternatives:

- the use of the standardised approach according to which the credit risk is cast up by the central bank for each type of assets on the basis of some fixed risk intensity in relationship with the credits typology.
- the use of internal models with two variants, basic and advanced internal models, which allows the bank to assess the risk according to each investment in part. The capital demands are designed according to four parameters of risk: the probability of non-payment (PN), loss given default (LGD), exposure at default (EAD) and exposure maturity (M).

The experience of the banks in Romania has proven that in time, the credit risk has represented the main risk which the Romanian banking system faced against the expansion of the crediting activity since approximately half of the assets are concentrated in credits.

The global financial and economic crisis has strongly influenced the evolutions from the manufacturing and financial sectors in Romania especially during 2009 and 2010.

This interval has reconfirmed the depression tendency of the non-governmental credit starting in the first trimester of the 2008 in spite of some stimulating measures adopted by the central bank. This is an ongoing phenomenon on the credit market and represents a serious challenge for both the banks and the authorities.

A growing vulnerability of the Romanian banking system is represented by the decrease of the credit portfolio quality which has fully manifested itself in 2009 and 2010 and still persists at present against the background of the economic recession. One can add the supplementary burden which the debtors who have contracted currency credits and are not ensured against the currency risk have to support. Even if the outstanding debts are at a manageable level, their growing rate constitutes a reason of worry for the financial stability.

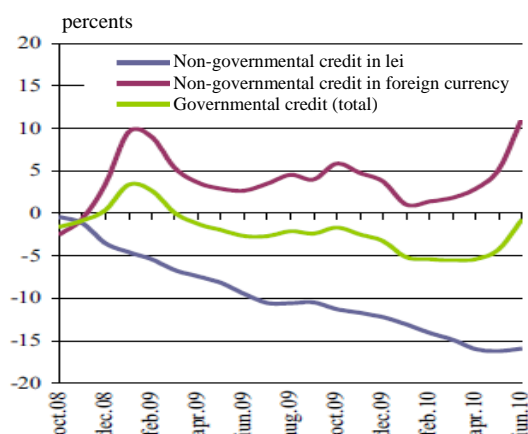
Non-governmental credit contraction in the period 2009-2010 occurred on reducing both the fund supply and demand for loans. In relation to the supply of credit, the determining factor has been represented by the perpetuation of the banks' aversion to risk, despite the measures adopted by the central bank in order to encourage sustainable restart of crediting (reducing the rates of minimum compulsory reserves applicable to the credit institutions' liabilities in lei and in foreign currency, reducing the monetary policy interest rate, amending some stipulations of the bank prudence rules). In the context of these measures, to which one can add the exposure of the main foreign capital Romanian banks, the market has received sufficient liquidity.

The analysis of the monthly developments of the non-governmental credit, in real terms (having as a reference point 30 September 2008 – a moment when the effects of the international economic crisis started to be felt by the banking system in Romania) reveals

credit contraction starting with April 2009 (Chart no. 1).

From the perspective of denomination, trends were similar, but the amplitude of movements was different. Thus, the credit in lei has witnessed a relative decrease since May 2009, the phenomenon being gradually widespread. As regards the component in currency (expressed in lei), the values have maintained positive values during 2009 (a situation mainly occurring due to differences in the exchange rate), but have followed a strong descendent trend. The first months of 2010 have marked the start of the contraction of credit granted in foreign currency, which became positive again only in May 2010.

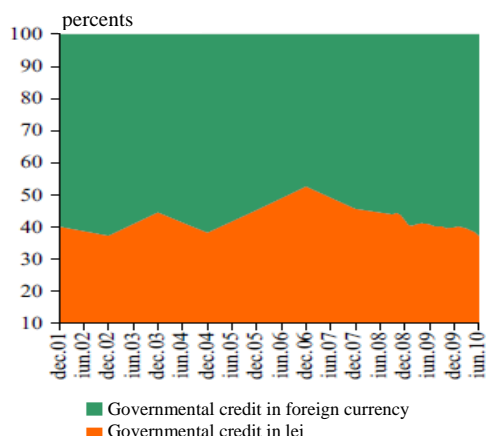
Chart no. 1. The Real Growing Rythm of the Non-governmental Credit



Source: BNR
*) fixed base 30.09.2009

Currency loans were about 60% of the total amount of non-governmental credit between January 2009 and March 2010, but their proportion witnessed a slight increase in the following months (Chart no. 2).

Chart no. 2. The Evolution of Non-governmental Credit according to the Denomination Currency



Source: BNR

In the context of the present economic crisis, according to the data of the National Bank of Romania the analysis of the credit sector of the counties in Romania indicates the fact that in just one year the Romanians' ability to pay their bank credits has considerably decreased. The increment of the arrears is caused by the clients' excessive crediting in relationship with the present income decrease.

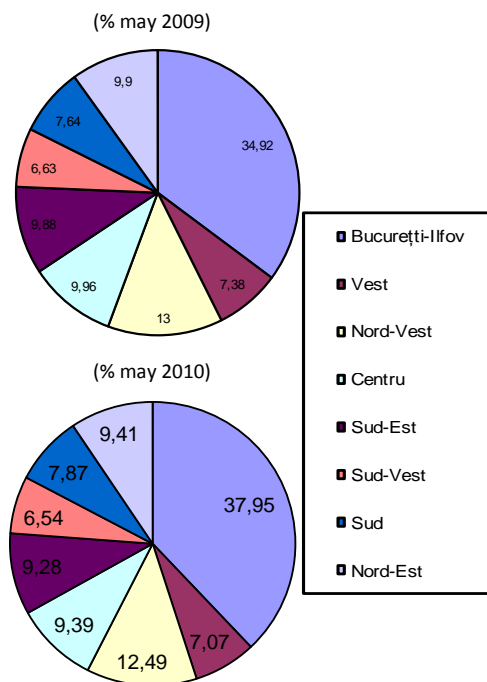
Bankers have more and more problems with the non-performing loans, although they have reported reduced levels of delayed credit payment for each county between 2009 and 2010. There are multiple causes, both the surface ones such as salary decrease, job losses, interest increase and the case when clients have defrauded the banks, especially by using false papers. At the same time, if we take into consideration the fact that most of those who have arrears come from the private environment, the only sector that has known an adjustment at the beginning of the crisis, but we should not forget the state employees will have a diminished income and, thus, the non-performing loans will continue to increase.

At country level crediting has recorded a small increase between May 2009 and May 2010. In practice the credits granted for both individuals and legal persons was of 204.4 billion at the end of May 2010, with 2.2 percent more than in the similar period of 2009. The slight decrease is not the result of contrary tendencies between Bucharest-Ilfov Area and the other regions of the country. Thus, the capital and Ilfov county, the South-

West and the South region have been the only ones which registered an increase in crediting of 11.1%, 0.75% and 5.2% in the analyzed period. In all the other regions of the country the amount of loans was reduced, the largest contraction being recorded in the Center region and the South-East region, with a decrease of 3.5%. Other regions have also witnessed a significant decrease: West (-2%), North-East (-3%) or North-West (-1.92%).

The different rhythms of credit contraction have caused changes in the market share of the counties after the balance of granted loans. Bucharest-Ilfov preserves its leading position, with an amount of 38% of the total financing (77.54 billion) followed by the North-West region, with a financing balance at a less than third of the capital's balance (25.5 billion). The third place is occupied by two regions, Centre and North-East, which each had 9.4% of the total loans (19.2 billion). However, one can say that the North-East region has a slight advance, as the credit contraction has been lower.

Chart no. 3. The Credit Intensity on Regions



Source: BNR

Table no. 1. Counties with the Greatest Credit Arrears Intensity (%)

County	Intensity
Bihor	18,19
Bistrița-Năsăud	10,02
Galați	8,81
Suceava	8,49
Arad	8,23

Source: BNR

Table no. 2. Counties with the Smallest Credit Arrears Intensity (%)

County	Intensity
Gorj	3,39
Vâlcea	3,7
Tulcea	4,12
Vaslui	4,17
Prahova	4,17

Source: BNR

According to the destination of credits (for small operators, consumer and mortgage credits) one can observe that in some counties discrepancies among these segments emphasize differences in development among the administrative territorial units of the country. Nationally, the balance of the credits for legal persons registered a total of over 100 billion at the end of May 2010, increasing by 4.4% compared with the same period of 2009. Consumer loans were reduced by 2.7%, which is the segment in which most arrears are recorded, while through the "First House" program mortgage loans have increased by 13% up to 25.1 billion during a year.

In the total portfolio of loans the share of the outstanding and uncertain loans granted to the customers has increased from 0.32% to 1.5%, while in the total banking assets the intensity of delays in payment registered a growth from 0.29% to 1.01%. At the same time, the unadjusted exposure regarding loans and interest classified in the categories "uncertain" and "loss", including items out of the balance sheet, has increased from 5.95% to 13.52% by the end of 2010, in the context of aggravation of the financial situation of people and companies, but also in the context of increased volatility of the exchange rate of domestic currency.

After the National Bank of Romania has checked the commercial banks, it has also submitted a report which stipulates a series of measures that refer to:

- managing risks and establishing the thresholds at which risks are considered significant;
- reviewing policies regarding management of liquidity risk by improving the control strategies for liquidity crisis;
- reviewing credit policy by setting the limits of concentration on types of credit facilities;
- banning the grant of unsecured consumer loans;
- improving the process of monitoring and implementation of safeguards reevaluation;
- assessing the credit risk according to alternative scenarios for conditions of crisis;
- complying with the maximum admissible limits for large exposure.

The evolution of the banking system has proven that bank monitoring remains an activity required to ensure financial stability, and the future will bring even more challenges for the competent authorities. Consequently, the risks associated with the banking system are in a dynamic process, and the monitoring activity should be improved so as to counteract the functioning problems of the crediting institutions.

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Building a Scoring Model for Bankruptcy Risk Prediction on Multiple Discriminant Analysis

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Abstract

The purpose of this paper is to use discriminant analysis to substantiate a score function effective in bankruptcy risk prediction of enterprises on Romanian economy example. For achieving discrimination between bankrupt and non-bankrupt in the scoring model we used relevant financial ratios related to activity, liquidity, leverage and profitability. The weighting coefficients established between independent variables and the objective function-score, are determined by using optimization, through a solver in Excel, with four financial ratios as input: return on revenue, cash-flow to debt ratio, debt to assets ratio, total debt payment period. Based on financial information submitted for 2009, the analysis was conducted on a sample of companies listed on the Bucharest Stock Exchang and achieved a success rate for the scoring model. The results in this article can be used to observe the evolution of a Romanian company over time, to make an idea about curent and future financial situation, and take, if necessary, corrective measures.

Key words: discriminant analysis, bankruptcy, prediction, financial ratios, score
J.E.L. classification: C38, G33, G17, G32, C52

1. Introduction

Numerous studies in the field of economic and financial analysis focus on bankruptcy prediction, but this does not necessarily suggest that analysts are fundamentally pessimistic persons, but rather can be argued

that bankruptcy is easier to define in terms of methodology than success.

Included by theorists in "professional applications of financial analysis " [1] or by practitioners in "other methods of financial analysis " [2], discriminant analysis can be also seen as a method belonging to the stage of maturity of financial analysis. The scoring is a method that involves internal and external diagnostic and requires risk interpretation for the investor, company's creditor, but also for the enterprise as a system in further activities. It is based on a value judgment development that combines a relevant group of financial ratios (or variables) [3].

Science-based models for bankruptcy prediction have been developed for the first time in U.S. in the '60s by W.H. Beaver [4] and E.I. Altman.

Beaver found that several indicators could successfully distinguish a sample of bankrupt companies to another one without financial difficulties, obtaining conclusive results for a period of up to five years before the onset of bankruptcy. Beaver examined financial ratios independently, without taking into account the existing links between them, resulting in a univariate or one-dimensional analysis. He has, however, the ground work for multivariate analysis, which was developed by Altman and by other economists, whose outcome is to develop a scoring model based on a combination of rates that distinguish the most risky businesses compared to the healthy ones.

E.I. Altman developed in 1968, a multivariate analysis of bankruptcy, combining five financial ratios in a single function, popularized as the score or Z-score model. Subsequently, this model was improved and published under the name

"Zeta Analysis", standing at the base of other bankruptcy prediction models, such as: Edmister model (1972), Diamond model (1976), Deakin model (1977), Koh and Killough model (1980), Fulmer model (1984), Koh model (1992).

The study of bankruptcy risk was restored in recent years, after an unprecedented number of bankruptcies recorded in most Western countries, as a result of the economic crisis that affected their economies. Thus, in 2001, U.S. companies that entered bankruptcy recorded debts totaling over \$ 240 billion, 39 of them each had debts exceeding \$ 1 billion.

Romania has expressed also an interest in obtaining a synthetic tool to forecast the risk of bankruptcy in banks and businesses. In this regard, should be mentioned: the B Score Function (1998), developed by Professor D. Băileşteanu from Timisoara University [4], Model I (1998) built by Professor Ivonicu (similar to B Score Function) [5], Model A (2002) Ion Anghel's outcome on the Romanian economy [6], [7].

Scoring models framed so far have the disadvantage that can be applied only in economies where the statistical study was conducted (or branch or sector analyzed), their use cannot be generalized territorially. Therewith, periods marked by economic instability change the correlations captured by the score function developed, which limits the temporal use of these models, requiring a re-enactment at regular intervals.

The purpose of this paper is to use discriminant analysis to substantiate a score function effective in bankruptcy risk prediction of enterprises on Romanian economy example. For achieving discrimination between bankrupt and non-bankrupt in the scoring model we used relevant financial ratios related to activity (stock rotation, receivable collection, debt payment, assets rotation), liquidity (current liquidity, quick liquidity), leverage (equity debt, cash-flow to debt, debt to total assets) and profitability (return on sales, return on assets, return on equity, return on revenue).

A first step in the scientific approach was to determine the weighting coefficients established between independent variables and the objective function-score, by using optimization, through a solver in Excel, with four financial ratios as input: return on

revenue (Net Profit/Revenue), cash-flow to debt ratio (Cash-flow/Total debt), debt to asset ratio (Total debt/Total assets), total debts payment period (Total debt/Turnover *360).

The research was conducted on a sample of 48 companies listed on the Bucharest Stock Exchange, out of which 27 were used to build the score function and 21 for a posterior analysis in determining the success rate of it. This analysis is based on financial information extracted from annual reports of companies (balance sheet, profit and loss, the Annexes to the financial statements) for the year 2009.

2. Developing a bankruptcy prediction model of Romanian companies on Multiple Discriminant Analysis (MDA)

In building the model, the following steps will be ran through :

(1) **Choose a sample** of companies that includes the two groups:

- Non-bankrupt (N-B) group : companies without financial problems.
- Bankrupt (B) group : bankrupt or ailing companies .

The sample considered in building the score function includes 27 Romanian companies both from public and private out of which 13 companies without financial problems and 14 companies are bankrupt or in difficulty (it was opened the insolvency proceeding) according to information posted on the Ministry of Finance website.

(2) **Compare**, based on a set of financial ratios likely to be significant, the two groups of companies, including indicators of activity, liquidity, leverage and profitability [9].

Detailed analysis of the sample allowed appraisal of the obvious differences between the two groups of enterprises. For this analysis there have been used the average and median of the financial ratios, most relevant being the median rates which eliminate unusual values encountered in some cases [10].

(3) **Select** the relevant ratios for the discrimination (Table 1).

Table 1: Average (AVG) and Median (MDN) of the financial ratios for the two groups non-bankrupt/bankrupt

Rate financiare	N-B		B	
	AVG	MDN	AVG	MDN
Current liquidity	4.49	1.82	0.67	0.65
Quick liquidity	4.01	1.35	0.46	0.36
Equity debt	0.16	0.01	-0.19	0.03
Cash-flow to debt	1.23	0.00	-0.01	0.00
Debt to asset	29%	30%	91%	83%
Stock rotation (days)	39	45	73	71
Receivable collection (days)	137	107	124	89
Total debt payment (days)	161	127	709	466
Supplier payment (days)	44	28	127	115
Asset rotation	0.71	0.63	0.67	0.61
Return on sales	16%	9%	-30%	-18%
Return on equity	9%	8%	-132%	-32%
Return on asset	10%	10%	-82%	-11%
Return on revenue	14%	6%	-35%	-21%

(Own calculations)

Following the selection step we kept the following four financial variables: return on revenue, cash-flow to debt, debt to asset and total debt payment period.

$$X_1 = \text{Net Profit} / \text{Total revenue}$$

$$X_2 = \text{Cash-flow} / \text{Total debt}$$

$$X_3 = \text{Total debt} / \text{Total assets}$$

$$X_4 = (\text{Total debt} / \text{Turnover}) * 360$$

(4) **Develop through discriminant analysis technique** a linear combination Z of relevant ratios (Xi).

The weighting coefficients established between independent variables and the objective function-score, were determined by

using optimization, through a solver in Excel, with four financial ratios as input: return on revenue, cash-flow to debt ratio, debt to asset ratio, total debt payment period.

Therefore, we assume two parameters **a** and **b** which are determined by the following relations:

• To optimize variables through maximum :

$$a = 1 / (X_{\max} - X_{\min})$$

$$b = -X_{\min} / (X_{\max} - X_{\min})$$

• To optimize variables through minimum :

$$a = 1 / (X_{\min} - X_{\max})$$

$$b = -X_{\max} / (X_{\min} - X_{\max})$$

where:

X_{\min} = minimum value of the variable (bankruptcy);

X_{\max} = variable's value when bankruptcy risk is minimal.

Table 2: Weighting coefficients for the Z function

Variable	Value		a	b
	Min	Max		
X_1	-1,65	0,77	0,4136	0,6830
X_2	-4,13	20,02	0,0414	0,1709
X_3	0,01	1,79	-0,5605	1,0038
X_4	23,04	2256,38	-0,0004	1,0103

(Own calculations)

The function developed after the optimization process (Table 2) is:

$$Z = 0,6830 * X_1 + 0,1709 * X_2 - 0,5605 * X_3 - 0,0004 * X_4 + 1,414$$

(5) **Choose an inflexion point (or points)** to perform predictive classification of enterprises in the two groups.

After setting the Z score for each enterprise and ordering information ascending according to it, results a status of all companies in the sample. The inflexion point is chosen in order to minimize the error rate and has assigned an uncertainty range.

The inflexion point that minimizes the error rate is **Z=1,0113**, with an uncertainty range between **1,01 and 1,16**.

(6) **A priori analysis of the success rate** for Z score by comparing the predictive classification (II) with companies known condition (I) in the sample. We recall that this is a priori success rate because it is based on a sample test that led to the score function development.

Table 3 : A priori analysis of the success rate

Enterprise	I	Z Score	II	Rtg
1	B	-1,1986	B	1
2	B	-0,5260	B	1
3	B	-0,3881	B	1
4	B	-0,1044	B	1
5	B	0,1354	B	1
6	B	0,5406	B	1
7	B	0,5447	B	1
8	B	0,5731	B	1
9	N-B	0,6925	B	0
10	B	0,7157	B	1
11	B	0,7230	B	1
12	N-B	0,8695	B	0
13	B	0,8824	B	1
14	B	0,8964	B	1
15	B	0,9206	B	1
16	N-B	1,0113	N-B	1
17	N-B	1,0599	N-B	1
18	N-B	1,0943	N-B	1
19	B	1,1008	N-B	0
20	N-B	1,1662	N-B	1
21	N-B	1,2008	N-B	1
22	N-B	1,2814	N-B	1
23	N-B	1,3426	N-B	1
24	N-B	1,4050	N-B	1
25	N-B	1,4508	N-B	1
26	N-B	1,7107	N-B	1
27	N-B	5,0832	N-B	1
Success rate without uncertainty range				88,9 %
Success rate with uncertainty range				91,3 %

(Own calculations)

Table 4: A priori analysis of the error rate for the model

Classification	Actual	Prediction
B	14	15
N-B	13	12
Total	27	27
Error	Error No.	Error %
Type I	1	7,1%
Type II	2	15,4%
Total	3	11,1%

(Own calculations)

We noted that **an inflexion point equal to 1,0113** leads to a **success rate of 88,9%** (24 correct classifications out of 27) and for two inflexion points ($Z = \text{minimum } 1,01$ and $Z = \text{maximum } 1,16$), which means considering a range of uncertainty between these two points, the **success rate** of the model is **91,3%** (21 correct classifications out of 23 companies located outside the uncertainty range) (Table 3).

A priori predictive analysis of the Z function showed that Type I error (bankrupt companies classified as non-bankrupt) is 7,1% and Type II error (non-bankrupt companies classified as bankrupt) shows a failure rate of 15,4% (Table 4). Z score value scale and range of uncertainty are summarized in the following table (Table 5):

Table 5 : Z Score Range

Z Score	Type	Remarks
5,0832	Non-bankruptcy	Upper limit
1,1662	Non-bankruptcy	
.....	Uncertainty range	
0,9206	Bankruptcy	
-1,1986	Bankruptcy	Lower limit

(Own calculations)

As a conclusion, the Z score function remains:

$$Z = 0,6830 * X_1 + 0,1709 * X_2 - 0,5605 * X_3 - 0,004 * X_4 + 1,414$$

The assessment is based on the following (Table 6):

Table 6: Risk assessment in Z model

Z Range	Assessment
$Z < 1,01$	Bankruptcy / Failure
$1,01 < Z < 1,16$	Uncertainty range
$Z > 1,16$	Non-bankruptcy

(7) **A posteriori analysis of the success rate** for the Z score by analyzing the degree of relevance for another sample of 21 firms.

Considering another sample of 21 companies, separated also in the two groups B and N-B, classification that results from financial statements listed on the Bucharest Stock Exchange and the additional

information provided by ministries for the year 2009, we analyze prediction accuracy for the Z model. The sample includes as mentioned before, 21 companies, 10 belonging to the N-B group and the other 11 enterprises belonging to group B. The enterprises from the testing sample are similar in size and sectors as those from the initial sample.

Table 7 : A posteriori analysis of the success rate

Enterprise	I	Z Score	II	Rtg
1	B	- 0,669 2	B	1
2	B	0,584 1	B	1
3	B	0,659 1	B	1
4	B	0,672 4	B	1
5	B	0,679 7	B	1
6	B	0,703 9	B	1
7	B	0,710 0	B	1
8	B	0,846 2	B	1
9	B	0,930 8	B	1
10	B	0,937 9	B	1
11	B	1,003 0	B	1
12	N-B	1,058 4	N-B	1
13	N-B	1,068 4	N-B	1
14	B	1,115 1	N-B	0
15	N-B	1,119 9	N-B	1
16	N-B	1,156 7	N-B	1
17	N-B	1,170 8	N-B	1
18	N-B	1,222 1	N-B	1
19	N-	1,249	N-	1

	B	8	B	
20	N-B	1,277 9	N-B	1
21	N-B	1,284 0	N-B	1
Success rate without uncertainty range				95,2%
Success rate with uncertainty range				100%

(Own calculation)

Under these conditions we observe that the **success rate of prediction without the uncertainty range** is higher than a priori, reaching **95,2% and the rate of success with the zone of uncertainty is 100%** (Table 7). This allows to conclude that the Z score is effective also on the new test sample of companies (withholding limits considered in building the model) (Table8).

Table 8 : Comparative analysis a priori vs. a posteriori error rate in Z model

Type	Eşantion initial		Esantion testare	
	Actual	Prediction	Actual	Prediction
B	14	15	12	11
N-B	13	12	9	10
Total	27	27	21	21

Error	Error No.	Error %	Error No.	Error %
Type I	1	7,1%	1	8,3%
Type II	2	15,4%	0	0
Total	3	11,1%	1	4,8 %

(Own calculations)

3. Conclusions

Given the current economic situation, trying to build a bankruptcy prediction function score for Romanian companies is a real challenge. Although useful and necessary for users who are interested in the financial health of a company, bankruptcy prediction model shows besides obvious advantages, some limitations such as:

- The sample considered for Z function is limited, number of companies taken into account both for the a priori and a posteriori analysis is relatively small, but the principle and methodology of the research are correct and can be extended to much larger samples.

- Lack of a longer period for analysis before bankruptcy (Z model is based on an analysis period of one year) may reduce the predictive ability compared to the current situation, as the Romanian economy is not in a stable economic period.

As main advantages of the Z model we mention :

- The Z score function developed is a simple function (with only four financial variables) that manages a priori prediction success rate of about 91,3% and a posteriori success rate of 100% with uncertainty range.

- General applicability of the model for the Romanian economy, while the sample that led to the function development included companies from different industries (manufacturing, services).

- The framed model was based on researches developed both domestically and internationally, in the specific field of discriminant analysis and prediction of bankruptcy.

- The sample and separation of the two groups (bankrupt and non-bankrupt) was not based solely on the legal declaration of bankruptcy, but included a more general component specific to bankrupt companies (default)

Discriminant analysis as relevant method in the arsenal of economic and financial analysis tools will become a necessity in the next period, for understanding and applying the economic reality in predicting specific questions of interest to users of financial and economic information. This may prove effective for: further research bankruptcy prediction in companies with specific application to economic sectors or small and medium enterprises; judging companies operational activity by auditors and accountants; using score functions to provide information to investors concerned about finding the most profitable investments, or solutions for their portfolio in order to earn an optimal overall return-risk per share; using discriminant analysis in the macroeconomics,

in areas such as analysis and prediction of success vs. failure of specific economic policies on the development of disadvantaged areas; implementing economic programs for the development of certain industries or sectors.

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Convergence of Social Insurance Public System with Private Pension System in Romania

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Abstract

Romania has a long tradition as regards social security, which is a modern system, since the early twentieth century. Although they are based on increasing the contribution of each citizen, in proportion to the amount being fixed it, PAYG pension system implies certain redistribution based on the principle of social solidarity and between categories of pensioners. In this paper we have proposed an analysis of the current pension system, considering its two components, mandatory and optional. We also conducted an analysis of key financial guarantees private pension system.

Key words: insurance system, financial guaranties, social security

J.E.L. classification: G22, G23

1. Introduction

Until a few years ago, every international meeting pension and insurance is discussed and debated the same topic: the alternative to a public pension system is a system with one or more components based on accumulation, mandatory or optional, privately managed. It further believes that the public pension system is the solution for paying pensions to the current system and multi-component system, of which at least two are based on accumulation, is presented as a possible solution, not the only solution, the current issue facing all countries population ages.

In this international context, Romania entered the two components of the pension system. The problem appears in terms limits and if you have created private pension rules that constrain or better pension schemes that they operate freely, allowing market mechanisms to promote the companies

providing services tailored to the business. Otherwise we have designed the constraints and opportunities than in developed countries because there are major differences in level of development, even in retirement, compared to developing countries, including Romania, consumers with little experience in investing.

2. Social insurance public system

State pension system in Romania is the least financially sustainable in the long term the entire region of Central and Eastern Europe, which means that it is most likely either to become an unbearable burden for the state budget or to collapse. The main problem for Ro-wrath against other countries in the region is the explosive growth of state spending on pensions as a share of GDP by 2050. Thus, while in Romania the figure will climb from 8.4% to 14.8% of GDP during 2010-2050, in Hungary the trend will be 11.3% -13.2% of GDP, while in Bulgaria will be 9.1% -10.8% of GDP. In 2050, if the S & P estimates will prove to be accurate, Romania will spend the most on pensions as a share of the economy of all countries in Central and Eastern European region. Estimates relate only to the state pension system, without taking into account private pensions. [8]

Pensions Act marked the beginning of pension reform in Romania, making the transition to a complex system of social security and pension reforms involved fundamental, in addition to designing a new system, policy, legislation and institutional framework necessary.

It took into account long-term demographic analysis; it seems that future pension situation will become even more difficult due to aging.

The public pension system in Romania is granted the following types of pension:

- Old-age pension
- Early Retirement
- Partial Early Retirement
- Disability pension
- Survivors' pension

Although they are based on increasing the contribution of each citizen, in proportion to the amount being fixed it, public pension system implies certain redistribution based on the principle of social solidarity and between categories of pensioners.[2]

Due to this redistribution (fixing a ceiling on the maximum pension, the value of a minimum pension of a minimum period of contribution) certain taxpayers are disadvantaged and many of them would help if he had not obligated.

Forecast in 2050 Romania's population will reach about 19.4 million, 3 million less than in 2000. Population structure will change, increasing significantly the number of people over 60 years, so that the ratio between the population between 45 and 60 years will reach about 51%. In other words, about half of the population over 45 years will be made up of retirees. [3]

In this regard we consider absolutely necessary to support private pension insurance system.

In context of the current economic crisis, the public pension system in Romania is unsustainable, and private pensions are an alternative for the future.

In the following we highlight the role of the private pension system, its evolution and financial guarantees.

3. Alternative pension and financial guaranties

Pension reform through the creation of occupational and private pension funds is the only viable solution for the countries of Central and Eastern Europe, experiencing, as I said, with a pronounced population aging. The usual tests often meet the particular characteristics of pension systems, regarded as typical scheme, without taking into account the fact that they, in interaction with other factors, can result in a totally different system configurations.

The purpose of private pension funds (mandatory) is to provide a pension that supplements the pension paid by the public system, based on the collection and the investment by private specializes companies in the interest of participants, part of the contribution of individual insurance. By collecting and investing by private and specialized companies of one part of the individual social insurance contribution.

Privately managed pensions, Pillar II or mandatory private pensions, as they are known by the general public, are characterized by directing a share of the personal social security contributions, which is paid monthly in the public system to private pension funds. Contributions are paid as long as that person has the status of taxpayer in the public pension system. Once entered into this mechanism, as required by law, there isn't the possibility of leaving the private pension system, but it is allowed the transfer between funds.

It is noted that the investments consisted by the assets of these funds are regulated, supervised and carried out according to the risk class of each fund, in efficient and prudential conditions.

The right to the privately managed pension opens at the retirement moment, according to retirement age in the public system.

Pension payment will be made by a pension provider and the pension is based on actuarial calculations and net personal assets, according to the accumulated sum of contributions and their investment by pension fund administrator.

If individuals whose net personal assets, at the date of opening the right to pension, are too small to receive a private pension and the disability pensioners for conditions that do not allow the resumption of work, money can reach the recipient as a single payment.

According by law, managers are required to contribute to a Guarantee Fund and the law establishes other security features for Pillar II system: separation of assets from the fund manager, the technical provisions, the minimum rate of return, ensuring net contributions

Also, asset depository and the auditor acts as a safety belt on the pension fund assets.

Persons aged 35 and 45 years were also able to join, but they weren't obliged to do so. Subsequently the original accession, persons required to sign and did not choose a pension fund during that period were randomized.

Currently, each employee pays an insurance contribution system related public pension contribution equivalent to 10.5% of gross salary for each taxpayer. [3]

Contributing to a pension fund does not create financial burdens for participants, but some individual contribution due to the public pension system. Currently, 2.5% share is transferred (2010) and will reach 6% in 2016. Opting for a private pension, a part of this contribution will be redirected to individual account opened on behalf of each participant in private pension fund chosen.

If we speak of Pillar II system, the participant is entitled to a pension on retirement conditions for old-age public pension system. The total amount due for private pension can not be less than the amount of contributions paid, reduced by the penalty of transfer and legal fees.

Same the case with disability for conditions that do not allow the resumption of activity, if the net personal assets is not sufficient to grant a minimum pension as a result of reduced period of contribution.

The beneficiaries' of private pension rights are the same as those of the participants in that pension funds. Beneficiary is entitled, as appropriate, to the aggregation of accounts from one pension fund, if he participates in another pension fund or to pay only if he isn't a participant.

In case of changing job, home or residence in another country, EU membership or the European Economic Space, the participant and beneficiary retains the right to pension gained in private pension schemes pension in Romania and this is paid in that state, as the left amount after subtracting all fees and expenses related to payment.

After retirement, the participant may choose the private pension provider. The amount of these benefits will be based on actuarial calculations and net personal assets located in the participant's account. The pension's size depends on the pension contributions paid over the time and also depends on the yields of the fund manager on which the participant has contributed.

The main financial guarantees private pension system is reserve fund and private pension guarantee fund.

4. Evolution of the private pensions market in Romania

The risk level and performance indexes should constitute the main criterion when choosing a private administrated pensions fund, whether being a first adhesion to this system or a transfer from a less performing fund to some other, more efficiently managed. Nevertheless, guided according to the performance, we shouldn't be influenced by the fluctuations of the financial markets, now and then. Therefore, performance indexes in private pensions system are relevant only calculated for long periods of time, that meaning several years.

When choosing a pensions fund, we have to take into account the risk type, the administrative costs, as well as the experience and the renown of the company managing the fund.

It has to be pointed out it's illegal for an employer to impose its employees the choice of a pensions fund.

Should the manager of the pensions fund have no past on the market in Romania, the adhering decision may be judged upon the fame and the prestige of the society, as well as by the investment strategy, based on the prospect of the pension scheme.

After a two-year function of a private administrated pension's fund, the eligible persons could select the fund on the profitableness basis. This criterion relies on the following: the administrator of a pension's fund, receiving contributions for at least 24 months, should calculate, last working day of every quarter, the fund's profitableness quota for the last 24 months.

Also, the operating costs of the fund can be used as a supplementary distinction marker, as long as less expense ensures more money in the participants' accounts. Going on with the tendency noticed from the start, the Romanian private pension's funds recorded a slight increment, keeping up the monthly slow pace of the final of 2009.

Thus, as of February 2010, 4.971.803 persons participated in the private administrated pensions funds- 2nd Pillar,

growing with 0.7% compared to January 2010. The value of the net assets recorded by the private administrated pensions funds was of 2725.8 million RON (664 million Euros), growing with 7.4% compared to January 2010. [3]

The funds of optional pensions- 3rd Pillar recorded a slight increment, too. So that, in February 2010, the number of participants was of 190327 persons, growing with 1% compared to January 2010 and net assets amount was of 228.3 million RON (56 million Euros), increasing with 6% compared to January 2010, respectively. [5]

5. Conclusions

The main problem facing the public pension system in Romania is insufficient funds. This is due mainly to the ever decreasing number of active people.

Pensions are the most important social insurance benefits paid in the public system of social insurance.

In the context of a growing phenomenon exacerbated by an aging population puts increasing pressure from growing on the mechanisms of social protection, management of public pension system was a challenge for all countries, including the economically developed security systems social tradition.

Thus, both at European and national level, reform of these systems is necessary to ensure sustainability of public pension schemes to increase pensioners' quality of life more akin to that of the active period, by introducing and implementing the security system of two social components, other optional compulsory one, both managed by private companies. As a conclusion of this analysis, we consider both timely private pensions pillar II and pillar III. It is very important, but efficient use of funds set up, their rates of return.

So we recommend the development of private pension systems as an alternative to the public pension system.

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Dimensions of Electronic Commerce in Romania

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Abstract

Since its appearance, electronic commerce has had a significant impact primarily on thinking and business performance. Also, electronic commerce, had a strong influence on the global economy by destroying the barriers of time and space, providing both traders and consumers to interact and engage in conducting commercial transactions, regardless of their location. For some companies, electronic commerce means any financial transactions using computer technology. For others, the “e-commerce” term covers the whole sales, including marketing and selling itself.

Key words: e-commerce, virtual market, e-shop, e-mall, e-procurement

J.E.L. classification: M00

1. Introduction

In the emerging global economy, e-commerce has increasingly become a necessary component of business strategy and a strong catalyst for economic development. The integration of information and communications technology in business has revolutionized relationships within organizations and those between and among organizations and individuals. Specifically, the use of information and communications technology in business has enhanced productivity, encouraged greater customer participation and enabled mass customization, besides reducing costs.

2. How we define e-commerce?

Electronic commerce can be defined as modern technology to do business, which addresses the needs of organizations, traders and consumers, aimed at reducing transaction costs, while improving quality of goods and services and increase delivery speed.

E-commerce means the distribution, marketing, sale, or delivery of goods or services electronically. Option of electronic commerce involves the development and implementation of information architecture based on inter-communication and information technologies and especially Internet technology of achievement in commercial processes. Electronic commerce is quickly becoming a very important tool for enterprises. E-commerce offers to the seller a less expansive means of expansion and to the customer offers easy access to a wide range of products and services. Comparative studies, traditional commerce versus e-commerce, show that electronic commerce gives to the companies the option of a more flexible relationship with business partners.

We remember in the following key concepts of electronic commerce:

Online shop (e-shop) is managed by a company for marketing and selling their products or services. To talk about an electronic store, there must be at least the catalog of products (services), commercial and technical descriptions for each position in the catalog.

Universal electronic store (e-mall) is a collection of stores, united under a common umbrella, for example, a well known brand. Typically, electronic department store definitely accepts common payment method.

Electronic Procurement (e-procurement) is based on the fact that, generally, to procure necessary goods and services, public authorities and large companies use auctions.

A third market (3rd party market place): in this case is appealed to an "interface" user's product catalog, user interface that belong to a third party (generally an Internet service provider or bank. This single interface to several manufacturers of goods became known buyers, being attached to frequently accessed information channels (e.g.: one-button access from the most popular electronic journal). Virtual communities-biggest value of a virtual community it's given by his members (customers or partners), which adds its own information base over a medium supplied by the company. Each member may offer to sell or make requests to purchase products or services. Membership of a virtual community requires a fee. Such providers are specialized in specific functions, for example, providing logistics, electronic payment or expertise in production and stocks management. Payment of such service providers is based on a quota or percentage rates.

Collaboration platforms include a set of tools and information medium need for the collaboration between departments. They may address specific functions, such as, for example, conception or design in cooperation. Gains will come from management platform (member fee or fee per use) and sales of specialized tools (for design, workflow and document management). Information brokerage and other services. There are a lot of services that add value to the mass of information available in open networks or from integrated systems, such as providing customers classified catalogs on your profile, selling business opportunities, investment advice, consulting in specialized areas. A special category is the reliable services provided by certification authorities or electronic notaries^[1]

3. Advantages and disadvantages of e-commerce

E-commerce presents a number of advantages and disadvantages, analyzed in terms of the dealer, on the one hand, and on the other side of the buyer's perspective.

Compared to the merchants, some of the benefits of electronic commerce refer to: contact with customers, both day and night,

all weekdays, and the costs are very low; facilitate the entry to international markets, the possibility of access to goods and services providers worldwide, thus expanding business in foreign markets; easy access to market research, studies on the broader issue that involves market and its components, namely the population's demand, the supply of goods, consumption and its futures particularities, price, quality, delivery time, content products and their components; creating the condition for direct marketing practice (one to one) because, unlike humans, computers can hold much more information about the customer, since their names and personal data, continuing with their preferences, being able to adapt the offer and the presentation of products by each customer's profile; the bidding for a variety of products and services appearing in this auction sites, joint purchasers and barter; closer and easier integration of local and foreign suppliers in the supply chain; increased revenue through partnerships of small traders to larger businesses^[2]

In relation to buyers, e-commerce also presents a number of advantages: permanent availability to all those interested in, independent availability of such a program, this means a big advantage for the customers who have the opportunity to make purchases both day and night, when they have time and funds needed; convenience; free access to information and various products.

Electronic commerce involves however a number of disadvantages, both regard to traders and buyers. Thus, relative to the retailers, the disadvantages are focused on: possibility of fraud, because in the absence of a direct contact, a trader client can cheat on his identity or his real possibilities of payment; ensuring data security. Connecting to a public network where anyone can access, more or less authorized to confidential data on your local network really raises questions in the presence of risks that did not exist for traditional trade. Related to the buyers, the e-commerce disadvantages refer to: security, privacy, lack of human contact, access to technology. Potential buyers fear that, through the Internet, merchants or a bad person can collect very detailed information about them without even realizing. Unfortunately, these fears are the result of exaggeration, especially in the West, is very

fashionable the conspiracy theory.

In terms of electronic commerce over the Internet, there are a number of operational advantages as a result of Internet using in business: small percentage of errors; saving time; reducing costs due to the use of electronic databases; creating new market segments and sales; increasing sales; a fast entry into the markets; higher speed the buying process.

4. Romania's e-commerce

Appeared in Romania at the end of 1999 and knowing a very important point of growth so far, electronic commerce is near the beginning stage of maturation. Even if it register now a very large increase in electronic commerce, few e-stores will survive this transition period, and in 3-4 years we can speak of a stable e-commerce market. Open an electronic store can help develop business or become a real problem. Success or failure depends on establishing clear targets proposed to open the store and careful planning of how e-commerce business will be integrated current business strategy and daily operations. Although customers are afraid that the safety offered by electronic commerce, it is certain that the number of customer e-shops and companies that adopt e-commerce system is increasing. Many Internet service providers purchase this online system to induce an added confidence and consideration.^[3]

5. The main developers of e-commerce solutions

IBM Corporation- develops the Web Sphere server. In 2001, IBM launches Web-Sphere Commerce Suite Pro5.1, which is an e-commerce solution based on Java.

The largest company in the world, Microsoft Corporation, launched in February 2000 Windows 2000 operating system, a version of Windows NT, after about five years of development^[4] Windows 2000 was created to serve as a platform through which companies, including e-commerce to be able to conduct business. In an effort to compete with IBM's Web Sphere server, Microsoft is launching in December of that year, the BizTalk service. In view of the writer John

Fontana Network World, "BizTalk is one of the basic parts of Microsoft's attempt to impose its Windows operating system and applications as a platform for the Internet."

The nearest rival of Microsoft Corporation in software is Oracle Corporation, founded in 1977.

The company competes with Microsoft and in e-commerce solutions. Oracle has become a leading provider of e-commerce in 1998 when launching Oracle 8i, a well-known version of their database software, integrated with web services.^[5]

In Romania the situation is far from the Americans, for example, which give special attention to this type of shopping. Tributary to the Romans are still stereotypes which bought the property should be palpated, measured and returned on all sides. In recent years, but a new social class appeared, the people who work in the private sector have a particular style of life and extensive use of Internet. Online shopping, with their obvious advantages, starting to become commonplace for them. A proof of the maturity of electronic commerce in Romania is present in the top 10 of two sites shopmania.ro price.ro and offering a comparison of the products offered by various online stores. These systems are very popular in developed countries and represents proof of maturity, from those who buy online. Another important aspect is the presence of the top ten e-commerce sites not less than four online stores that sell IT products, electronics, mobile and / or appliances. Even five sites and if we consider dol.ro (which offers such products). In conclusion, we see that online stores offer the largest IT products in cyberspace Romanian search. This confirms us that in Romania Information Technology plays an important and those who have a computer are the first to call with more confidence in these services. Position in Top 10 librarie.net site, we confirm that the Internet are in high demand books. The explanation is simple: in Romania, the most developed system of payment is cash.

Clearly, books, CDs, DVDs fit best in this trade. Detached leader, at least in this time of year, is the site okazii.ro. The website Net Bridge Investments was launched in April 2000, the basic idea consists in providing an environment where it is possible that buying and selling at the best price for various

items. In the top online stores in Romania, we find culinar.ro site through which we find at home food delivery services, caterers. If we are too busy or not very comfortable, we can call one of the companies present on site to help us to purchase products that we need.

Turning to the disadvantages of electronic commerce (degree of uncertainty, infrastructure, attitude and ignorance) to Romanian buyers, accustomed to traditional commerce, we enumerate several obstacles to overcome: buyers can not touch / test the products, presenting items in stores counting very much; there was a salesman who can make recommendations and answer questions, even though many online stores offer online support; have implemented a system of delivery and reception of money, be promoted to potential buyers shop. Most major online stores in Romania have understood these obstacles and to a large extent have tried, successfully, to overcome them.

According to an initial survey in 2006, then resumed in 2008-2009, continued in 2010, which relates to the subject from the customers, it is interesting to observe several developments: the percentage of people who would buy more frequently on the Internet if they receive special offers discount: 8% in 2006 to 18% in 2009-2010; decreased the percentage of those who want faster delivery: from 25% in 2006 to 6% in 2009-2010. This does not mean that delivery is much faster now, but that those who order online are not so sensitive to delays, but more on price. Paradoxes considering the current economic situation in Romania, the low number of those who say that a better financial situation and would encourage more often ordering: from 21% to 15% above the same period analyzed. "As e-commerce sales volume in Romanian, the annual total is around 250 million euros, but we expect to grow rapidly in coming years due to changes in consumer purchasing preferences, which significantly migrate to trade online ", said Marius Ghenea, president of the Romanian Association of Online Shops (ARMO). And the forecast for this year are encouraging. This market will grow on average by 15-20% in 2011, says representative ARMO^[6]

6. Conclusions

The conclusion arising from this study in terms of online shopping in Romania: 49% of those surveyed say they buy online to save time, not saving money; delivery time are interested in getting less than in previous years; The main incentives that would convince you to buy more often low prices and discounts. Thus, we can say that online prices in Romania are still large and the main advantage of a command economy of time is necessary.

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Present Issues of Global Economy

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Abstract

The present financial crisis is the result of the „cheap money” philosophy put in practice at the beginning of the millennium by the national American Reserve. In a globalised world both the benefits as well as the risks are rapidly transmitted on a large range causing either positive or negative effects. The most important constant fact is that real risks for the world economy have been identified in real time but they, also, have been, for various reasons, ignored. As a consequence, it appeared the most severe world crisis and it is estimated that its effects will be present for a long period of time. Paradoxically, ostensibly, the most serious effects appeared in the most developed economies as a consequence of interdependence ties of the financial markets with the American market. The second part is about the structural crisis from Romania and the conclusion is that no matter of the international context, the crisis would have manifested itself. The analysis of the crisis evidenced the necessity of a radical reorganization for the global financial system and for Romania the reorganization on strict scientific bases of the whole social-economical environment. The next challenge is the permanent adjustment of the equilibrium between state regulations and free initiative.

Key words: Financial crisis; Structural crisis; Subprime credits; Cheap money; Adjustment mechanism.

J.E.L. classification: F30, G01

1. Causes of the last financial crisis

An unequivocal answer about the way we reached this economic-financial crisis is difficult to give. After 2003, when the recession from the USA ended, everybody believed that a stable business environment was created, with *selfmaintainance tendency*, with an endless economical growth. What happened on the so-called *Black Tuesday* on October 29, 1929, repeated? In order to give an explanation is necessary a summing up of the capitalist development philosophy. The globalization had positive effects because of the liberalization of the world trade, the diminuation to the disappearance of communication costs, the expansion of the management request, etc. The globalization process also imposed misregulations of the financial markets so that both the profitability and the associated risks can be transferred rapidly at a global level. The general optimism was justifiable by the fact that each time the consumer society found the necessary resources to overcome the critical situations. Starting with the 80's, the introduction on a large scale of the information technology, first in the United States and then in the other developed economies, created the premises of a growth of labour productiveness in a superior rhythm for the wage expenses. This situation permitted the accumulation of capitals for investments and for the growth of the consumption segment. The benefic effects of the information technology introduction ended around the year 2000 and then it was necessary to find another factor to animate the economical growth. To this point it is also necessary to remember a psychological factor with important subsequent implications. The fall of the communism inducted the idea

that only a capitalist society is viable and, as a consequence, a relaxed attitude towards confronting the risks appeared. Technologically, a growth factor of the productiveness such as the information technology was no longer available and, under these circumstances, a financial origin factor was approached, that is "cheap money", this factor allowed an easy access to credits for companies and a part of the population that previously were excluded by the imposed conditions of the banks. Even if in developed economies was already present, as we have previously mentioned, a riskseek attitude, the well-known financial institutions analysed with seriousness the economical-financial evolution and identified the possible risks as well as their probable consequences. The O.E.C.D. president pointed that „The global economy is rising, but it also has to face the risk of economic disbalance and the rapid growth of the interests because of the too sizable public deficit". A study of Global Insight, showed that a greater impact than that of the increased price of oil, it could have been the *collapse of the real estate market* in the developed contries that were facing the overevaluated prices phenomenon and could have been followed in a short period of time by their brutal fall, which it really happened. The amplitude of the effects of real estate market collapse was given by the fact that the real estate properties represented 60% of the total real assets in the world. Global Insight appreciated that another major risk was coming from the companies unable to create more *working places*.

As noticed, although the risks have been identified correctly, no measures were taken neither at the market level nor at the level of the authorities to stop or to diminish the manifestation of the risks. The issue can be considered even backwards. Without the "cheap money" policy the world developing rhythm would have been the same? The growth of the world's Gross Domestic Product calculated according to the parity of the purchasing power was of 4,9% in 2005 and of 5,3% in 2006. This growth was the most accelerated for the last 20 years. To be noticed that in the same period, while the developed contries registered a modest rhythm of development to 2,5% (USA – 2,2%; Germany – 1,4%, etc.), countries that

were developing situated themselves over the average (China-9,8%; Czech Republic – 5%; Romania – 6,5%; etc.). The conclusion is that the main winners of the new financial strategy were the emergent economies, but one must not forget that the greater risks were to be faced by the same economies. The year 2008, marked a turning point in the history of the world economy and trade. The growth of the world economy slowed down suddenly until the end of 2008 at the same time with the aggravation of the world financial crisis. The year 2009 meant the decrease of the world's GDP with 2,7%, after a long period of growth. The first signs of the crisis registered in the autumn of 2006 on the New York Stock Exchange and exacerbated in the following year leading to a falldown of the world economies and financial markets. The multitude of causes that led mankind in the crisis can be found both in the speculative behaviour of the economic agents, mainly, but also in the behaviour of the market reglementation institutions. The economic science supported by the practice shows that a system crisis can be provoked by a *monetary surplus* over the needs of an economy in order to assure the normal merchandise and service circulation. The monetary surplus is dued to the unjustified economic reduction of the interest rate, phenomenon that stimulates the expansion of the credit. Without a fair management, the inflationary policy of the state generates delusive profits and feeds the speculative phrensy which, in the end, disintegrates under the burden of its inconsistency. The main factor, determinant of the crisis is the inflationary policy from the beginning of the 2000 years. The monetary policy of the US Federal Reserve System (FRS) was to stimulate the internal economic growth in a rapid rhythm and on a long term. The aim of money issue and a policy of lower interests was to decrease the financing costs for companies, risking an accentuate growth of the inflation. The nominal interest rate fell from 6,25% at the beginning of the year 2000 to 1,75% at its end. It continued to decrease reaching a record level of 1% in 2003, at this level remained for a year. In the context of increasing prices, the real rate was negative for 2 and a half years, which meant that the banks were paid to take money from the US FRS, money that was spent in the economy

considering other stimulents and political pressures that influence decisions. The USA example was followed by the Bank of Japan which offered to the commercial banks money with a zero nominal interest and the Central European Bank reduced the interest rate to about 2%, level to which was maintained for almost 4 years. A great deal of money from the central banks was invested in their own economies. The best example is the real estate boom from the USA, but such phenomena manifested in all the countries in which existed the monetary conditions for real estate speculation. The other part of the money was used abroad as direct and capital foreign investements, with great risks at times. The occidental financial groups greatly attracted resourses on a short term and at a lower price from the international financial market using them to sponsor the growth of their subsidiaries' turnover from the emergent economies. A great part of these capital flows were invested in other real estates assets, investments little liquid and risky, but very profitable as long as the market continuous to grow. This phenomenon registered in Eastern Europe, too, as well as in Romania.

According to the statistics, from the mid-2007, when the *subprime* panic started, the dynamic of the deposits stopped keeping up with the credit evolution, the bank sector started to accumulate rapidly and vertiginously debts of about 250 billion of dollars, a great part of them on a short term. It is estimated that 90% of these debts are of the European banks. In the following period the non-performing credits increased as volume, the worst appreciations presenting a figure of 5000 billiards of dollars. Every state considered their economical development and the immediate policy interests. The former had a high level of subjectivity which is mostly contradictory with the objectivity of the economic action. With the abundant money issue, a state assumes the so-called *too big to fail policy*, that changes the bankers and investors behavior, mainly, the attitude towards risk. Printing uncovered money, in the real economy were overcome the local crisis from the years 2000. Such a behavior of the state, also known as the „*moral hazard*” determines the exit from the economic rational patterns, investors being sure that the state will take over the possible

losses. In such conditions, the most profitable business is the speculation with more borrowed money. No matter how many regulations appear, *the tendency* to crisis is incorporated in the system. It cannot be avoided than with the total reformation of the system. The moral hazard is more present because of the governmental regulations, such as the guaranteed program for deposits. The discreet reglementation policy of the state is appreciated in some circles that replce the private management of the risk. In this approach it is ommitted the fact that the bank activity would have become really cautious, having as effect a considerable decrease of the creditation volume and implicitly the slowing down of the real developing economy. The surplus money inducted to the bank system a *growth of the indebttness rate*, so an accentuation of the risk of the impossibility to regain the money, considering that an important part of the credit was given under the practicable standards until the moment of enacting the “money in excess” policy.

The American government launched an encouraging credit programme for the poor population considering an older policy of growing the number of house owners. The legislative measures enacted with such a purpose misled the credit assignment, as it stimulated house construction expansion and the growth of the number of non-performant credits (subprime). The appreciation of this policy is dual: on the one side, it can be considered the category *oldies but goldies* of the populist promises, and, on the other side, it cannot be denied its aid at the development of the economy. When the crisis began, the volume of the guaranteed subprime mortgage credits was of 1 trillion of dollars, contributing decisively at the growth and fall of the speculative real estate balloon.

A similar situation, of *regulation by-pass* by the financial institutions developed in the European Union, too, with the Basel I and Basel II Agreements. The bank institutions started to innovate in order to find the most profitable ways. The first step was to modify the portofolio's structure by increasing the weight of the risky assets. The next step was to eliminate the assets with a high level of risk outside their own balance using to such a purpose complex financial instruments obtaining the indirect lending of the

economical agents through specialized institutions, thus, avoiding the necessity to grow their own capital. The short presentation about the involvement of the American state in the issuance of the non-viable bonds on a long term and the practice of European banks to pass-by the provisions of Basel I and Basel II, raises the question if the bank system and the financial market, generally, must obey some regulations or must they be let free. When regulations are imposed, they constrain the banks to give up their independent policy and to adopt standard models of quantitative evaluation of the risk. If no rule is imposed, the banks are preoccupied to identify profitable investment projects and would accept an adequate risk to the accepted limits.

2. Structural crisis in Romania

The Romanian economic crisis has internal causes found in the mingled macroeconomic policy adopted in the 90s'. The lack of external debt, in the conditions of an articulate economic strategy, it would have permitted the attraction of important capitals for the retechnologisation of some economic departments with positive effects for the export productivity and competitiveness. But the situation was not like this, for long periods of time it was chaotic. Getting back on a normal course of economic development after 2000 happened on exhausted bases on short and medium term. The main growing factor was the private consume, plus services and agriculture. Consume was stimulated by the credit facilities for natural persons. The same facilities were enacted for economical agents, too, but because of the lack of ample investment programmes, nobody could exploit them. Thus, the most important way to support a long term growth was lost. Among the growing factors, we mentioned agriculture, but the production in this sector was positive as a result of the climatic factors and not because the investments.

If the actions from the American economy led to a world crisis, the evolutions from the Romanian economy led to its own crisis which, accidentally, happened in the same period of time. The consequences of the local policy are defined by two negative effects:

- the growing index of labour productivity is inferior to the growing index of the wages;

- the exponential growing of the current account deficit as a following of the exacerbate private consume by creditation.

The causal analysis of the world and Romanian crisis put into light the following aspects:

- the economic crisis from Romania is of internal, structural nature and it would have been impossible to avoid it even in the absence of a world financial crisis;

- Romania's connection with the external financial market can be done, mainly, through the bank system, an important part of it is made up of the branch offices of foreign banks;

- the external economic crisis affected Romania at the level of the current account by diminishing the volume of the exports;

- as the causes and the transmittion mechanism are different, the measures of ending the crises cannot be similar in Romania and in the other developed economies.

Tabel.1. Comparison between crises types

	External economic crisis	Internal economic crisis
Structural causes	Market liquidity excess Misuse of the financial fluxes from the real economy towards investments	Private overconsume by excessive creditation Wages index superior to the productivity index
	Speculative balloons on more markets	Speculative balloons on real estate market
Transmission mechanism	Exposure to risky and nontransparent derivates to obtain short term profit Speculation in the real estate market stimulated by credit policy	Financing the current account deficit Strict reduction of the capital entrance as ISD
Adjustment mechanism	Anti-cyclical policies: - growth of budgetary deficit - growth of public expenses	Pro-cyclical policies: - reduction of budgetary deficit - reduction of public expenses

Generally, there are more causes of the economic crisis from Romania, without a prior unanimity: too fast liberalization of the capital account, consume stimulation based on short term external financing, budgetary and fiscal policy, postponement of structural

reforms; reduced absorption of structural funds; crisis denial before the 2008 elections, which led to the postponement of some prevention measures and to the growth of disbalances.

The liberalization of the capital account finished in April 2005, once with the implementation of the most important stage: the access of non-resident persons to lei deposits. Besides the benefits, such as the assignment of capitals towards most productive usages, the reduction of financing costs; the growth of the financial system depth, etc., may also appear major risks which if they are not fought back in real time can manifest with a great amplitude. The possible induced risks of liberalization are: the excessive growth of the credit volume; the exposure of sudden capital entrance and exit by portfolio investments and rapid appreciation of the national currency with an impact upon the current account deficit.

Prevention and attenuation of the manifestations of such risks can be done through: predominance of direct foreign investments in the financing of the current account deficit; a careful fiscal policy, with as lower budgetary deficit as possible; discouragement of the speculative capital entrances with a reducing interest rate policy and a flexible regime of the exchange rate. Though, massive foreign capital entrance, greatly speculative capital, attracted by the rates six times higher at the lei in comparison with the euro, determined the appreciation of the exchange currency rate. Between October 2004 and July 2007, the currency exchange rate appreciated with 35%. At the question if it was a correct approach or it was necessary a gradual approach for the liberalization of the capital account can be presented pro and con arguments, it is sure that it had to reach this point and, especially, to act decisively in order to avoid negative effects.

The efficiency of the deposits in the national currency was the main growth factor of the current account deficit. The foreigners started to keep their economies in Romanian banks, and the branch offices of the foreign companies preferred to get short term loans from abroad and to speculate this money in Romania, as they gained both from the rate interest difference and the exchange rate. But this it is only a volatile financing, money can

disappear at any time if the market conditions change. And the conditions started to change in August 2007, when the lei started to depreciate. The growth of the reference rate can determine the staying of the capital in the Romanian banks, only that such a move is favourable for the speculative capital. In contradiction, the productive capital is stimulated by funds with as lower costs as possible. "*The fever of the excessive consume from loans, remains the main cause of the crisis*" seems to be a sufficient argument for the situation in Romania. The stimulation of consume was assured by the growth of the external debt on a short term. The total external increased from 18 billiards of euro in 2004 to 72 billiards of euro in 2008. At the end of the IIIrd trimester of 2008, so at the climax of the economic growth, as from the IVth trimester of 2008 it started the economic deceleration, the external debt on short term represented 33 billiards of euro, of which 99% was a private debt. The non-governmental credit increased from 10% of GDP in 2001 to 39% of GDP in 2008, in the conditions in which the GDP increased over 4 times in nominal terms in this period. The nongovernmental credit registered a change of weight factor in favour of the credits given to the population from 30% in 2004 to over 50% in 2008.

Ever since the summer of 2007, the credits given to the population exceeded the deposits in the banks. This phenomenon was objective considering the population's income and the value of the savings could only have a low procentage. The consume leap by credits could not have had these consequences if the real economy had had a different structure. The private consume was stimulated by the evolution of the real estate market, too, the increase of the houses and land prices in an alert rhythm guaranteed the obtainance of a proportional volume of credits. *The fiscal and budgetary policy* is the main way of intervention of the state in economy. A fiscal or budgetary policy is procyclic and then it exacerbates the fluctuations of the economic cycle. The economic science connexes procyclic policies to the corruption level in a country. The budgetary income never got over 32% of the GDP, the lowest level in the EU, although it could have been possible in an economy with high growth rates. Many investment

expenses are not justifiable both as destination and as volume. Other part of the expenses can be found in the wages growth superimposed over the election campaigns. The nominal growth of the budgetary wages in the period 2005-2008 was of 86%. When one has high rates of economic growth, it is not possible to have high budgetary deficits. The main cause of the crisis is represented by the postponement of the structural reforms. In the conditions of the dis-industrialisation from the 90s' existed a weak preoccupation for the attraction of direct foreign investments and the stimulation to invest the local capital. An extremely negative role is the fact there was no adequate infrastructure. The great agricultural potential of Romania had no great investments, the peaks of production were obtained thanks to the favourable climatic conditions. In the present conditions when the price of agricultural products is increasing it is absolutely necessary a national strategy in the field. It is unacceptable the perpetuation of this situation from 2010 when millions of agricultural land hectares were not cultivated. The Romanian economy was and remains the most energy eating economy from the EU, with a medium consume 6 times higher than the EU average.

Romania took the most inefficient anticrisis measures according to the research center in the economy field, CESifo Group. The anticrisis measures from Romania received only 1,3 points from CESifo. Romania's brief is only a bit above the "insufficient" grade, although there were a number of 12 measures. The solution of a healthy economic growth in Romania, it must be the one proposed by the developed countries, that is, to create new jobs, it is considered to be the most semnificative indicator for crisis transgression. The level of occupation of labour force is situated under 60%, a lot below the target established through Lisboa Agenda at 70%.

In Romania the anti-crisis measures pointed, on the one side, to diminish the budgetary expenses by reducing salaries and social expenses, and, on the other side, the growth of the incomes through suplimentary taxation of the work force, the introduction of the minimum tax on the turnover and the rise of the VAT with 5%. Even with limited financial resources, many emergent economies have implemented staffing stimulation measures, among which we mention: Czech Republic reduced the health insurance contributions paid by the employer and the employee; Poland reduced the tax level on income; Hungary tripled the funds allocated in 2009 than in 2008 for public works of local infrastructure; etc. The economy cannot be restored by reducing the occupation and implicit reducing the effective request. There are even other efficient resources in the economy and in the incomes at the budget which were not exploited. The most obvious is the reduction of the tax evasion of which causes are to be found in the taxing and in the corruption. Bringing up the "grey" economy can be done by diminishing the taxation burden just like in the American economy. It is important the position of foreign investors towards the multiple changes of taxing in 2010. They labeled as "impredictable" the Romanian economic environment and that the risks on long term financial projections are too high.

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Postwar Romanian Exterior Trade – Evolutions and Tendencies

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Abstract

The immediate postwar period included Romania in the USSR influence sphere and marked its evolution, leading to a socialist self-isolation from the other countries of the world, which diminished considerably our country's chances to anchor itself to the international division of work and to the world circuit, to keep up with the international economic progress. But the changes in the political landscape, from Central and Eastern Europe, at the end of the eighth decade of the xxst century, led also to major changes in the economic field. One by one, the countries under the communist domination passed into another evolutionary stage, wishing strongly to become democratic states and free market economies. Romania's adherence to the UE generated profound mutations in the developing of goods trade and marked the passage of our country into a new stage of aperture, development and setting of policies and business strategies.

Key words: exterior trade; imports; exports; trade balance

J.E.L. classification: F14, F15

1. Introduction

The communist period let a notable mark on the entire Romanian economic system, and the evolution of the external commercial relations was strongly marked by the orientations of the centralized leadership, which completely contradicted the theses, the concepts and the objective economic laws. According to the declared data, between 1950 – 1989, the total value volume of the Romanian exterior trade recorded an annual

average developing rhythm of about 10%, increasing about 36 times, the export 42 times and the import 29 times [1]. Comparing the Romanian exterior trade average growth rhythm of 15.75%, during 1960-1980, with the other national economic indicators: GDP = 9.5%; industrial production = 12%; income level = 11%; one can notice that the trade activity overcame all of them.

The period between 1981 – 1989 was strongly marked by the Romanian exterior trade correction measures, powerfully centered on reducing the external debt – through anticipated payments, by increasing the exports and decreasing the imports. The psychosis of paying the external debt led to the restriction of population consumption and to the country's isolation in the international environment. In the first decade of 1989, Romania became a country without external debts, with an excess trade balance, but with a population brought to the brink of despair. Our country share in the international trade, of 0.5% at export and 0.3% at import, expresses, unfortunately, our vulnerability towards the external competition environment and the inferior position towards other developing countries, with similar national potential or with an even lower potential than the Romanian one.

2. The evolution of the Romanian exterior trade during 1990 – 2006

Romania's start in the transition process towards a market economy was a complete failure, economically and socially. **The Romanian exterior trade** knew a powerful decline beginning with 1990, situating itself in 1991 below 50% from the level reached in 1989. If the **export** represented, in 1993, about 40% from the level reached in 1989, in

the following years, although a certain recovery was recorded, it was by 1.6% smaller in 1998 than in 1997 [2]. Practically, the level of the **Romanian exterior trade volume** from 1989 was reached in 1995. The **volume of investments** in economy represented, in 1992, about 20% from the one recorded in 1989, the **currency** depreciated about 100 times, the **inflation** reached three figures, the **prices** increased dramatically, at the beginning of 1993 the **unemployment** exceeded 11% of the total active population, and the living standard decreased catastrophically [3]. **If in 1988 Romania occupied the 38th place in the world trade, in 1999 occupied the 60th place.** This sad painting of Romania's first years of transition towards a market economy expresses the image of the economic recession given the lack of coherent governmental policies and stable economic developing strategies, during a long or average period of time.

Tabel no. 1.

The evolution of CIF import and FOB export during 2001 - 2006 (million dollars USA)

	2001	2002	2003	2004	2005	2006
Import	15543	17869	24015	32679	40438	51067
Export	11394	13870	17606	23470	27755	32375
Trade Balance	-4149	-3999	-6409	-9209	-12683	-18692

Source: Processed after: National Institute of Statistics, Yearbook of International Trade of Romania, 2008, p.23

The structure of the Romanian exterior trade on products degraded strongly during Romania's transition period, as the share growth result of the low added value products detrimental the high tech products. But starting with 2004 one can notice the ascending trend of the high added value products and the decrease of the low production. Practically, after a long period of time, the exports of cars and mechanic devices, apparatus and electrical devices, recording devices and devices for the reproduction of sounds and images have exceeded the exports of clothing, manufactured or fabrics, knitted or crochet, textile materials.

The geographical orientation of Romanian exterior trade during 2002 – 2006 was especially towards the EU countries, on average 68.6% at export and 61.1% at import, reaching the maximum level in 2004. Italy and Germany remained the main commercial partners of Romania, with an average at export of 21.5% and respectively at import of 17.5% and 14.7%. If before 1990, half of the Romanian exports were orientated towards the former socialist countries, in 2006 the exports had as preponderant destination the countries with market economy.

Analysing the destination of the **Romanian exports** the following aspects are emphasized:

- If in the first two years of the analysed period, 40% of the total Romanian exports were concentrated in two countries (Italy and Germany), starting with 2004 the exports towards Italy started to decrease, being, in 2006, smaller by 30% than in 2002.
- The exports towards USA had an oscillatory, but negative, evolution which placed it from the fifth place in 2002 on the ninth place in 2006.
- Turkey ascended rapidly in the classification, from the sixth place in 2002 to the third place in 2005, almost doubling its share.
- Greece got out of the top ten in 2005 when Bulgaria entered.
- The ten partner countries totaled, during the analysed period, about 72.7% from the total of Romanian exports, and EU about 68.6%.

The orientation of the **Romanian imports**, on partner countries, during the analysed period, shows the following evolutions:

- Almost 40% from the Romanian imports were concentrated in Italy, Germany and Russian Federation. But starting with 2003, Italy starting losing as share, in the total of imports, and in 2006 was overcome by Germany, which became the first partner at import.
- Although France had a slightly oscillatory evolution, it maintained itself on the fourth place, except for 2004 when exceeded the Russian Federation and reached the third place.

- Turkey increased its share permanently and ascended from the eighth place in 2003 to the fifth place, maintaining this position in 2006 too.
- USA, Netherlands and Great Britain left the top ten. Starting with 2003 China entered the top and ascended rapidly from the ninth place up to the sixth place, doubling its share in 2006 from 2003. Kazakhstan and Poland are the new countries which entered the top, starting with 2005, with a share of 3.2% and respectively 2.8% in 2006.
- The ten partner countries totaled, during the analysed period, about 67.4% from the total of Romanian imports, and EU about 61.1%.

There's no doubt that the Romanian exterior trade development, during the transition period, with a limited number of countries, in an overwhelming majority UE member countries, confirms the orientation of the external economic relations of our country towards this area. Naturally, the access on a demanding market leads to a stimulation of the national potential in order to increase the competitiveness and to improve the export characteristics. But Romania lost, by giving up to the traditional safe sources of indigenous products sale.

3. Evolutionary aspects of the Romanian exterior trade, after the adherence

In the first three years from the adherence to the EU, the Romanian exterior trade structure was dominated by six groups of products, which controlled, on average 75.5% from the total of exports and 74.8% from the total of imports. Five of these can be found in this top, at export as well as at import, and the exception comes from the group *Plastic materials, rubber and this kind of articles*, which can be found only in top six at export and from the group *Chemical products*, for the import.

The group *Cars and apparatus; electrical equipments; devices for recording or reproducing sounds and images (XVI)* increased its share in the total of Romanian exports from 22.2% in 2007 up to 26.4% in

2009 and in the total of imports, from 25% to 27.1% maintaining itself on the first position in the classification, in both flows. The group *Mineral products (V)* oscillated between increases and decreases, and the groups: *Textile materials and this kind of articles (XI)* and *Common metals and this kind of articles (XV)* decreased as share in the total of exports. The group *Means and materials for transport (XVII)*, ascended from the fourth place up to the second place, at export and descended from the second place to the fifth place at import. The group *Chemical products (VI)* increased its share in the total of imports, ascending from the fifth place to the second place in the classification.

The geographical orientation of the Romanian exterior trade in the first three years since the adherence, was inside the EU, with an average of 72.2% at export and of 71.3% at import, growing from the period previous to the adherence. Romania had in 2009 commercial relations with 205 countries [4], by 4 more countries than in 2008 and by 12 more countries than in 2007. Italy and Germany remained the main commercial partners of Romania, with an export average of 15.9% and respectively 17.3% and with an import average of 12% and 16.9%. [5]

Analysing the **Romanian exports** destination, in the first three years since the adherence, the following aspects stand out:

- The concentration remained in two countries (Germany and Italy) in an average percent of 33.2% from the total of exports.
- Italy was overcome, starting with 2008, by Germany, who became the main commercial partner of Romania at export too.
- USA got out of the top 10, starting with 2007.
- Turkey and Hungary descended progressively, as share, in the total of exports.
- Poland got out of top 10, in 2008, and Netherlands got in.
- The ten partner countries totaled, during the analysed period, on average 66.7% from the total of Romanian exports, with a descending tendency, and the EU on average 72.2%, ascending from the period prior to the adherence.

The orientation of **Romanian imports**, on partner countries, during the analysed period show the following evolutions:

- Almost 29% from the Romanian imports were concentrated in Germany and Italy, the first two partners at import. After a decrease of the two countries in 2008, from 2007, Germany reconfirmed its ascending trend - Germany ascended slightly as share, but Italy remained below the level from 2007.
- The Russian Federation and Turkey decreased, as share, from 6.3% and 5.3% in 2007, to 3.9% and respectively 3.7% in 2009.
- Hungary maintained itself on the third position, increasing as share in the total of exports of our country.
- China entered in top 10 in 2003, with 2.7% of the total Romanian imports, and followed a constant ascending direction, holding in 2009 almost 5%.

The ten partner countries totaled, during the analysed period, on average 68.5% from the total of Romanian imports, in a slightly growth from the period previous to the adherence, and the EU on average 71.3%, increasing with 10.2%.

Tabel no.2.
The evolution of the main economic indicators during 2005 – 2009

	UM	2005	2006	2007	2008	2009
GROWTH AND ASSOCIATED FACTORS						
GDP	%	4.2	7.9	6.3	7.3	-7.1
Final Consumption	%	8.9	9.4	9.6	9.1	-8.2
Gross Fixed Capital Formation	%	15.3	19.9	29.0	16.2	-25.2
TRADE AND INVESTMENTS						
FOB Export	Mil. Euro	22255	25850	29549	33725	29084
FOB Import	Mil. Euro	32568	40746	51322	57240	38953
Trade Balance	Mil. Euro	-10313	-14896	-21773	-23515	-9869
Current Account Deficit	Mil. Euro	-6888	-10156	-16714	-16157	-5168
Direct Investment	Mil. Euro	5237	8723	7047	9308	4400
INFLATION						
ICC (average)	%	9.0	6.56	4.84	7.85	5.59
OCUPATION						
No of employees from economy	Th. pers	4559	4667	4885	4806	4594

Unemployment	Th. pers	523	460	367	403	709
Unemployment rate	%	5.9	5.2	4.0	4.4	7.8

EXCHANGE RATE

RON/USD (average)	-	2.9137	2.8090	2.4383	2.5189	3.0493
RON/EURO (average)	-	3.6234	3.5245	3.3373	3.6827	4.2373

Source: <http://www.arisinvest.ro/ro/de-ce-romania/date-macroeconomice/>; *INS, BNR*.

Under the impact of world economic crisis, the economic activity from our country reduced notably, generating a sudden decrease of the exterior trade during 2009, with 25% less than the previous year. The economic context in Romania became less favorable than the previous years, and the crisis reverberations were felt economically but also socially. In 2009, the economy decreased with 7.1%, the final consumption decreased with 8.2%, the prices increased, on average, by 4.3%, the budget deficit wes of 7.3% from the GDP, the current account deficit of 5.5%, and FDI totaled 4,4 billion Euro [6].

4. Conclusions

In the first eight months of 2010, according to the estimations made by the Romanian Center for the Promotion of Trade and Foreign Investments, the exterior trade totaled 52.746, 6 million Euro, growing with 22.1% from the same period of the previous year, the export recording a growth up to 23.315,6 million Euro (+25.3%), and the import up to 29.431,0 million Euro (+19.7%). Romania continued to develop the trade inside EU, with 20.5%, from the first eight months of 2009, the exports being by 4.6% larger than the imports, and the trade balance deficit in the relations with the EU partners increased by 3.6%. The extra – communitary trade increased by 26.6% , with a larger rate at export (+31.5%) than the import (+23.0%), and the trade balance deficit outside EU decreased by 0.9%.

Due to the trade pronounced increase on the extra – communitary relation comparative to the intra – communitary one, the share of the commercial exchanges with the EU countries decreased from 73.4% in the first

eight months of 2009 to 72.5% in the first eight months of 2010[7].

The Romanian exterior trade continued to be significantly orientated towards Europe, in a proportion of 89.1% from the total of exports and 87.4% from the total of imports. In the relation with the member states of the EU, this was of 72.5% at export and 72.4% at import, Germany and Italy remaining the main commercial members, which hold 32.2% from the total of exports and 28.7% from the total of imports.

The Romanian exterior trade remains vulnerable due to the lack of a coherent developing strategy, orientated towards the growth of our competitive national advantage. Making more efficient the economic sectors, focusing on the industry, agriculture, services and infrastructure, on the exploitation of the European funds through eligible projects, the development and diversification of the export offer, the growth of the high added value products share, in the total of exports, the reduction of trade deficit, are objectives of national interest, of maximum urgency, for the economic development and, implicitly, for the commercial development of Romania.

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Business Strategy of Multinational Corporations Representative for Food Services - McDonald's

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Abstract

For the catering services, the economic efficiency includes the consumers' satisfaction and the guarantee of the hygiene of products.

The integration into the EU imposes obligations on all service providers that are related to human nutrition.

In this context, McDonald's promotes four basic principles of business philosophy: Quality, Service, Cleanliness and Value. These principles are valid in every restaurant in the world.

The focus on the customer, the employee value, material management and the permanent improvement are the most important quality objectives that McDonald's is trying to achieve.

Although it seems to be a large corporation, McDonald's is actually a system comprised of a lot of small units and of individual franchisees, the McDonald's entrepreneurs.

McDonald's is a leader in this business, as it is both a global and local service company, as well as a franchising company.

The company's business strategy is focused on opening new restaurants, maximizing profits and sales volume.

Key words: strategy, business, McDonald's, management.

J.E.L. classification: L21

The market economy mechanisms impose the criterion of economic efficiency in the organization and the development of the economic activity.

For the catering services, the economic efficiency includes satisfying the consumers' guarantee metabolic requirements and the guarantee of products in terms of individual health.

Romania's European integration imposes obligations on all service providers related to human nutrition.

In this context, McDonald's promotes four basic principles of business philosophy: Quality, Service, Cleanliness and Value, available in every restaurant in the world.

Quality, the most important principle of the company, is particularly highlighted in the selection and preparation of products. The restaurants offer 100% fresh products at any time of day, and their schedule was extended even on holidays.

The techniques used by McDonald's ensure product quality and are recognized by certified national institutions and are often more stringent than the limits set by authorities.

The quality control process is not even over when the product is packed and is waiting to be consumed by the customer. The control system covers the entire production process from raw materials to finished products.

McDonald's menu is continuously diversified with a wide range of sandwiches that often comply with the culinary traditions of the country where the restaurant is open.

The menu is not the typical American one, in some countries it contains products belonging to the national cuisines. But Big Mac is still the favorite product, as a symbol of the company.

High quality products are served in a pleasant, clean environment, at the lowest possible price, without compromising quality.

At McDonald's, quality management is based on four principles: [1]

- ◆ focusing on the client;
- ◆ the employee value;
- ◆ material management;
- ◆ continuous improvement.

Under these principles, to meet and even to exceed the customers' expectations, you need good communication between the restaurant employees and the respective clients. Communication must be open, complete, without distortion, any complaints should be dealt with promptly and effectively. It was found that, in general, one customer out of twenty complained of dissatisfaction.

Serving standards are intended not only for speed but also how to serve, for which the following steps are foreseen:

- use a form of greeting when taking the order;
- assembly the order in the following order: shake, soft drinks, hot drinks, sandwiches, pies, fries, ice cream;
- presentation of order and cashing the money;
- addressing an appreciation formula and an invitation to come back to the restaurant.

Among the team members on each shift there must be a team spirit based on the 3Cs: communication, coordination and cooperation.

On each shift they check the quality of products, the hygiene and the times at which the product expires. They can be kept on the preparation table up to 2 hours (for example, the cheese slices have a time limited to 30 minutes). Also, to prevent any non-compliance or to detect those emerging, quality control is also exercised over the area for the public. So, on the one hand, they check the serving line, and on the other hand, the dining room.

The following aspects are pursued with the serving line [1]:

- the sufficient opening of cash desks in report with the periods of day and the flow of customers, evenly/symmetrically spread over the counter;

- the proper training of the team members regarding the serving criteria;

- directing customers to the free cash desks;

- maintaining an appropriate level for the money change and checking the banknotes of high value.

The reduction of the speed service will cover the following aspects:

- a) queuing up to maximum 2 minutes;
- b) staying in front of the cash desk within 1 minute;
- c) standing in a "drive" window for 30 seconds.

Suggestive selling is an option for undecided customers, focusing on ordering a large portion, unless this was not specified.

The company's business strategy focuses on the following elements:

- a) opening new restaurants;
- b) maximizing the profits and the sales volume through better restaurant management, an intense policy of reinvestment, development and product improvement, cost-effective marketing and reduced costs for development and operation.

Each opening of a McDonald's restaurant means important contracts with local construction and equipment installation companies.

A new McDonald's restaurant in Central Europe creates, on average, about 100 new jobs [2]. The first McDonald's restaurant in Romania was opened in June 1995 in Bucharest, within Unirea Shopping Center.

McDonald's is a world leader in business because of the following characteristics:

→ it is a service company, which aims to satisfy customers' desires by quality food, in a fast and friendly service, and an environment known for its cleanliness and providing a menu that is worth its value;

→ it is a global and local company, involved in marketing;

→ is a property development company - about 60% of the places where McDonald's restaurants are built represent company properties, others are leased through long-term lease agreements;

→ it is a franchising company.

Worldwide, about 66% of McDonald's restaurants are operated by independent franchisees, 21% are operated by local branches of McDonald's Corporation and

13% are operated under license by association [2].

McDonald's is known for its restaurants principle of providing services and products needed by local independent producers, accepting only those that can provide standard quality products to McDonald's since the beginning of their cooperation.

Although it seems a large corporation, McDonald's is actually a system composed of many small units and individual franchisees, the McDonald's entrepreneurs.

Franchising [3] is a modern system of selling goods and services, based on a long-term cooperation contract (approximately 20 years) between two independent legal partners:

- the franchisor – McDonald's;
- the franchisee – the business entrepreneur partner that can have between 60 and 100 people in his restaurant.

The one who receives the right franchise can use the trademark, company facilities and rights of the authorized franchise.

Given these issues, McDonald's believes that the following qualities are essential for the application to obtain a franchise agreement:

1. entrepreneurial spirit and a strong desire for success (obtaining an extraordinary profit, which often requires significant investments);
2. extensive business experience, with emphasis on developing sales;
3. willingness to participate in specific training lasting 10 to 14 months;
4. geographical flexibility, considering the possibility of moving to other cities;
5. financial flexibility to have a good start in the business.

The strategic location of the restaurants, their construction and equipment-making are made by McDonald's on the basis of its broad experience, according to a long-term business strategy. Thus, the partner of the firm receives ongoing support throughout the franchise. He also benefits from the stability of a national advertising strategy.

As for the financial demands of the franchiser, they can charge a fee. Part of the restaurant franchise costs must be supported from personal resources and the rest can be financed from other sources, according to the method of acquisition [1]:

- the BFL method - Business Facilities Lease – the leasing package of current activities requires a certain amount payable in lei. It represents a guarantee (no interest deposit), the stock of food and package products and the costs of preparing and opening the restaurant (the training staff and the managers, an initial set of uniforms, the campaign ad);

- the direct conventional method, which requires a certain amount payable in lei. It represents the minimum of 60% of McDonald's assets that may increase, depending on the size and position of the restaurant current assets. The acquired assets consist of an interest rate (no interest deposit), an initial franchise fee and the cost of the restaurant equipment.

McDonald's does not provide financing for the letters of credit for loans and does not allow any investors as third parties.

In the current context, traditional indigenous affairs, with well-established franchise networks working on the food and services segment, are the most sought to place franchise investments. The investments on the food segment are made in fast-food concepts (take away food) and less on the segment of franchise restaurants, where the sitting time is influenced by the consumer's purchasing power [4].

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The Prospects of the European Social Model – A Post-Crisis Approach

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Abstract

Since the mid '80s Europe has tried to assert a single common social model with better welfare and social inclusion than its ultra-liberal competitor – the United States. The reality shows that many different social models coexist in Europe and they have been put to a tremendous test during the recent economic crisis. Some of them have bitterly failed this test and must undergo deep structural reforms.

On the other hand, the recently exposed shortcomings of the neoliberal paradigm require a profound reconsideration of the role of the state as a regulator of imperfect markets.

With its flaws revealed in the aftermath of the crisis, Europe has a unique opportunity to move forward in promoting a smart, sustainable and inclusive growth.

Key words: European Social Model; welfare state; labor market; social inclusion

J.E.L. classification: F15

1. Introduction

The financial and economic crisis of the last three years still generates consequences that few economists and scholars have guessed at its outset. The original crisis within the banking system, which the governments seemed to be able to contain through unprecedented bail-out packages and/or nationalization of crippled financial institutions has soon overgrown its hatching environment and burst into the faces of the same governments in the form of huge deficits that triggered the sovereign debt crisis.

This chain of events that swept throughout the developed world has led the public opinion to raise their voices and point fingers

at fundamental concepts and paradigms that the Western world had taken for granted such as globalization (that led to a worldwide contagion), the neoliberal paradigm (that failed in its claims that de-regulation is best because the private sector is superior to the government in the optimum allocation of resources) and even capitalism itself (whose mantra that profit is king proved detrimental to millions of citizens confronted with layoffs, foreclosures and insecurity).

The harsh reality is that the markets are far from being capable of fixing themselves and the governments have a social responsibility to step in and try to fix what has been damaged because of their neutral and rather contemplative position to the abuses of the almighty market forces.

The European Social Model, with its claims of superior welfare states and large public sectors (compared to the US) failed to prove its strengths in the face of these developments. This, along with the underlying economic challenges of today (increased competition from US and China, the prospects of an ageing population etc.), prompted the European Union to reconsider its strategies and priorities (severely hurt and undermined after the failure of the ambitious goals set under the Lisbon strategy).

2. The European Social Model(s)

The term "European Social Model" is widely attributed to former President of the European Commission Jacques Delors who introduced it in the mid '80s by designating it as an alternative to the American (and British) pure form of free-market capitalism [1]. In retrospect, this politically charged term was launched to give weight to a European identity that was yet to be outlined and to propose an alternative to the ultraliberal capitalisms of the United States and the United Kingdom [2].

Officially [3], the term was intended to designate a set of common values, namely the commitment to democracy, personal freedom, social dialogue, equal opportunities for all, adequate social security and solidarity towards the weaker individuals in society [4]. The strength of the model would thus reside in the mitigation of two critical concepts: competitiveness (sustainable economic growth) and solidarity (social cohesion).

To this day, the term has been associated more to a political abstraction rather than to an actual and coherent body of shared social principles to which all Member States adhered. Different national values, traditions and priorities naturally resulted in different policies and mechanisms governing more strictly or loosely the labor markets and the social security systems. The result is a diverse collection of rules and policies that vary greatly from one European country to the next. So instead of speaking of a unique European Social Model, some authors [5] argued that there were at least four distinct social models within the EU, namely:

- (i) the Nordic social-democratic welfare states (Scandinavian countries plus the Netherlands) with the highest levels of social protection expenditures and provision of universal welfare, which results in a high degree of inclusion and social cohesion;
- (ii) the Continental corporate welfare states (Austria, Germany, Belgium, France) with insurance-based benefits, heavily unionized workforce, collective bargaining and last resort services provided by the state;
- (iii) the liberal or Anglo-Saxon welfare states (United Kingdom, Ireland) with high involvement of the private sector in social security and very flexible labor markets, which triggers wide dispersion of wages and higher levels of social exclusion;
- (iv) the Mediterranean welfare states (Greece, Spain, Portugal, Italy) with very high job security and high benefits based on seniority, which triggers high levels of youth unemployment and gender divide, as well as a highly compressed wage structure.

There are clearly many differences between these social models. So, how can Europe claim to oppose the US with a single

common social model?

We need thus to look at the common denominators of Europe's four main social models. To start with, most European governments have a rather long-standing tradition of interfering with labor market mechanisms, especially when it comes to minimum wages or maximum working hours, but also collective bargaining, power conferred to unions etc.

More importantly maybe, Europe has long struggled with (or enjoyed, depending on which side of the debate you are) large public sectors. This does not automatically translate into the appetite for bureaucracy on which many Euro-skeptics like to focus. A large public sector has often meant wider, better and cheaper (if not free) access to social services such as health, education, culture etc. which usually translated into fewer discrepancies and higher social inclusion. However, the dimension of the state has not been limited to the provision of these basic services. The state has often been an active player in the markets in areas as varied as energy (production, transport and distribution), resources, manufacturing, banking etc. One of the advantages of retaining some state-owned banks has become clear during the recent crisis, where some governments were able to intervene directly in the economy instead of relying only on indirect measures. Conversely, some governments faced difficulties in persuading private banks to lend some of the money they received as part of the banking sector bailout packages [2].

Last but certainly not least, virtually all European governments have developed comprehensive welfare states that cater for the vast majority of the population. In contrast to the USA, where the welfare is privatized and therefore not granted to all citizens, the European countries have shared the principle that welfare should cover all citizens and must remain one of the main prerogatives of the government.

These common traits of the various social practices that co-exist throughout the continent entitle Europe to claim a unique social model as its own. Moreover, the value of this model is fully supported by statistics and economic indicators showing that Europe has a significantly smaller proportion of poor

citizens and consequently a higher degree of social cohesion than the US, for example.

Nevertheless, the performance of Europe's four main social models has varied greatly. Some of these models seem to be more sustainable and have escaped the recent crisis virtually unscathed, while others (most notably the Mediterranean welfare states) have barely survived the recent turbulences and are currently undergoing painful adjustments of their inner mechanisms.

3. EU sustainable growth strategies: Lisbon and Europe 2020

Faced with the challenges of globalization and increased economic competition with other economic blocks (USA, China and Japan), but also with the imminent consequences of a ageing population, the European Union launched the Lisbon Strategy in 2000 as an ambitious project to coordinate the economic and social policies of the 15 member states.

The declared objective of the Strategy was to transform the Union in the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion.

The review performed halfway through the implementation period (through the so-called Win Kok Report in 2004 [6]) revealed that, despite some progresses (increased occupancy rate among women, development of the knowledge economy etc.), the most important objectives of the Lisbon Strategy were not achieved for reasons such as (i) lack of political will and action; (ii) too many and too vague objectives; (iii) poor coordination of actions at national and EU level; and (iv) differences in the priorities of the member states.

In fact, the very objectives of the Lisbon Strategy – economic competitiveness and social cohesion – could be viewed as antagonistic. It is hard to imagine a manner in which the EU could become more competitive than the most liberal economy in the world (USA) and at the same time ensuring an increased social cohesion.

In the context of the partial failure of the Lisbon strategy and faced with the new challenges induced by the world economic

crisis, rising unemployment, sovereign debt and public deficit crisis, in March 2010 the European Commission proposed a new 10-year strategy (Europe 2020), aimed at providing the necessary thrust to the European economy. Its declared purpose is a "smart, sustainable and inclusive growth".

The strategy proposes three mutually reinforcing priorities, namely

- (i) smart growth: development of a knowledge- and innovation-based economy;
- (ii) sustainable growth: a more efficient, competitive and environmental- friendly economy;
- (iii) inclusive growth: an economy with a high occupancy rate, investments in skills and training to ensure social cohesion.

How can these objectives be met in the aftermath of a deep economic crisis, if similar goals failed to be reached during far better economic conditions? No one can guarantee a more coherent coordination of national policies or the adoption of a single list of priorities, now that the national governments are consumed with fighting their way out of the crisis and maintaining the recent fragile signs of growth.

4. The aftermath of the crisis

As in all hard times, the answers should rest precisely in the very nature of hardships that the member states have to endure.

The economic crisis acted as a very accurate diagnostic tool that exposed bluntly all the shortcomings of each individual social model, as well as their overall lack of harmonization. So the governments need to focus on the weakest links in their respective social policies.

Perhaps the most important action that is required in the member states that nearly collapsed during the crisis is a deep reform of their labor market conditions. Some deeply rooted habits and traditions should be shaken because they created patterns of behavior that are no longer sustainable in a rapidly ageing society. All barriers to enter the labor market should be removed, especially for the young people; public employees should not be immune to layoffs; remuneration should be linked to performance rather than seniority; retirement age and social benefits should be

revised; some public services should be made more efficient through privatization, while others might need more regulation etc.

Some governments need to be involved less, while others need to be more present in regulating the markets. In any case, the governments can no longer ignore the obvious signs and leave the almighty market to fix itself because the harsh reality of the last three years clearly demonstrated that more but smarter regulation is needed.

The governments might take some solace in the fact that it's their turn to show their regulatory muscles, after years of being played down and told that globalization did not need them anymore. This happened because an all-encompassing market did not need its dominion fragmented by old-fashioned concepts like sovereignty and could not trip itself on myriad of local, regional, national or supranational regulations. Moreover, any abnormality in the functioning of the market was for the market itself to fix, not for bureaucrats that could not understand the merits of free market.

Authors [7] have argued that the globalization as the neoliberal theory asserted it must live its last moments and should be replaced by a "smart globalization" where smart governments should assert a more important role as regulators and guardians of the best interest of their citizens.

With this end in mind, thanks to its institutional architecture Europe appears uniquely well-placed to do just that because whatever a single government might not be able to impose to large corporations might be easier enforceable through the political and economic clout of the Union.

5. Conclusion

Although the European Social Model might still be more a political assertion of a common identity than a functional reality, the recent economic crisis may provide the perfect trigger for a substantial reformation of Europe's flawed social models. Governments of member states can no longer ignore the critical faults revealed in the aftermath of the crisis. They must act both individually and collectively to improve their social systems and to give the necessary thrust to the European economy in its ambitious pursuit of a smart, sustainable and inclusive growth.

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Optimum Currency Areas Theory: Economic Foundation for Monetary Unification

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Abstract

The aim of the present paper is to highlight the optimum currency areas (OCAs) theory contribution to the development of European monetary unification. In order to point out its implications, we structured our research on two parts. The first one illustrates the main achievements and limits of monetary cooperation at European level and the second analyses OCA theory's influence on Economic and Monetary Union (EMU). We conclude by saying that this theory could not provide a clear answer about the optimality degree of EU as currency area. We also consider the European model as a laboratory test of OCA proprieties defined by Mundell, McKinnon and Kenen.

Key words: Economic and Monetary Union, optimum currency area, single market, common currency.

J.E.L. classification: E40, E42, F33, G15.

1. Introduction

Nowadays, the European Union (EU) represents the perfect model of integration, but without any doubt, the functioning of its mechanisms remains subject of ongoing debate.

Following the history of the events and factors influencing its development, the general perception about the EU changes very quickly, highlighting a multitude of problems with regard to foreign trade and single market, competitive agricultural policy, financial market and monetary union, alongside issues of social and regional cohesion.

In early 1960s, Robert Mundell constructed the foundation for OCA theory, which analyses the economic costs and benefits of a monetary union, based on the characteristic features of states pursuing this goal. According to his vision, *optimum currency area defines a set of regions where the migration trend is high enough to ensure full employment in the case of a severe shock affecting one of these groups* [1].

McKinnon (1963) added *economic openness* to OCA properties [2] and Kenen (1969) showed that the *diversity of outputs and consumption* can also be a feature of optimal currency areas [3].

Frankel (1999) argued that OCA is a space that demands for *a common currency and a single monetary policy*.

More recently, Mongelli (2002) considers OCA *as an optimal geographic region with a common currency or a group of countries which have irrevocably fixed the exchange rates and are about to unify* [4].

Pelkmans (2003) definition states that *OCA is that area for which the cost of abandoning the flexible exchange rate or the realignment option is lower than the benefits of a single currency* [5].

We believe that the judgments of the pioneering OCA theory stage pointed out very clearly the challenges faced by the countries wishing to form a monetary union, although the theory has evolved over time.

Thus, optimum currency area defines a space characterized by certain features that allow the absorbance of asymmetric shocks without the exchange rate or monetary policy instruments use.

The purpose of this theory is to indicate the most adequate moment and the ideal situation in order for two or more states to create a monetary union.

Generally, monetary integration requires three conditions: *explicit harmonization of monetary policies, a common pool of foreign reserves and a single central bank*. The concern for monetary union is an issue that has generated countless debates. Monetary integration has a long history, Maastricht Treaty marking the transition point from statements of principle to specific initiatives.

2. Achievements and limits of European monetary cooperation

The evolution of monetary cooperation process began with the establishment of the European Payments Union (EPU) on 1 July 1950, a structure that functioned as a clearing house for the European payments.

In 1957-1958, EPU has shown its limits, so that at the end of 1958 the participating countries have decided to switch to full convertibility of national currencies. In formal terms, EPU was replaced by the European Monetary Agreement (EMA), negotiated in order to maintain a zone of monetary stability.

Analyzing the role of EPU, we believe that its abolition was an involuntary step for the European monetary integration. However, one of the most important events related to the process of European integration is the signing and ratification of Rome Treaties. The European Economic Community (EEC) Treaty established a *custom union* and then the *single market*, integration stages logically followed by *monetary unification*.

In December 1969, the Hague high-level meeting established a phased plan in order to create an *economic and monetary union*. Subsequently, the Werner Plan (1970) proposed a challenging objective, that of substitution of national currencies with a common currency or "failing that, national currencies should be interchangeable at a fixed parity" ([6]), and three stages towards EMU, included 18 years later in the Delors Plan (1988).

In order to limit the exchange rate fluctuations of European currencies, at the French president Valerie Giscard D'Estaing initiative, the European Council decided in 1979 the creation of European Monetary System (EMS), as important preparatory step for establishing a monetary stability zone.

EMS was designed in a skeptical context, generated by the oil shock and the failure of monetary snake whose mechanisms have crushed under the international crisis.

Considering its results, we believe that after a difficult start, EMS has greatly contributed to monetary stability within the EEC, but did not lead to a satisfactory coordination of national monetary and exchange rate policies in all states.

EMS has shown its limits and risks, demonstrating that an incomplete form of integration that provided a certain degree of monetary stability can cause a major crisis.

Certain tensions manifested right after 1987 became apparent when Portugal announced in April 1992 its intention to join the system. The decision of Norway, Finland and Sweden to link their currencies to ECU (European Currency Unit) increased EMS vulnerability even further, as a consequence of their competitiveness problems perceived by financial operators.

In the early 1990s, economic recession has led to an increase in unemployment at the European level, the uncertainties on the Treaty of Maastricht affecting EMS even more.

Although EMS fundamentals have remained solid, the lacks of consensus in respect to some features of the 1992-1993 events raised serious concerns about the possibilities of establishing the economic and monetary union.

Given EMS limits and fragility, the Ministerial Council asked Jacques Delors to chair a committee in order to propose a timetable towards economic and monetary union.

Thus, the part of Maastricht Treaty signed on 7 February 1992 concerning EMU caught up the major guidelines of Delors report: *the common currency, the three-phased convergence and the irreversibility of the process*.

The main three stages of EMU creation were designed as follows:

Monetary policy coordination period (July 1, 1990 to December 31, 1993)

This stage began in mid-1990 by the liberalization of capital flows between EEC members and ended in October 1993 with the completion of the Single Market (basically,

according to the Single Act this stage ended on 1 January 1993, before the Treaty entry into force).

Convergence strengthening and technical preparations period (January 1, 1994 to December 31, 1998)

The second phase began in November 1993 with the entry into force of the Treaty and ended in December 1998. This involved setting up the European Monetary Institute, with a main role in coordinating efforts in respect to convergence criteria, as well as making preparations for the European Central Bank (ECB) creation. Within this timeframe, the ECB prepared to manage the practical issues of EMU final stage, i.e. the launch of single currency.

Euro introduction period (January 1, 1990 to July 1, 2002)

This stage was marked by the irrevocable parity fixing between euro and the currencies of participating countries and the actual single currency introduction. Initially, the timeframe involved two periods: if the majority of Member States met the convergence criteria in 1996, switching to this phase would be implemented from 1997, otherwise, the third stage would start on 1 January 1999.

Thus, according to the Maastricht Treaty, EMU is one of the pillars of European integration, conceived as engine for further financial integration in Western Europe, in order to ensure strong economic growth.

EMU was a response to macroeconomic instability manifested in Europe.

Single currency *supporters* argued that the elimination of exchange rate risk reduces transaction costs and facilitates cross border trade and investment flows, enhancing the Single Market and economic welfare based on economies of scale and growing competition.

Alongside the elimination of currency depreciation as a last resort for economic misalignments, the latter determined structural reforms improving national productivity and growth. Considering all these aspects, the launch of the euro has transformed EU into an increasingly strong presence of global economy.

Still, there were many skeptical opinions about the future of the euro, questioning its ability to eliminate country-specific shocks and the interaction between centralized monetary policy and decentralized fiscal policy. Given the diversity of the participating economies, skeptics argued that the power loss on monetary policy and exchange rate would make domestic adjustments to be less than optimal. As regards fiscal policy, which will remain the responsibility of each Member State, the widespread fraud has been the main concern.

In relation to stabilization efforts of other participants, the *free-rider behavior* of some countries can create tensions between fiscal and monetary policy perspective. As last argument, skeptics believed that at the country level, real interest rates would display a pro-cyclical trend, decreasing as inflation increases in the recovery periods and vice versa, transforming the natural shock adjustment into a very difficult process.

Alternative adjustment mechanisms, such as price and wage flexibility or labor migration in the EZ were considered weak or, as federal fiscal transfers, inconvenient. However, the numerous achievements of EMU and the euro have largely abolished the skeptical forecasts of earlier critics.

3. Influence of optimum currency areas theory on EMU design

The major features of the Delors Report, on which the Maastricht Treaty is based, acted mainly to reduce exchange rate volatility risk and the existent misalignments generating significant costs. Given these aspects, common currency is likely to complete the Single Market.

However, many opinions consider that this argument does not provide a direct link, or involves a very weak one at best, to OCA theory ([6], [7]; for example, OCA properties do not appear explicitly in the Delors Report).

Moreover, the "One Market, One Money" Report has displayed a very critique vision on the early-stage OCA theory [8]. There are many factors explaining the above mentioned approach and the expressed skepticism.

Undoubtedly, rigorous concurrent enforcement of all OCA properties would have offered a wide range of results. From a political point of view, this would have not been an attractive proposal in terms of efforts to achieve monetary union. Consequently, the theory of optimum currency areas has been sidelined.

However, we notice the existence of a paradox, in light of the fact that 'One Market, One Money' Report has greatly contributed to reviving interest in OCA theory, bringing together the many strands of empirical and theoretical research (directly or indirectly related to this theory).

Another merit of the Report is that it has supported various debates focused on individual characteristics and potential EMU implications. Reference [9] pointed out that it didn't particularly highlight the impact of monetary unification on economic integration (nor postulated any effect of the kind discussed by [10]).

Empirical studies reveal major implications of increased exchange rate volatility neither on trade nor on international investment flows. This justifies the view of monetary unification as a limited case to reduce exchange rate volatility, resulting in the removal and dilution of uncertainties related to the costs of trading and hedging.

Reference [11] argued that the many shortcomings of OCA theory reduced the expected net benefits of monetary unification; it is possible that real EMU implications to be more favorable than those estimated if applied OCA properties solely.

Although labor mobility in Europe is relatively low, capital mobility is higher and higher, providing an alternative adjustment channel. Meanwhile, the new OCA theory developed slowly. The hypothesis of OCA endogeneity has done the rest, in terms of revitalizing the debate, playing a major role in the political discussions of the '90s.

Considering the juxtaposition between the supporters of a long convergence process in order to foster the harmonization of monetary policies (*the economists*) and those who considered nominal convergence before EMU as a dispensable feature (*the monetarists*), first group issued the five criteria included in the Maastricht Treaty while the second set the final date for commencement of EMU third stage.

We believe there are two particular aspects that must be mentioned. While the OCA theory has mainly considered the positive aspects of monetary unification, implementation and management of monetary union is primarily subject to the normative elements.

First, over the last 30-35 years there have been extensive discussions related to exchange rate arrangements and institutional features of monetary union; what later became the Central Bank or the Eurosystem is just one of those arrangements ([3], [12], [13], [14]).

Reference [15] examines the pros and cons of the two extreme exchange rate arrangements, a *pseudo monetary* union and a *full monetary union*. The first type of arrangement is a precursor of EMS while the second presented similar EMU characteristics.

In his view, a full monetary union can reach at most the stage of introducing a common currency issued by a common central bank, which manages union foreign exchange reserves. It may be attributed the role of ensuring price stability and securing parity in relation to foreign currencies.

Domestic monetary objectives can be set independently, but they may not always be optimal for each individual country or region. At that time, the level of budgetary independence consistent with a monetary union was a very unclear aspect. Thus, Corden (1972) vision attempts to link the two perspectives, *positive* and *normative*.

Second, the creation of a supranational central banking system demands specific arrangements for its future operation. From an organizational and administrative side, the Eurosystem concluded the process of institutionalization of monetary cooperation among central banks began in 1958 with the establishment of the Monetary Committee and 1964, the year that marks the creation of the Governing Committee of the EEC member central banks.

The arrangement proved to be very effective, so that the Governing Committee and its subcommittees prepared in 1990 an ECB draft statute for the future Maastricht Treaty. After its ratification and the creation of European Monetary Institute in 1994, connections between national central banks

(NCBs) have become increasingly systematic [16].

The European path to EMU passes, as proposed by optimum currency areas theory through Single Market. Basically, it suggests certain properties that a monetary union must meet in order to work with benefits: *trade integration* (closely related to the free movement of goods), *free movement of capital and financial integration* and *free movement of labor*, as essence of Mundell's theory.

We believe that the flexibility provided by Single Market creation can replace the loss of monetary instruments as a mean of economic adjustment in the event of asymmetric shocks.

The European Union experience provides an answer to the question: what must go first, completing the single market or monetary union? Today we know that monetary union can not be beneficial in the absence of the integration measures specific to Single Market.

At the same time, a single market can not function properly only in terms of exchange rate stability.

The best way to achieve this objective is ultimately, the monetary union. Further, it raises the level of market integration leading to the finalization of the Single Market, which makes EMU a construction with significant net advantages. Single Market is in fact the beginning of Economic and Monetary Union.

4. Conclusion

OCA theory could not provide a clear answer on the optimality degree of EU as a currency area, the studies results being rather pessimistic. One possible explanation is the fact that classical theory has not assessed the changes effect that occurs after the monetary union in the sense that the discontinuity caused by major regime change may act in the group interest, turning it into an optimal space *after* unification.

Between OCA theory and the European model there is a "from theory to practice" type of relationship ". Thus, we consider the European model as a laboratory "test" of the OCA properties defined by Mundell, McKinnon and Kenen.

The European experience shows that efforts to remove economic and territorial barriers do not automatically eliminate all Single Market distortions caused by differences in the quality of infrastructure, the level of development or the existence of industrial clusters which continue to manifest.

However, the dynamics of economic development, the success of world's largest single market, the creation of the euro area, the existence of common well-defined policies define the unique character of European economic integration process.

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Paradoxes in the Diet of Modern Consumer at the Confluence between Food Science and Food Industry

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Abstract

Food is a customary part of our daily lives, because living means feeding, but it shouldn't be approached merely as a trivial factor for meeting physiological needs of macro and micro-nutrients, but from a holistic perspective in terms of the social and identity functions and the effects on individual health.

In the last decades, through the application of industrial processes such as refining or hydrogenation and the widespread use of feed additives and genetically modified organisms, considered major innovations in food industry, it was created a distance between man and aliments, which systematically transforms into an abyss, culminated with real alimentary crisis, a result of some breakings in natural order.

This paper highlights the hazards of food industrialization in the nutritionism era and analises the paradoxes which were appeared in the diet of the modern consumer at the confluence between food science and food industry.

Key words: foodstuff, consumer, food industry, food science, paradoxes

J.E.L. classification: O 14, O32, I 31

1. Introduction

Food history is a surprising history of civilizations that has changed and includes several periods, which have lasted thousands or hundreds of years [6]:

- *The first period* began with primitive men who were hunters and harvesters, who ate what they found and migrated to safer places and with more abundant feed.
- *The second period*, between the years 10000-7000 BC, can be considered the first revolution in food, because, after Ice Age, people buried roots and seeds, starting to practice agriculture. In this way it was provided food for entire communities.
- *The third period* began with The Great Geographical Discoveries of the fifteenth-seventeenth century and was manifested mainly in Europe. Europeans began to cultivate potatoes and corn, changing its eating habits. Isolated populations in Asia, Africa, South America and Oceania remained with old culinary traditions, some of them still held today. The keeping of these old culinary traditions is explained primarily by the fact that, in order to survive, populations from some isolated areas were forced to experience all sources of food. Some nutritional resources have penetrated so deeply into local traditions that have become their symbols. In such way can be explained why in these isolated geographical areas were kept until today, some special and strange dishes, inherited from old times.
- *The last period, considered the second revolution in food, started after the Second World War and began in the USA.* Through technology (machinery, fertilizers, storage and transport), agriculture and zootechnics led to a powerful food industry.

The third millennium began with striking inequalities in the world: more than eight hundred million people in third world countries suffer from hunger, while food abundance in industrialized countries has encouraged over-consumption and unhealthy eating habits (preference for foods high in fat, especially saturated or hydrogenated fats and sweets instead of products based on whole grains, fresh vegetables and fruit) [7]. Analyzing the modern consumer's eating habits we note that it is marked by a series of paradoxes, which will be discussed below.

2. Hazards of food industrialization in the nutritionism era

The scientific and technological innovations accomplished in the last years had a powerful impact on agricultural and food sectors from all over the world. Innovating methods of production revolutionized numerous traditional systems, and also the capacity of producing the food for a continuous increasing population.

Analyzing the predominant foodstuff supply from our days, we see that it has its origins in the industrial period. Also, at that time appeared fast-food, canning and ready meals industries, which have conquered the market, but at the same time, they brought with them the diseases of modern civilization.

Thus, agro-food materials, obtained through extensive use of fertilizers, pesticides, growth hormones and antibiotics, are highly processed, which results in the production of contaminated food that is depleted of its essential nutrients [8].

In addition, the sensorial characteristics of food are not always natural, because of products with artificial taste, aroma, color and texture, due to the use of food additives, the consequence being the extension of a range of goods with an unbalanced nutritional profile

Thus, the gap appears between the exceptional sensory properties of foodstuff and their unbalanced nutritional profiles. Taste, smell, appearance of the product becomes a joke for the body, and since food is more attractive and tasty, the more nutritionally unbalanced and unhealthy is [3].

Intensive industrialization of food has had some negative consequences for society, reflected, in the early XXI century, in the very high incidence of civilization diseases, especially on over consumption (cardiovascular diseases, cancer, obesity, diabetes, cirrhosis, renal failure), which involves huge costs for treatment. These negative consequences were generated by: transformation of whole foods in refined foods, reduction of natural complexity of alimentary products to industrial simplicity, sacrificing food quality for quantity, replacing the landmarks of food culture with the principles of food science.

One of the key features of the modern food is the adoption of foodstuff more and more refined, especially refined carbohydrates. This refinery determines an increase in consumption of "empty" calories per food unit.

There are two ways in which the energy density of refined carbohydrates leads to obesity. First, it increases calories consumption per unit of food. This happens, because dietary fibers, which were removed from refined foodstuff, are those that would give the feeling of satiety, leading to cessation of food intake. When these dietary fibers are missing from the diet, this process is delayed. Secondly, the flow of glucose, which suddenly invading the blood, causes a sudden increase of insulin levels after glucose is assimilated, suddenly fall, creating the sensation of hunger [4].

The problem is that all refined products have empty calories, because it does not contain those micro-nutrients essential for body's biochemistry.

Food Science, supported closely by the food industry has tried to offset these losses by further adding of some of the missing nutrients, in the processing of refined raw materials: vitamins of group B in refined flour, vitamins and minerals to breakfast cereals and bread etc. Even if some of the micro-nutrients lost in processing raw materials are further reinstated, it was proved that food science is not sufficiently advanced that it can offset all the negative effects of whole food processing, because complexity of the whole food is impossible to restore through artificial way.

This conclusion, also ignored for decades, has been highlighted by many researchers since 1930. One of the first remarkable works on this subject was one of Weston Price, a Canadian physician, "Nutrition and Physical Degeneration", published in 1939. Price concluded that modern civilization has largely sacrificed food quality for quantity and the preservation period.

The new nutritionist theory, which treated food merely as simple delivery systems of a single nutrient, emerged in the U.S. at the beginning of the 80s, was agreed by the processed food manufacturers. The term of "nutritionism", created by M. Pollan, is largely pejorative, implying that this way of viewing food is simplistic and harmful.

Although nutritionism proved to be just an ideology, because it was based on a series of unverified assumptions, its basic principle, that of considering foodstuff only the sum of nutrients (different types of fats, carbohydrates, antioxidants, vitamins, minerals, etc.) was adopted immediately with great enthusiasm by the food industry, because it offered the key of an unprecedented diversification range of processed foodstuff. When attention is focused on quantifying the nutrients contained in the food products, it becomes almost seamless the distinction between whole foodstuff and processed foodstuff [9].

What has been ignored both by nutritionism ideology and by the modern food industry was the concept of "food synergy", namely that food is more than the sum of its nutrients.

Using modern modification techniques of raw materials, food industry has brought us into a situation that is the nutritional equivalent of inflation, that means consumer have to eat more to get the same amount of essential nutrients.

Another assumption of nutritionism was that the only purpose of the act of eating is to maintain and improve our health. This assumption has been contradicted by the example of traditional food culture, which showed that people are not less healthy if they see in food something else than a way of satisfying the needs for macro-and micronutrients, highlighting it a social function and an identity one [9].

After a few decades of consumption of over processed foodstuff, based on poor information regarding the health benefits, the balance is sad: people are getting heavier, more sick and underfed.

Thus, we can say that people are trapped in a vicious circle from which they can escape only if they will find nutritional guidelines specific of food culture to which they belong, sent by family education across generations.

3. Paradoxes in the diet of the modern consumer

In general, human history has been marked by uncertainty of food, with periods of relative abundance, alternating with periods of shortage, caused by the combination of crop problems, adverse weather conditions or even political issues. The last two major periods of famine and poverty in Europe between 1712-1742 in France, between 1846-1848 in Ireland, between 1920-1921 in Russia and during the two Great World Wars, between 1914-1918 and 1939-1945. In China, food shortages of the years 1958-1964, linked to social reform movement, resulted in twenty million deaths.

- ***In some countries, food abundance determines the over-consumption while in other countries people are suffering from chronic underfeeding.***

The immediate consequence of this paradox is the increasing number of nutritional diseases, caused by either insufficient or improper food consumption.

Primitive man did not eat much because food was hard to obtain. Contemporary human body has adapted to a certain nutritional level. Excessive quantitative consumption, but unbalanced in terms of quality (preference for fats and sweets at the expense of whole grain and vegetables) are potential sources of disease [2].

In the last decades it can be observed an increase in the number of regions characterized by abundance and food safety. This leads to the disappearance, in those countries considered rich, a many diseases caused by nutritional deficiency, which were still raging in Europe and North America earlier this century [6].

While in Western Europe, North America and parts of Asia there is an excess of food, accessible to everyone, in other countries around the world daily food is a problem. The paradox is that in some countries, food abundance determines the culinary sophistication and waste, while in other countries people are starving.

Worldwide, in developed countries, improved hygiene, nutrition and life has helped to increase life expectancy by almost twenty years, between 1950 and 1990, and to the growth average height of Asian populations.

But when people live longer and begin to consume more and consequently, they have more time available to get sick, and if people are not starving in rich countries, increased longevity has been accompanied by the emergence of the most serious chronic diseases (different forms of cancer, cardiovascular diseases, diabetes, obesity), resulting from a conjunction of physiological, genetic, psychological and environmental factors. Among the last factors, it is widely accepted that nutrition plays a significant role both in triggering and in preventing these diseases. These diseases pose serious public health problems.

Among the causes of these severe degenerative diseases are found the following: abuse of saturated fats and refined sweets, lack of vegetable fiber, vitamins and minerals, which reduces the body's resistance to germs, pollutants and chemical substances or stress conditions. For example, the USA, which is a superpower, where food opportunities are abundant and accessible, 40% of population are overweight and 20% obese. In the USA, treatment of degenerative diseases cost 50 billion dollars, approximately 200 dollars per capita.

If food abundance that characterizes the industrialized countries has led to over-consumption, present situation of over eight hundred million people around the world, who still suffer from diseases caused by chronic malnutrition, has not improved [5].

Unlike developed countries, which face the consequences of an excessive foodstuff offer, developing countries are facing the consequences of insufficient food intake: decay (energy and protein intake too weak), scurvy (vitamin deficiency C9), beriberi (vitamin B1 deficiency), rachitism (calcium

deficiency), anemia (especially iron deficiency), poor eyesight and even blindness (vitamin A deficiency).

Most of these people live in developing countries. African continent is most affected by malnutrition; more than half of Africans live in poverty. In the diet of these countries the proportion of calories from animal food products is less than 5%, while in rich countries exceed 30% or even 40%. This situation is also encountered in developed countries, but the proportion of people affected by food deficiency is less [6].

- ***The pressures of food industry encourage over-consumption, while the canons of fashion require the cult of supple shapes.***

The consequence of this paradoxical situation is the consumer disruption, which loses his nutritional guidelines empirically submitted from generation to generation, in family education.

Consumption society of the third millennium is characterized by a high-availability and accessibility of food, but also by a very strong pressure from the food industry, exercised through the media, to encourage over-consumption. The consumer is faced with contradictory messages: first, incited to consume more and more, under pressure of aggressive advertising, but on the other hand forced to remain slim, by the dictatorship of fashion standards [7].

The current occidental societies are currently marked by a culture of supple forms, without historical precedent.

In the nineteenth century, weight gain in men was associated with health, prosperity and respectability. And for women, some curves and even excess weight were appreciated. In that time is considered that beauty lies mostly in the roundness of forms [1].

At the end of the nineteenth century this perception of the body has been deeply changed. The onset of the twentieth century was marked by the spread of slimming regimes in Western European countries. This dictatorship is still in force.

In societies characterized by food abundance it was developed a real obsession for restrictive regimes, aiming to limit food intake. North American society is the one that has developed, since the early '30s, the

largest number of slimming regimes, some of them being fantasist and even dangerous. Every year, Americans spend tremendous amounts for weight loss clubs, dietetic foodstuff and other dietary remedies that are supposed to favor weight loss.

4. Conclusions

If in general, human history was marked by alternating periods of shortages and relative abundance, in recent decades there is an increasing number of regions characterized by abundant food. However, this abundance of food, that currently characterizes the developed countries, has led to over-consumption and, with it, the loss of nutritional items acquired in family education.

The analysis of alimentary behavior of modern consumer highlights the primacy of quantitative aspects, resulted in high consumption of animal protein and saturated fat, derived especially from refined products, to the detriment of quality, which be could translated by providing the necessary proteins and fats of vegetal origin, micro-and macronutrients and fibers, taken from raw food products. All these led first to a deterioration in the nutritional plan of food, being one of the main factors (along with the genetic, physiological, psychological, environmental) in the onset of serious chronic diseases (cardiovascular diseases, cancer, diabetes, obesity) [10].

Thus, we can say that in developed societies, food based on quantity instead of quality led to a new type of consumer – the individual overfed and malnourished at the same time, two features rarely found in the same body throughout the history of our species [9].

Therefore, now more than ever, the individual must be aware of the links between diet and health and understand the notions promoted along the historical ages, by great thinkers of humanity (for example Hippocrates) and strongly stated by our days nutritionist, namely: "Man is what he eats. "

In the future, people must have an *intelligent alimentation, which emphasize healthy food*. This will be possible only if they'll improve their style of eating through education, communication and information.

Only in this way, in the future, consumer's demands regarding food quality will increase.

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Measurements of Local Community Autonomy from the Perspective of Local Public Administration Management

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Abstract

Being the major vehicle of all activities of public administration in territorial-administrative units, local autonomy ensures a high degree of democracy in local community management. But, although this autonomy involves their participation in meeting their own interests, it is limited by the fact that local autonomy does not mean the right of communities to govern themselves in any matter.

Therefore, a proper understanding of this principle is necessary, especially from a practical point of view, in order not to assign an absolute character to the local autonomy and to avoid stressing it.

Key words: public administration, local autonomy, local government management, local communities, local administrative authorities

J.E.L. classification: H83

1. Introduction

Given the current and future requirements imposed by the modernization and reformation of public administration, local autonomy should not remain on paper. Ensuring local autonomy is a present and future reality of local public management, with significant implications for the welfare of the administrative-territorial units, and more importantly, in building an efficient, competent and, last but not least, democratic public administration, which would respond to the needs and demands of communities. In this context, this paper will deal with the local autonomy principle, considering its vital role in meeting the needs of members of the administrative-territorial communities.

2. Conceptual foundations of local autonomy - a basic rule in public administration management

The rules under which local government of administrative-territorial units is organized and functions are formulated by constitutional provisions and the Law on local government. Among these rules is local autonomy as a fundamental principle without which the effective functioning of local government would not be possible.

The definition of this principle is found in Art. 3, Paragraph 1 of Law no. 215/2001 on local public administration which states that "Local self-government denotes the right and effective capacity of local authorities to solve and manage, on behalf of and in the interest of the local communities they represent, the public affairs, under the law." Further, Paragraph 2 of the same article sets the holders of local autonomy, stating that "this right is exercised by local councils and mayors, as well as by county councils and their chairmen, local government authorities elected by universal, equal, direct, secret and freely expressed vote."

Therefore, from the interpretation of the provision above, we notice that in practice, the exercise of local autonomy belongs to local government authorities (mayors and city councils, county councils and their presidents), acting on behalf of the community that have elected them to represent their interests.

Whenever it comes to investigating local autonomy, one should not ignore the fact that it is not only a right but most of all a duty of the representative authorities of local communities who have the mission to manage and solve all the problems of their administrative-territorial unit. In addition, all the rights and duties arising from the content of local autonomy are exercised on behalf of

the local community, as a consequence of the powers given by those who they represent, in other words, only on the basis of the mandate from local voters [1, p. 39].

The above regulations are in line with those existing in this field at European level. Thus, local autonomy is defined for the first time by the European Charter of Local Autonomy, which was adopted in Strasbourg on 15 October 1985 and drafted from the initiative of the Standing Conference of Local and Regional Authorities of Europe, within the Council of Europe.

In the very preamble to the Charter the arguments that led to its adoption are set out, namely that Member States consider that:

- local government authorities is one of the main foundations of any democratic regime;
- the right of citizens to participate in public affairs is part of the democratic principles common to all Member States of the Council;
- at local level, this right can be exercised in the most direct way;
- the existence of public administrative authorities empowered with real responsibilities can provide an effective and close to citizens administration;
- safeguarding and strengthening of local autonomy in different European countries is an important contribution to building a Europe based on the principles of democracy and decentralization of power, this assuming the existence of local public administration authorities, endowed with decision-making bodies, democratically constituted and possessing a wide range in terms of skills, how to exercise them and means to fulfil their mission.

In Article 3, European Charter of Local Autonomy defined local autonomy as "the right and the ability of local authorities to resolve and manage within the law, in their own name and in the interests of local people, an important part of public affairs." According to the Charter, "this right is exercised by councils or assemblies composed of members elected by free, secret, direct and universal vote, which may have executive and deliberative bodies responsible in front of them."

We notice that the rules of the Charter provide a more limited sense to the local autonomy, in that it refers only to "a part of public affairs", unlike the Romanian legislature that seeks to provide a wider sense to autonomy, without limiting the scope of public affairs that local authorities have to manage on behalf of the community whose interests they represent.

But even in such circumstances, no matter how extensive the content of the local autonomy, it is not and cannot be an absolute. Moreover, the Local Government Law itself states that the application of this principle "cannot prejudice the unitary and indivisible character of Romania as a national state" (Article 2, Paragraph 2). Therefore, local autonomy should not impede or affect the character of state sovereignty and national unity of the state, precisely the latter guaranteeing the autonomy of local communities. Being interested in meeting both local interests, as well as the national one, the state creates appropriate conditions for local authorities in the administrative-territorial units at central level to work together to ensure the smooth functioning of the whole society. In other words, the Romanian state recognizes the necessary autonomy for local management of their specific affairs, but only insofar as they are integrated in the legal system of the state [2, p. 149].

3. Local community autonomy from the perspective of local public administration management – forms and dimensions

According to legal provisions, local autonomy is only *administrative* and *financial*, being exerted on the basis and within the limits prescribed by law (Art. 4, Paragraph 1). This provision is likely to curb any tendency or action to distort the exact meaning and content of this principle, to promulgate "local autonomies" on ethnic, linguistic, territorial criteria. [4, p. 352].

Regarded solely administrative, local autonomy does not differ significantly in terms of content from the administrative decentralization. The exercise of local autonomy by the local government is only possible in the context of a decentralized

administrative management, in which the autonomous authorities are elected by the community, and on the other hand, decentralization is what ensures that local authorities provide a wide autonomy, understood as the right to decide on local issues of direct interest to them.

Most opinions expressed in the literature on local government management focus on the nature of local financial autonomy. Lack of financial resources would make it impossible for local authorities to meet the needs of its members, which would lead to failure of the administrative decentralization [5, p. 66].

An effective and efficient local autonomy is possible only where there is financial autonomy. Lack of financial autonomy would make the concept of local autonomy have no content. Satisfying the following conditions ensure the existence of a genuine financial autonomy [3, p. 67]:

- opportunity of the local community to have their own financial resources to cover their scheduled spending;
- freedom of local authorities to determine, in an autonomous manner, their own revenues and expenditures;
- appropriate management information system to link continuous optimal revenue and expenditure;
- local authorities' financial decisions are subject to a posteriori control.

Without the materialization of the financial dimension of autonomy, there cannot be a real self-government. Ensuring effective implementation of local autonomy in managing local government presupposes the existence of financial resources, without which self-management would not be possible and local authorities, representatives of the community, would be unable to complete their mission.

From a practical point of view, local autonomy acquires two forms: *functional* autonomy (technical) and *territorial* autonomy. Functional autonomy entails the recognition of a degree of autonomy for some public work in their field, and territorial autonomy consists in recognizing the right of administrative-territorial units to self-administrate. [2, p. 144]

Regarded from this perspective, local autonomy presupposes that certain conditions are met to ensure this principle, namely the

existence of communities in each administrative-territorial unit, with their own needs distinct from the national community needs; the existence of material and financial resources available to the local community that it can use for self-management; elections by universal, equal, direct, secret and freely expressed vote of the local public administration bodies - holding autonomy - by members of the community; recognition of the plenitude of competence of local authorities in solving problems of direct interest to them; consulting the citizens in solving local problems of special interest as well as the control over the guardianship administration exercised over the activities of the authorities of local administrative units by the central government or its territorial representatives.

The dimensions of local autonomy derive from Article 4, paragraph 2 of Local Government Law according to which "local autonomy regards the organization, operation, powers and duties, as well as the management of resources which, by law, belong to the village, town, municipality or county, as appropriate." From the interpretation of these provisions one has to keep in mind the following dimensions of local autonomy: *organizational*, *functional* and *management* related.

From an organizational perspective, local autonomy is manifested by the eligibility of local public administration authorities. For local autonomy to be possible it is necessary to organize local elections in order to appoint local governing bodies, specific to the local power, without them being subjected to any procedure of confirmation from the authorities at central level. Therefore, the independent character is guaranteed by the fact that the citizens who have the right to vote and who reside in that very administrative-territorial unit designate themselves, without the intervention of other structures, the authorities which will represent their interests. In conclusion, the local administrative bodies - local councils and mayors, county councils and their presidents - administer the affairs of the administrative-territorial units in which they are chosen, serve the interests and ensure compliance with the mandate entrusted by the local electorate.

From the same organisational perspective, we note the relationship between local public administration authorities in villages, towns and cities, on the one hand and local authorities at county level, on the other hand. Between the administrative authorities who serve the interests of local communities there isn't a hierarchical subordination of some over the others, a situation which results without a doubt from the provision of Article 6, paragraph 2 of Law no. 215/2001, which states that "in the relations between local authorities and county council, on the one hand, and between the local council and the mayor, on the other hand, there is no subordination." If such hierarchical relationships between the public authorities at county level and the local elected officials existed, local autonomy would be affected. In this sense, Article 6, paragraph 1 of the Local Government Law provides that "the relations between local public administration authorities in villages, towns and municipalities and public authorities at the county level are based on the principles of autonomy, legality, responsibility, cooperation and solidarity in solving problems throughout the county."

At the functional level, local administrative bodies have the power to solve all of the problems specific to their community, being limited only by issues within the competence of other public authorities. According to Article 5, paragraph 2 of the Local Government Law, "local autonomy gives local authorities the right, under the law, to take initiatives in all areas, except those which are expressly given jurisdiction of other public authorities." This, more so as, local communities know best their needs and interests, and are therefore best in the position to seek and find ways of meeting them.

From a managerial point of view, public authorities of local administrative units are entitled to own property and financial resources in accordance with the principle of ensuring adequate financial compensation correspondent to the competencies and responsibilities incumbent upon them. In this sense, Article 27 of the Public Administration Law provides that "in order to ensure local autonomy, local government authorities have the right to establish and collect local taxes and to develop and

approve the local budgets of communes, towns, municipalities and counties". Article 10 of the same law prescribes that "local authorities administer or decide on financial resources and public or private property of municipalities, cities, municipalities and districts, in accordance with the principle of local autonomy." The communities of local administrative-territorial units hold ownership and administrate buildings, land, different equipment and other miscellaneous goods, plus many financial means they use in the interests of local people. The heritage of each community, its efficient development and capitalisation is, in fact, the main source of prosperity of the inhabitants of each administrative-territorial unit. [1, p. 39]. Without this material support and without the possibility of local authorities to manage it according to the needs of the community, local autonomy would be, from a practical point of view, nothing but an empty principle.

4. Conclusions

In light of the above aspects dealt with in this paper, we can conclude that local government should be based on genuine local autonomy in all aspects: organizational, functional and managerial. The lack of genuine autonomy leads to the impossibility of local authorities to exercise their functions effectively in the service and interest of the people in their administrative-territorial unit. In the virtue of local autonomy, the local government authorities are responsible in front of the citizens who elected them to represent their interests and also decide on making local government work more efficient.

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Strategic Management of Service Organizations in the Context of the Regional Development

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Abstract

The topic of the strategic management of service organizations and its implications on the regional development is highly debated nowadays. Therefore, the aim of this study is to reveal recent research focused on the strategic management of service organizations in the context of the regional development. This study reveals firstly the key factors of the regional development, and secondly some strategic management models for service organizations. Furthermore, new approaches for the strategic management of service organizations in the context of the regional development are emphasized. The findings of this study reveal that there are some changes in the way of thinking about the management of service organizations, which seem to influence the practices in the management of services in a regional context. The findings of this study may be helpful for upcoming research in the area of managing regional service organizations.

Key words: regional development, strategic management, service organizations.

J.E.L. classification: L80, M10, R10.

1. Introduction

This study investigates the core facets of the strategic management of service organizations in the context of the regional development. Firstly, this study reveals the key factors of the regional development, and secondly it highlights some strategic management models for service organizations. Furthermore, new approaches for the strategic management of service organizations in the context of the regional

development are emphasized.

The research was conducted using evidence provided by articles (such as research papers, literature reviews, and conceptual papers) as well as books. The research question was answered by analyzing published sources, and by evaluating and interpreting evidence. Answering the research question was difficult, due to the variety of approaches, concepts, and definitions found in the literature.

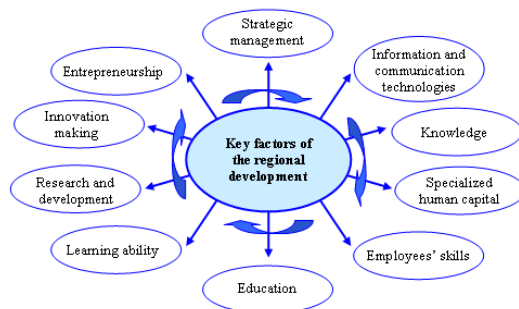
2. Key factors of the regional development

The persistent durability of regional successes and failures, as well as of the digital divides, suggest that only the knowledge regions may be good "hosts" to the (networked) knowledge-based economy [1]. Moreover, learning ability and innovations making are considered key factors of the regional development in institutional economics [2]. In this context, universities can have the largest impact on regional economic growth by excelling in advanced research and by augmenting the region's stock of human capital [3]. Under the regional development, the innovative process is more important than innovation production, because it potent the human capital.

Within the knowledge-based economy there is a strong correlation between knowledge, education, information and communication technologies, economic growth and regional development. The new economic growth models are connected to other more dynamic factors, as: human capital, knowledge, innovation and entrepreneurship. Innovation, knowledge and innovation capacity are essential elements in achieving the regional sustainable

development [4]. Geographic position and natural resources are not key concurrence advantages anymore, because knowledge and abilities of employees are becoming key factors for success [5]. Therefore, the key factors of the regional development are: strategic management, information and communication technologies, knowledge, specialized human capital, employees' skills, education, learning ability, research and development, innovation making and entrepreneurship (figure 1).

Figure 1 Key factors of the regional development



The knowledge-based society is characterized by the focus on knowledge, people, and virtual networks. These, as well as the transformations of services determine changes in the way service organizations are managed. We can assert that within the knowledge-based society the management of services is knowledge-driven, it relies on people's continuous development, network-intense collaboration (sharing ideas and knowledge), and value co-creation to attain sustainable competitive advantage.

The interest in studying the specific issues of services and its management emerged (surprisingly or not) among marketing researchers, e.g. [6, 7, 8, 9], who identified managerial implications of the service characteristics and changes. As it was observed in 1994 [10], "researchers interested in services did not predominantly attempt to change old management models and concepts in a marginal fashion in order to fit services. Instead a totally new approach to the problem of how to manage various aspects of service organizations was taken". This approach is what we may call the marketing approach of managerial aspects of services. Furthermore, we may suggest that this marketing approach could be considered

when we attempt to manage service organizations, but it is also needed a rethinking of the managerial concepts and practices in the context of service specificities within the knowledge-based society. This is because from a managerial perspective marketing is only a component of the organization's whole activity, in other words management means much more than marketing, and thus a holistic managerial approach of service organizations may be more suitable within the knowledge-based society in the context of the regional development.

3. Strategic management models for service organizations

A considerable amount of management literature has been published on strategic management, and more specific, various models for the strategic management have been developed [11, 12, 13, 14]. Nevertheless, there is no consensus in the strategic management literature regarding the sequence of activities and phases of strategic management. Although there are differences in the literature, the various models are logically created and include, more or less, phases such as:

- Mission statement;
- Analysis of the external environment;
- Analysis of the company (internal environment);
- Long-term, middle-term and short-term objectives;
- Strategic options;
- Strategy implementation and control.

The LCAG (Learned, Christensen, Andrews, and Guth) strategic management model includes company's external and internal environment analysis, action possibilities, cultural values, strategy identification, implementation and evaluation. It should be mentioned that the company's cultural values integration into the external environment has an indirect impact on the company's strategy [11].

The strategic management model constructed by Pearce and Robinson includes mission statement, company's field of activity, external environment analysis, strategic analysis, global strategy, objectives, functional strategies, policies, strategy

implementation, control and evaluation. We may note the major impact of company's field of activity on the external environment and furthermore, the minor impact of the strategy implementation on the external environment [12].

The strategic management model proposed by Daft is based on the SWOT analysis. The inner component of this model is company's mission statement and objectives redefining, based on strengths, weaknesses, opportunities and threats identification. Founded on the new mission statement and objectives, the company's strategies (global, by activities and functional) are defined and the strategy is implemented [13].

The strategic management model proposed by Rue and Holland comprises the following phases:

- Strategy founding;
- Comparison of the strategy with the previous strategy (if a previous strategy existed);
- Mission statement;
- Long-term objectives identification;
- External environment diagnosis;
- Internal environment diagnosis;
- Strategic alternatives identification;
- Business alternatives identification;
- Strategic alternatives comparison;
- Functional strategies identification;
- Particularities of the organization system;
- Strategy evaluation and control [14].

All these models that have been mentioned above could be applied to service organizations. The main rationale of the strategic management is to set and put into action a global strategy of the service organization (at the level of the organization), having in mind the organization's mission statement and attempting to reach it through the objectives' achievement. Starting from the (different) phases of strategic management found in literature we may assert that within the knowledge-based society a model for the strategic management of service organizations in the context of the regional development may include the following phases:

- Mission statement and corporate social responsibility (CSR);
- Assessment of the company's internal and external knowledge;

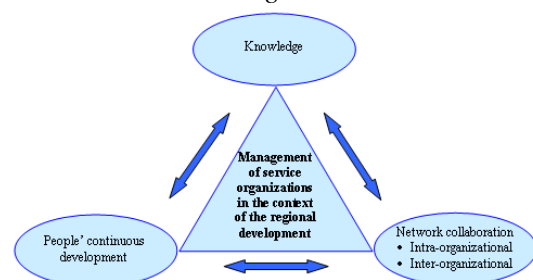
- SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats);
- Mission statement refinement and identification of the long-term organizational and societal objectives;
- Strategic alternatives (options) identification, selection, and communication;
- Strategies (global and functional) identification, selection, and communication;
- Strategic alternatives (options) and strategies (global and functional) refinement;
- Strategy implementation and refinement;
- Strategy evaluation and refinement [15].

We may suggest that the strategic management of services is a process that ought to be reiterated over and over again for service organizations to respond to change (or even to generate it) and to create knowledge for the development of the region in which they work.

4. New approaches of the strategic management of service organizations

In the context of the regional development we can identify some key features of the management of service organizations, namely knowledge, network collaboration (both intra and inter-organizational) and people's continuous development (figure 2).

Figure 2 Key features of the management of service organizations



At the outset, the management of service organizations is knowledge-driven and not customer driven or market driven for two reasons. Firstly, knowledge is the "heart" of society, and implicitly it is the "heart" of all activities, including the management of service organizations. Secondly, knowledge includes, among other things, the criteria for a company's evaluation, which may be internal (such as efficiency or effectiveness)

or external (such as environment or health).

The management of services is a holistic perspective which emphasises network collaboration, both intra-organizational and inter-organizational, since knowledge is created and transferred both within and outside the organization through various networks created at regional level.

The management of service organizations relies on the continuous development of people, which is indispensable for success. There are four arguments for this assertion:

- Besides knowledge, people are the next most important core resource of the management of service organizations which has to evolve on the knowledge spiral;
- People learn throughout their life (lifelong learning);
- Learning may occur inside and/or outside the service organization;
- People could learn traditionally – devoid of electronic devices, as well as through electronic learning (e-learning) or mobile learning (m-learning) – using information and communication technology.

Providing quality services has been identified as one of the most difficult long-term strategies for establishing a business [16]. Today's leading companies operate on a global basis, cooperating with regional suppliers, partners and a multitude of stakeholders, to deliver service and/or product packages [17]. Service providers who understand the needs and interests of clients thoroughly are capable of incorporating customer knowledge into the operation of the organization when enhancing the service intensity. This is not only helpful for the integration of the relationship and input of resources, but also has a positive effect on the improvement of customer satisfaction [18]. Therefore, service quality management may be a key factor for the success of service organizations which operate at regional level.

All these changes in the way of thinking about the management of service organizations seem to influence the practices in the management of services within the knowledge-based society. The managerial objectives, resources, relationships and methods used are all changing. Furthermore, business processes are changing due to the information and communication technology development, and their increasing / widening

acceptance in day-to-day life. The application of information and communication technology in business processes leads to e-business. In a broad sense, e-business currently symbolizes new ways of conducting business, where electronic networks of companies make e-business an inter-organizational activity to a large extent. The performance of the inter-organizational alliance and the ability of the partners to create value in such networks would therefore depend on their relationship competency. With better knowledge of how to influence their business networks, service organizations could increase their influence and their outcome of such relationships [19]. According to [20], "in the virtual plane the effort must be made in the direction of studying those activities that are conductors or generators of value, seeking to support and promote them with a view to sustaining this value creation". However, the same effort is made even though the company provides services in a traditional manner (face-to-face contact with clients). This may be important because traditional business is not excluded by e-business. The distinctive features of the knowledge-based society allow service organizations to generate value in an electronic way that is an alternative, and not an impediment, to business of a "conventional" type [20]. Regardless of the manner of providing services, however, people (employees, clients, partners, and competitors) are connected via open networks (e.g. internet) and management has to take this fact into account.

5. Conclusions

We have emphasized in this study that there are some key factors of the regional development, namely strategic management, information and communication technologies, knowledge, specialized human capital, employees' skills, education, learning ability, research and development, innovation making and entrepreneurship.

Furthermore, this study has revealed some strategic management models for service organizations. On this basis, new approaches for the strategic management of service organizations in the context of the regional development have been emphasized.

This study has shown that there are some changes in the way of thinking about the management of service organizations, which seem to influence the practices in the management of services in a regional context.

The results of this study may be helpful for upcoming research in the area of managing regional service organizations.

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Mortgage Loan Negotiating – Applications and Outcomes

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Abstract

In business English, certain communicative rules may be extracted by observing behaviour in various contexts and the reactions of the business people community members. In studying language and communication, there is one fundamental approach, i.e. the ethnolinguistic approach. In applying the ethnolinguistic approach to business English, specific categories of vocabulary, types of grammatical constructions, types of sentences and syntactic patterns, types of questions and answers used by business people are studied. In order to clear up such aspects and to further make up statistics, individual speakers (Romanian business people) were interviewed. In this respect, it was very interesting to study the language (concepts, simple words, collocations, set phrases, syntagms, polite formulas, requests) used by the participants in the dialogues.

Key words: business English, mortgage loan, negotiating techniques, polite formulas, banking collocations

J.E.L. classification: F 51, G 21

1. Introduction

In pointing out differences in the way language is used, such factors as gender, age, class, ethnicity, origin have to be considered. In this respect, it should be mentioned that each speaker makes use of the options available in the community. For example, in the businesspeople community, a businessman will have certain options of vocabulary, grammatical constructions, sentence patterns, unlike a businesswoman. The dialogues between a businessman and his interlocutor or a businesswoman and her interlocutor may be illustrative of these aspects. Studying sample dialogues, it will be

obvious that a businessman commonly makes use of certain types of sentences and syntactic patterns when he has to make a deal with a businessman partner, unlike the vocabulary and grammar (the formulas of address and behavioural patterns) when making a deal with a businesswoman. Moreover, “choices in speech style are motivated by many aspects of one’s identity. Sociolinguistic studies consider the ways that specific attributes influence a speaker’s selection in any given situation” [1].

2. Mortgage Loan Negotiating

STEP 1: WELCOMING THE CUSTOMER

Manager: Good afternoon. How can I help you?

Client: I am interested in getting a loan from you.

STEP 2: IDENTIFYING THE CUSTOMER’S NEEDS

Manager: Due to the fact that we have several options, may I ask you some questions in order to find out which of our products suits you best? How do you intend to use the money? I mean for what purpose?

Client: I need an amount of money to buy a house.

Manager: How much money do you need?

Client: EUR 40,000.

Manager: I suppose you are interested in buying an apartment.

Client: Not an apartment, only a studio apartment.

STEP 3: OFFERING CONSULTANCY

Manager: As you are young, our bank can offer you a mortgage loan on a maximum period of time of 30 years, which means that

you are supposed to pay smaller monthly installments.

Client: Smaller installments? So, what you are telling me is that, due to the fact that I am younger, I will have the possibility to pay back for a period of 30 years, but I could also repay the amount in advance, couldn't I?

Manager: Yes, you can make partial or total advance repayments. Your advantage is that the bank will not charge you any fee for advance repayment and you will no longer pay the interest corresponding to the installments paid in advance.

Client: What interest will I have to pay for this loan?

Manager: The good news is that we have just launched a new mortgage loan product with a fixed interest of 8.0% until January 1st 2011. After this date, the interest will be variable. How does that sound to you?

Client: It sounds interesting! I have also been to other banks and the interest was higher.

Manager: Should I give you any other details about the loan?

Client: Yes, please.

Manager: The loan we are offering you involves reduced costs: a granting fee and an annual administration fee. Do you have any other loans?

Client: One single loan of personal needs.

Manager: We can refund that loan. So there will be a bigger loan and you will have to pay only one monthly installment.

Client: What is the security of the loan?

Manager: The security is the very studio apartment you will buy by means of this loan. The bank mortgages what you buy.

Client: And yet, will there be any other loan related costs?

Manager: Yes, you will have to pay the mortgage protection insurance besides the life insurance.

Client: What amount are we talking about?

Manager: Life insurance is made for a loan exceeding EUR 25,000 and it is made for an amount equal to 20% of the loan value valid for the entire loan period. The real estate insurance will be paid by you in monthly installments that are added to the loan's installments.

May I ask you other questions as well?

Client: Of course.

Manager: What is your monthly income and what is the seniority at your last employment?

Client: I earn RON 3,000 per month, and I have been working for the same company for 2 years.

Manager: Based on your information and according to a prescoring, you can be granted EUR 42,000 for a period of 30 years. In financial terms, you are an eligible customer for our bank.

Client: Then, may I be absolutely certain of getting the amount of EUR 40,000 that I need?

Manager: That's right. Besides, I must tell you that you will need a down payment from your own sources amounting to 15% of the investment's value.

Client: When am I supposed to pay this down payment?

Manager: You have to pay this down payment by a pre-agreement at the notary public or at the real estate agency before the approval of the loan.

STEP 4: CLOSING / FOLLOW UP

Manager: I see you have some doubts. How can I help you?

Client: I find this real estate mortgage a little risky. If I cannot pay, is my house supposed to be taken away?

Manager: I can understand your concern. Under no circumstances will the bank take away your house on the first delay. Besides, you will receive a notification at home in case you delay paying the installment. This way, you will know for sure what the period of delay is and the amount you have to pay. Bear in mind that after 3 consecutive non payments, the bank may start the forced execution procedure.

Client: I wish I didn't have any problems and could pay all the debts to the bank. May I also get an amount of money for fitting up the house?

Manager: For fitting up the house we can offer you a credit card loan with an advantageous interest.

Client: Yes, let me think about your offer. May I have your business card, please?

Manager: Of course, here you are (she offers her business card to the client). Have a nice day. I will be waiting for you to fill in the forms together.

Client: Thank you. Good bye.

3. Analysis and Comments

Mortgage loan negotiation

Step 1: Welcoming the customer

At the beginning of the conversation, the manager takes a positive, direct approach to the potential customer, greeting her warmly and friendly. Linguistically, the manager uses the open question "How can I help you?" placing herself at her client's disposal.

Step 2: Identifying the client's needs

The second step, i.e. identifying the client's needs, concentrates on asking those types of questions which allow for a complete understanding of the client's financial needs. The manager uses the *technique of informing* the client of the various alternatives that the bank can offer, wanting to identify, together with the customer, that specific product which seems to correspond best to the needs of the customer. The manager uses simple and direct language like "Due to the fact that we have several options", addressing her client in a polite way by using the verb *allow*: „allow me to ask you a few questions in order to find out which of our products suits you best". In this respect, the open question „For what purpose do you intend to use the money?" is likely to gather information and explore the interlocutor's buying intention. Once the intention has been identified, the manager addresses a closed question in order to ask for precise information: „How much money do you need?" Following the client's short answer indicating the amount of money she wants to borrow, the manager uses the presupposition „I suppose you are interested in buying an apartment". Her guess about the client's intention is not entirely correct and the customer comes with the clarifying statement „Not an apartment, only a studio apartment".

Step 3: Offering consultancy

The manager shows the advantages of the mortgage loan offer. To attract the customer, she engages in a conversation based on what

specialists in the field of selling call *characteristics – benefits* presentation. Thus, she shows the way in which the characteristics of the offer result in benefits to the client. From a linguistic point of view, the advantage is expressed through the linking phrase *which means that*: „Our bank can offer you a mortgage loan on a maximum period of time of 30 years, because you are a young person, *which means that* you will pay smaller monthly installments". The customer's positive reaction immediately signals a real interest in the offer by the use of the repetition „smaller installments?". In negotiating terms, the language structures that she uses, i.e. „So what you are telling me is that, due to the fact that I am younger, I will have the possibility to pay on 30 years" stand for the *checking understanding* and *summarizing techniques*. She uses the manager's words and goes over the points already covered to make sure that she understands correctly. She ends her statement by using the tag question „couldn't I?" inviting the hearer to respond to the statement affirmatively. The client's negative tag question expects a *Yes* answer. It has a falling tone whose „translation" might be „I know that what I said is true, so please agree with me!". The manager strengthens the client's belief with a firm „Yes" followed by detailed explanations. These are connected by the linking phrase *your advantage is that* which combines two benefits linked by the subordinating conjunction *and*: „Your advantage is that the bank will not charge you any fee for advance repayment and you will no longer pay the interest corresponding to the installments paid in advance". Both the manager and the customer match sensory predicates by using the verb *sound*, a verb belonging to the auditory system of representation: „How does that *sound* to you?" and „It *sounds* interesting!" The manager uses two types of information. On the one hand, what is usually called *given* information, is placed at the beginning of the sentence, and, on the other hand, *new* information which normally goes at the end of the sentence. In the dialogue, the given information is represented by the loan itself which the client is already familiarized with from her discussion with the manager, whereas the new information is introduced

with the purpose of favourably presenting the advantages of the loan:

GIVEN	NEW
The loan we are offering you	involves reduced costs, respectively a granting fee and an annual administration fee.

As it can be clearly seen, the new information is introduced by the verb in the present tense simple „involves” followed by the advantage „reduced costs” further divided into „a granting fee” and „an annual administration fee”. This clause sends a message which contains a theme and a rheme. According to Katan (2004:154) [2], „In English, the theme is at the beginning of the clause and normally coincides with *given* information”. Wolfgang Dressler (1992) [3] also considers that English respects the *ordo naturalis*, i.e. starting with the given information and continuing with the new information. Torsello (1992:152, 153) [4] insists on the role of given and new information concluding that „It is the assignment of given and new which serves primarily to relate the stretch of text to what has gone before in the text”.

In my analysis of the conversation, I found many set phrases, most of them collocations relating to the field of banking such as:

Phrase	Meaning in English for Banking
<i>get a loan</i>	borrow money from the bank in order to buy a property
<i>An amount of money</i>	a sum of money that someone borrows
<i>mortgage loan</i>	a loan to buy a property; a legal arrangement where you borrow money from a financial institution in order to buy land or a house, and you pay back the money over a period of years.
<i>monthly installments</i>	a series of regular payments that are made until all of an agreed amount has been paid.
<i>repay an amount</i>	to pay back money that has been borrowed.
<i>partial repayment; total repayment</i>	a payment that is part of the total payment for something; the final amount of payments

	when everything has been counted.
<i>charge a fee</i>	to ask someone to pay a particular amount of money for something.
<i>advance repayment</i>	a payment made before a loan is completed.
<i>interest</i>	an amount paid by a borrower to a lender, for example to a bank by someone borrowing money for a loan.
<i>refund a loan</i>	to replace one loan with another one, usually at a lower rate of interest.
<i>security</i>	property or other assets that you promise to give someone if you cannot pay back the money that you owe them.
<i>mortgage insurance protection</i>	insurance against not being able to make repayments on a mortgage.
<i>life insurance</i>	insurance that pays out an amount when someone dies, or, with an endowment policy, when someone reaches a particular age or dies.
<i>income</i>	money that you earn from your job or that you receive from investments.
<i>seniority</i>	the official advantage someone has because they have worked for an organization for a long time.
<i>prescoring</i>	an economic calculation to find out if someone can be granted a credit.
<i>Grant an amount of money</i>	a sum of money given to a person for a particular purpose.
<i>eligible customer</i>	a customer allowed to do something or receive something.
<i>down payment</i>	a first payment made in the repayment of a large debt, such as a mortgage.
<i>pre-agreement</i>	a formal agreement which contains the main ideas or parts but not all the details.
<i>notification</i>	a formal document warning someone about something or asking them to do something.
<i>pay the debts</i>	to give a financial institution (the bank) the money you owe them.

<i>credit card loan</i>	money borrowed by using a credit card.
<i>fill in the forms</i>	to complete an official document by adding information.

There are also linking words which join ideas within a sentence or between sentences like: *because, due to the fact that, yet, but, in order to, in this case*, an inversion after the negative adverbial *under no circumstances*: „Under no circumstances will the bank take your house on the first delay”.

Step 4: Closing/Follow-up

The follow up stage is also accompanied by another business proposal: *For fitting up the house I can offer you a credit card loan with an advantageous interest*. This kind of phrase known as **hook phrase** is very useful as a selling strategy to attract and determine the customer to also buy a new product, other than the one he has originally agreed on.

4. Conclusions

The essential element in the sociolinguistic approach is the context itself with its components: environment, participants, topics and goals, all of them influencing speech. This approach may be obviously applied to business English. For example, the first component, i.e. the *business*

environment is as important as the other components, i.e. participants, topics and goals. By way of illustration, I considered the following situation: a mortgage loan negotiation in a big bank. When a bank clerk has to negotiate the loan with a potential customer, he has to apply the modelling technique. He should be sensitive to contextual cues and adjust his speech accordingly. In order to illustrate these aspects I made up certain statistics and a number of linguistic inquires, besides other (experimental and) situational observations and analyses.

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The Timelining Technique and Its Linguistic Expression in Business English

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Abstract

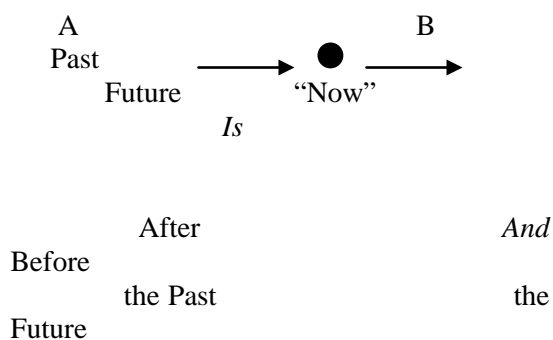
The present paper deals with the concept of timeline as a perceptual filter. This has been interpreted as an essential principle in forming our unique representation of the world. Measuring *time as motion* has made leaders aware of how *time as an entity* can exert a strong influence on the dynamics of business. The notion of timeline draws on the *in and through time dichotomy*. From this point of view, language contains a constellation of idioms. People usually express their preference for either the "through time" or the "in time" in their linguistic use of certain *phrasal verbs, adjectives, idiomatic phrases*, as well as critical *submodalities*.

Key words: timeline, in and through time dichotomy, Anglo-European business, idiomatic phrases, submodalities

J.E.L. classification: A 29

1. Introduction

The concept of timeline as a perceptual filter has been interpreted as an essential principle in forming our unique representation of the world. For many centuries, scientists and philosophers, starting from Aristotle to Einstein and Freud, considered the influence of time on the way people give meaning to an experience. From Aristotle's point of view, time resembles a *point in motion* along a line, an approach which is very similar to the modern concept of time in today's business life. His view of time as "points" on "lengths" of a line in such a way that "now" is "after" the past (A) and "before" the future (B) matches the leaders' use of motion to conceptualize time into their experiences.



(Source: Dilts and DeLozier 2000:1425) [1]

In other words, time perception or *time coding* as motion has come to represent the primary mode of thinking and the best way of planning future actions in Western societies. That is why, measuring *time as motion* has made leaders and managers aware of how *time as an entity* can exert a strong influence on the dynamics of business.

Our internal perception of time greatly affects our recalling of past experiences, the importance of "now" events, and the planning of future objectives.

The Webster's Dictionary (1996:1485) defines time as "a non-spatial continuum that is measured in terms of events that succeed one another from past through present to future" [2], certifying that events are chronologically arranged on a continuum, extending from left to right, with the *present* being somewhere in the middle.

The *timeline* continuum has been a major preoccupation for many researchers. Significant explorations have been made by theorists into the way people represent time subjectively, starting with Richard Bandler (1987) and continuing with Tad James and Wyatt Woodsmall (1988) in their book *Time Line Therapy and the Basis of Personality*. Moreover, James and Woodsmall's notable contributions to the notions of the "*in time*" and "*through time*" *time lines* [3] revealed

the way in which our memories are sorted and stored by the brain. James and Woodsmall's two basic timeline perspectives, namely *through time* and *in time*, are a reflection of how people choose to live their life.

Tad James describes these two main types of timelines. The first, i.e. the "through time", is also called the Anglo-European type of time, and includes the past on one side, the future on another and both are visible in front of the person. The second type he calls "in time", or Arabic time, where the timeline stretches from front to back so that one part (usually the past) is behind you, and invisible.

Traditionally, we refer to two broad types of time awareness and timelines. Once you are aware of your timeline and are flexible about how you use it, you can choose what activities you use each type for. A summary of some generalizations about in time and through time differences was made by O'Connor and Seymour (2002) and O'Connor (2001):

Through Time
Anglo-European type of time
Western
Left to right
Past/present/future
Memories usually dissociated
Time schedules important

In Time
Arabic time
Eastern
Back to front
Time happens now
Usually associated memories
Time schedules not so important

Source: O'Connor and Seymour (2002)

Through Time
Your time line passes outside your body
You are dissociated from the now
You tend to have dissociated memories
You tend to plan ahead
You are aware of deadlines and are good at keeping them

In Time

Your time line goes through your body
You are associated in the now
You tend to have associated memories
You tend not to plan
You avoid deadlines or are not good at keeping them

Source: O'Connor (2001)

A study which taps into Molden's conceptualization of time examines the correlation between time and leadership. It draws on the ***in and through time dichotomy*** which explains the concept of time management. The notion of timeline, seen as a useful technique, is relevant to the way we do business today. In an increasingly competitive environment, leaders must keep up the pace and rethink time coding as a perceptual filter. In other words, they will need to mastermind their projects in relation to time. From this point of view, language contains a constellation of idioms that stem from the metaphorical use of the notion of time:

e.g. ***We have all the time in the world for preparing a good advertising campaign.*** (time is at our disposal and we can own it)

Now that her boss is abroad, she has too much time on her hands. (time is possession)

You can't make time to listen to all the applicants. (time as something we manufacture)

The team were racing/battling against time to finish the report by Thursday. (time has physical form, time is enemy)

Time is on their side. (time is partial to them)

Time is a great healer/heals all wounds. (time is cure)

Time is of the essence. (time allows you to take quick action)

There's never enough time. (time is a commodity which is always in short supply).

The time is ripe for an investment in American real estate. (time is opportunity)

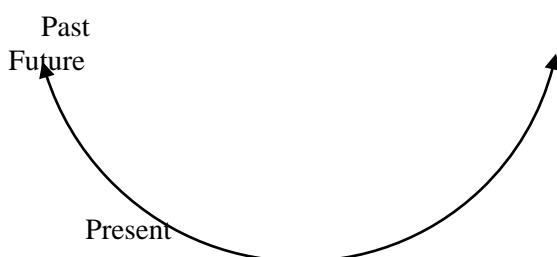
We invest a great amount of time in mergers and acquisitions. (invest time – time as a unit of currency)

Timelines are important to a person's sense of reality. Ways of talking about events are likely to program how we represent them in our minds.

2. 'Through time' timeline

The first time configuration, i.e. people with a *through time pattern*, characterizes those with a high value on time, even having an obsession with time by planning and scheduling every task easily. Due to their "v-shaped through time" timeline (see Figure 1 below), they are more likely to "use complex personal organizer systems because the past and future have as much importance as the now" (Molden 1996:42) [4].

Fig.1 Through time timeline
(Source: Molden 1996:43)



It should be pointed out that the distinction regarding *through time* people contrasted with *in time* people is that the timeline of the first ones does not pass through their body, but it is in front of them. They pay equal importance to past, present and future events. That is why their *memories* are usually *dissociated*: they are fully aware of time, recording exactly what they have done lately, what they are doing now, and what they will be doing in the future.

According to Dilts and DeLozier (2000:1422), "When one perceives an event 'through time', one takes a vantage point that is outside of the sequence of events, disassociated from whatever is being observed or modeled. Perceiving an event 'through time' involves **being disassociated from the immediate moment and seeing its relationship to past and future**".

In business, planning is more like a 'through time' activity because of the sequence of events that it presupposes, and the way this sequence progresses in time. The *through time* perspective helps a businessman keep sight of the whole in making quantitative analyses, for instance. As Bradbury (2006:73) puts it, "Someone in 'outside time' mode 'sees' events as

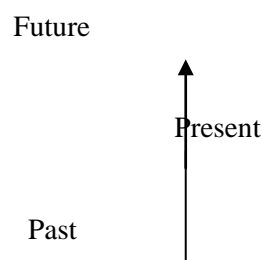
something like a stream flowing past in front of them. They are better able to *view the past* and *plan ahead* and thus see how events are developing"[5]. People with a 'through time' pattern are usually involved in operations like production and work from traditional linear timelines.

This kind of timeline has a practical application in management being mostly suited to the *Anglo-European business* where businesspeople are *dissociated from the present* and *associated with their schedule*, and for whom *Time is money*. O'Connor and Seymour (2002:137) pointed out the sequence and linearity of time from the point of view of a 'through time' person, stating that, in the Anglo-European type of time, "the timeline goes from side to side" and that "This is the time that is prevalent in the business world"[6]. This perspective is also shared by O'Connor (2001:109) who mentions that "In Western cultures, the past is often on the left and the future on the right because of the standard language reading sequence and accessing cues"[7].

3. 'In time' timeline

The second time configuration, i.e. people with an *in time style*, represents those people who are more concerned with the content of an activity, with *how* something should be done rather than what is to be done. Metaphorically speaking, this timeline "actually **cuts through the body at the present**" (Molden 2001:156) [8], making people receptive to the task in hand, and hence, more associated with time (see Figure 2):

Fig. 2 In time timeline



(Source: Molden 2001:157)

Compared to the *through time* people, the *in time* people unconsciously ignore time schedules and are more flexible with time since, for them, there is no such thing as

the present moment. So deadlines, business appointments and time-keeping are less important than they are for a through time person. In the *Arabic time*, as it is frequently called, business deadlines are more flexible than in the Western world, business people leave the past behind and the future is looked on "like a series of nows" (O'Connor and Seymour 2002:138).

In Dilts and DeLozier's (2000:536) view, "being 'in-time' refers to being 'in the moment'". Perceiving an event 'in time' involves **taking a vantage point associated within the event that is unfolding**". Thus, from an *in time* perspective, one can view **the non-linear temporal relationship of past and future as frames which influence ongoing experiences**. In the business environment, those who run an 'in time' timeline are more recommended for jobs in Research and Development because they show a talent for creative work and are tempted to perceive time more non-linearly. They are likely to view the timing of a project more like the assembly of a "jigsaw puzzle". The elements "fell into place" when enough other pieces had been assembled and the "time was right". Upper level managers tended to perceive time more in terms of cycles and pie charts, representing relative amounts of time measured with respect to one another.

In my opinion, the two perspectives, i.e. *in time* and *through time* could be described in terms of *active* and *passive*. Thus, on the one hand, an *in time perspective* is more *active* because the person who displays this style can easily get *associated* into the past and into the future, acting as if it were happening 'in the moment'. On the other hand, the *through time perspective* is more *passive* because it is more *dissociated* (disconnected) from the immediate moment and the emotion attached to it, and so are the internal representations and accompanying physiology.

4. The language of the timeline

People usually express their preference for either the "through time" or the "in time" in their linguistic use of certain words and phrases. Sometimes our language can suggest a lot about the ways in which we habitually relate to time, when we use phrases such as:

- looking *forward* to something
- putting something *behind* you
- looking a long way *ahead*
- leaving issues *to one side*.

These phrases can be coordinated as well with specific body language cues. The structure of these expressions may be:

- *let's + verb + object + particle* (an adverb or preposition) + *pronoun* as a way of making a suggestion for the speaker and hearer to do something:

e.g. (1) *Let's put that behind us* (gesturing backwards).

- *let's + verb + object + particle*:

e.g. (2) *Let's set that aside* (pointing to one side).

- *let's + verb + 2 particles + pronoun*

e.g. (3) *Let's move forward on this* (pointing forward).

- "let" in its imperative form with the meaning "allow" (allow me to...)

e.g. (4) *Let me get a clearer picture of what is to be done* (unfolding his/her arms out in front).

It should be pointed out that sentences (1) and (2) indicate a *through time* perspective through the use of the phrasal verbs *put behind* and *set aside*, whereas the phrasal verb *move forward on* in (3) and the idiomatic phrase *get a clearer picture* in (4) illustrate the *in time* timeline.

Besides the previous pattern *let's + phrasal verb*, there are also *adverbs* and *prepositions* which are likely to put an action in time: *before*, *during*, *after*, *until*, *by*, *when*, *previously*, *simultaneously*, *subsequently*:

e.g. **Before** you talk to the customer, I need you to check up on this with me.

After you talk to the customer, I need you to check up on this with me.

Before you talk to the customer, but **after** you have introduced the database in the computer, I need you to check up on this with me.

Through their positioning at the beginning or in the middle of the sentence, *before* and *after* introduce subordinate clauses and become subordinating conjunctions whose function is to indicate which event happened first. The *earlier time* is suggested by *before*, and the *later time* by *after* (Leech, Cruickshank & Ivanič 2001:29-30, 99)[9].

The arrangement of events which create a certain mental space can affect us. According to O'Connor (2001:113), "These prepositions

position us in time and affect our experience". Another perspective for analyzing time language is by paying attention to how people give different **submodalities** to events. As O'Connor puts it, "You can find out a lot about how people think about time together with their critical submodalities by listening to their language" (O'Connor 2001:112). People may change submodalities in relation to distant/ recent past or near / distant future:

e.g. (1) *It happened in the dim and distant past.*

(2) *The small company faces a bleak future.*

(3) *The leader's looking forward to receiving a huge payoff.*

(4) *Put this failure behind you.*

(5) *Time is running out.*

(6) *Time is on our side.*

The verb *happened* refers to the past time frame, the verb *faces* in the present tense makes reference to the present time frame, and the phrasal verb *is looking forward* has a future meaning. The adjectives *dim* and *bleak* and the phrasal verb *looking forward* are critical submodalities for the visual system of representation, while the phrasal verb *running out* and the prepositional phrase *on our side* correspond to the kinesthetic representational channel.

5. Conclusions

Whether we treat such language as metaphorical or as reflecting distinct neural patterns, it provides a useful model for understanding subjective experience and personal change and communication. Just as with sensory predicates, time predicates can seem strange to a person with different internal strategies or preferences. They give us an insight into another person's map of the world.

Although we all have a timeline, it may differ from another person's. We store and recall memories in a very different way, create our own map of reality, and thus change the very meaning of time. When we identify our own timeline, we will understand better how we 'code' time.

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Persons with Disabilities and Employment

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Abstract

People with disabilities represent an important social category inadequate used on the labor market in Romania, which generates losses for both labor market and for these people who are isolated and forced to live in poverty.

Many employers are reluctant to hire such a person, even where the law requires it when the employers exceed 50, and prefer to pay the amounts required by the state. Although there is much work for these people, however the number of hiring people with disabilities remains quite small, due to the fact that employers must invest in job accessibility, which means additional costs for the employers.

Key words: disabled person, protected unit, quota system, employment accessibility.

J.E.L. classification: J 14

1. Disability

The social disadvantage resulting from the loss or limitation of opportunities – because of the existence of an impairment or disability – to take part in the community life in a level equivalent to other members.

The disability comprises a number of functional limitations that may be encountered in any population of any country in the world. Disability describes the interaction between the person with disability and the environment. This term (Standard Rules, 1993) is to focus attention on the shortcomings in the environment and actions organized by the society, such as information, communication and education, which prevents people with disabilities to participate on equal terms. The term disability first appeared in English. Beginnings are identified in the XVI th century, in an equivalent gamble with lottery today. Later

the term is used to evaluate differences in racing performance of horses. Conțiu Șoitu apud. Rusu first identifies current uses of the term with meaning at the end of fourth decade of the XX th century in the form of "physical disability".

People with disabilities are considered high risk social categories with multiple social exclusions. Thus the consequences of disability are reflected on several levels: on an individual level by limiting opportunities and social integration of those affected to have access to the resources of society, on the family level by taking care of the family, especially by women in the family by reducing family income, labor market participation, which increases the risk of reaching families in poverty and through the stigma faced by the family of the other, on the community level we are dealing, first with increased risk of poverty in the community and on the other side with possible tensions caused by the stigma associated with disability, and not least the effects are visible in society economically, in the labor market by decreasing the number of persons employed and growth number of those assisted.

In 1993, the United Nations adopted the Standard Rules on the Equalization of Opportunities for Persons with Disabilities, along with an action plan, and recently launched a powerful new legal instrument - the Convention on the Rights of Persons with Disabilities, adopted in 2006. The Convention stipulates the right of persons with disabilities to earn a living through work, which is their choice and freely accepts the principles of equal opportunity, equal treatment and non-discrimination, and ensures this human right by law. At the same time, there is forbidden any discrimination based on disability for any form of employment and provides protection for those who acquire a disability during employment through measures relating to job

retention, vocational and professional recovery, where appropriate, return to work. The Council of Europe with the Malaga Declaration in 2003 and the Action Plan 2006-2015 have the same purpose.

In 2005, NAPH has developed a national strategy for protection, integration and social inclusion of persons with disabilities for the period 2006-2013 "Equal opportunities for people with disabilities - towards a society without discrimination." This strategy aims to shift from a passive policy, creating opportunities for the development of an active policy (notably to increase coverage of people with disabilities in educational and training services). An active policy requires rethinking the kinds of institutions and social services through diversification and increased participation of the NGO sector in the provision of complementary services (Preda et al., 2006).

In December 2006 it was promulgated the law 448/2006 on the protection and promotion of the Rights of Persons with Disabilities, which is in agreement with the European documents on the matter. One way that a person can integrate is the social engagement or participation in the labor market. A low degree of engagement of persons with disabilities is recognized both at national and European level (Commission of the European Communities, 2007). Current legislation (Law 448/2006) provides measures to encourage employment of persons with disabilities by establishing a rate of 4% for firms with fewer than 50 employees, tax incentives and protected forms of employment (sheltered workshops, protected units) which also benefit from tax breaks.

2. Employment systems for persons with disabilities

The most common system for the employment of persons with disabilities is the form of quota. The share is the obligation of employers that a certain percentage of staff are persons with disabilities, an obligation imposed on both public sector employers and the private sector, especially those who are over a certain number of employees.

The quota system was developed after First World War, Germany being among the first countries to have introduced such provisions (1922), followed by most European countries. Most often, compliance with those obligations attract financial penalties on employers, and funds raised are used for rehabilitation services or socio-professional reintegration for persons with disabilities. This system is based on the fact that without the obligation prescribed by law for employers, they will not hire people with disabilities because of low productivity and people with disabilities cannot compete with free labor.

These assumptions have been criticized by activist movement of persons with disabilities, and the quota system was considered stigmatized because it focuses on the idea of disability and dependence. Activist movement promoted the concept of civil rights for people with disabilities and non-discrimination policies and structured in the U.S. and later in Britain. This approach considers that people with disabilities can compete equally in the labor market with the condition that the social environment should not create barriers, while rejecting such positive discrimination quota programs.

The quota system was retained in many countries, particularly those such as Germany, where national constitutions emphasize positive rights. OECD (2003) notes that the choice between the anti-discrimination model and the quota model is based on quota rather cultural and attitudinal differences. Thus, in Anglo-Saxon and Scandinavian countries, the obligation bound by the central level (quota system) is not considered suitable or effective, while in continental Europe such policies are well defined.

In Romania, the quota system was introduced by the Law nr.57/1992 that requires employers with over 250 employees have at least 3% of disabled staff. If this condition is not fulfilled, the penalty was a minimum gross salary multiplied by the number of unfilled vacancies. Subsequent amendments have expanded the scope of law firms including more than 100 employees, and later with more than 50 employees. Also, the percentage required of employees with disabilities increased from 4%, but sanctions were dropped, now being 50% of national

gross minimum wage multiplied by the number of unfilled vacancies. It has been taken into account the possibility of firms to purchase goods or services in the amount due from authorized protected units. If the initial penalties paid by employers were paid into a special fund used to finance various programs to assist people with disabilities, currently they are transferred to the general budget.

In 2000, the EU protected units where worked around 500,000 people with disabilities but there are significant differences between countries in terms of employment in the open market vs. protected units. Sweden and France have chosen to subsidize the employment of persons with disabilities; the Netherlands and Poland are the countries that have developed particular segregated employment programs, protected units employing about 1% of the total working age population. Norway is the only country where the transition rate is significant - over 30%. In Ireland, where the units are an important form of protected employment in number of beneficiaries and the amounts allocated from public funds, efforts were made to improve the rate of transition by imposing maximum period a person can work in a protected unit and to put a greater emphasis on training component. Similarly, in Netherlands it was encouraged the establishment of protected places under ordinary companies. Even so, the rate of transition to the open labor market remains under 10% in Ireland and less than 4% in the Netherlands.

3. Integrating people with disabilities in economic and social life

Current legislation provides that the disabled person can work on the free market in units or sheltered workshops and at home. Supported employment is considered to be (CEC, 2007) an insufficient means used to support the employment of people with disabilities. This involves providing coaching and workplace adjustments on the open market to meet the needs of the disabled person. In Romania, this form of support was introduced in the new legislation in 2007, being used mainly by NGOs.

In 2010, in Romania there were about 400 units protected. However, the number of people with disabilities working in protected units is very small. Thus only 1% of all employees with disabilities work in protected units, the rest of them being employed on the open labor market. In Romania, the unit system has grown weak, being absent significant incentives offered to compensate for any loss of competitiveness. The protected units work, in most cases, only as a secondary labor market. There isn't an obligation for the protected units to develop related training or rehabilitation services; these are offered only by some units which have acquired the protected target voluntarily, especially those affiliated organizations of persons with disabilities.

According to Article 44, the Order 60/2007 - are considered protected units, entities with or without legal personality, under which they operate persons with disabilities, in these conditions in the legal sense:

- economic operators with legal personality, regardless of ownership and organization, with at least 30% of the total number of employed persons with disabilities assigned to individual employment contract;
- sections, workshops or other structures of economic operators, public institutions or nongovernmental organizations, which have their own management and at least 30% of the total number of employees employed and paid by persons with disabilities;
- physically disabled person authorized by law to carry out independent economic activities, including familial association with at least a person with disabilities. This includes individuals with disabilities authorized under special laws, operating both individually and in one of the forms of occupation.

Authorized protected units have the following rights: exemption from paying the establishment and renewal authorization, exemption from income tax, provided that at least 75% obtained relief fund to be reinvested for restructuring or for the purchase of technological equipment or creating protected jobs and other rights granted by local authorities financed from their own funds.

Licensing and implicit recognition of protected units began in 2003. Although in recent years their number has even increased by more than 50% in one year (2008 to 2007) they are still very few compared to the number of people with disabilities who could benefit from employment. In comparison, in the U.S., the employment rate of people with disabilities of 16-64 years was around 20% to 65% of the general population and the unemployment rate of 14% compared to 8.7% of the general population (U.S. Bureau of Labor, 2009). The European level shows that women with disabilities participate in the labor market to a lower extent than those without disabilities (CEC, 2007).

In both the European Union and the United States, people with disabilities have a lower employment rate than those without disabilities, but there are wide variations between countries. In the EU, about 50% of people with disabilities have a job. OECD estimates that in the Nordic countries the employment rate reached 52-54% (Sweden, Finland and Switzerland), 50% in Luxembourg and 40-45% in Norway, Britain and the Netherlands. In Ireland less than a third of people with disabilities have a job, while in Poland the percentage is lower than 20%. In France between 50 and 70% of people with disabilities have a job. There, all the companies that have up to 20 employees are required to have 6% of employees with disabilities. In Romania, this binding occurs only at firms with over 50 employees, and the percentage is only 4 people with disabilities.

If they don't meet this requirement, employers are obliged to turn to the budget half of the minimum wage for each position to be filled by a person with disabilities. In Romania, the employment rate of persons with disabilities is significantly lower compared with the general population. Only 12.7% of disabled people aged 18-55 years have a job, while the employment rate in the general population sample of the same age is 70%. Lately, the employment rate of disabled people has doubled in the period 2003- 2009, and in absolute terms the number of people with disabilities who have a job has increased 3 times.

Currently the number of disabled employees is about 29,000 in total, including those working in small firms under 50

employees and in sheltered workshops. If we consider that all these people would be employed in the quota system, which does not conform to reality, it follows a reserved seat-occupancy rate of 15% quota system, however well below other countries with system rate.

However, the employment rate of people with disabilities remains one of the lowest in Europe. The participation of persons with disabilities in society is one of the objectives of the Convention and the European regulations in the field of disability. Accessible access routes in public places, the premises of establishments are a way to facilitate the growth of their social participation. In general, any job can be adapted to the specific needs of persons with disabilities. To streamline this process is desirable to identify the best match between job description and skills requirements of the disabled person.

Recently there were developed standards for airport accessibility for people with disabilities in accordance with Regulation (EC) no. 1107/2006 of the European Parliament and the Council on rights of disabled persons and persons with reduced mobility when traveling by air. In Romania, by law, employed persons with disabilities (severe and bold) are exempt from income tax. Thus employers can deduct from their taxable profits for the money spent to adapt the job to transport the disabled person at work. Training expenses for the disabled person may be reimbursed in full from the unemployment insurance budget, compared to 50% as it settled for the remaining employees. Also, employers receive a monthly amount of about 115 EUR for each disabled person employed irrespective of the type or degree of disability (employers with more than 50 employees receive this subsidy for people with disabilities employed more than 4% mandatory quota of staff). In case of hiring young graduates with disabilities, the employer generally may receive subsidy for young graduates for a longer period (18 months versus 12 months as it is for those without disabilities).

A person with a disability certificate may cumulate, regardless of the degree of disability, income from salaries monthly allowance (care costs) and additional personal budget. Disability pension is granted

if at least 50% loss of working capacity in relation to the requirements of the position held previously. For grades I and II are deemed to have lost all capacity for work, and third degree is granted for the loss of at least 50% of working capacity. Under these conditions only those with a III grade can work without losing pension rights. If before 1990 there were disability specific jobs (e.g., the bookbinders, the packaged products, massage - for the blind - to the achievement of wire brushes etc.), currently these activities are more diverse (e.g., screen printing, web design, tourism, computer, graphics, etc.).

For example, people with locomotors disabilities are suitable for different jobs that involve working in front of a table / desk / work bench, with no movement in other locations. Examples: operators in call centers, telephone operators, telephone operators by sales, help-desk operators, information, public relations, computer operators and other jobs working on the computer: computer operator accounts.

In a publisher people with disabilities can type the manuscript text on computer, corrections, typing on the computer. Many modern magazines on the market come bundled with various promotional items. The packaging activity of these gifts with magazines can be done by persons with disabilities. There are also posts that can easily accommodate people with different skills deficiencies: receptionist goods / services, commission xerox operator, accountant, secretary, treasurer / seller, physiotherapy, massage. In the arts and in particular plastics, people with disabilities may be used in manual finishing operations or to decorate objects made of ceramic, glass, metal, wood, leather, etc., making cards, trinkets, jewelry, small gifts, candles, handicrafts, especially unique or small series objects. People with low vision can work on the third shift (night) without consuming power for lighting. A blind person receiving the necessary assistive technology - a screen reader to translate the audio information on the desktop - can handle any job that involves working at the computer. People with hearing disabilities can face very noisy environments, which causes great stress on a person without disabilities. Otherwise, these people can cope well in all areas of activity: mechanical, light

industry (clothing), wood. People with intellectual disabilities, with careful preparation and a preliminary assessment can successfully perform job tasks that require a long routine, simple repetitive work on the treadmill. Depending on the deficiency of each person can identify the "man in the right place".

4. Conclusions

If in the developed countries people with disabilities are visible to the naked eye, in Romania, many of them prefer to remain isolated or to reduce their interaction with the outside world. Explanatory factors of this situation may be on one hand, coupled with fear of the reaction of others, and on the other hand, the poor accessibility of the social environment.

Legislation drafted in 1999 (GEO 102/1999) provided time to achieve accessibility, but these terms were not met, so that the new law in 2006, abandoned setting time limits. Despite NADP's efforts to monitor public institutions and penalize them the situation is far from being encouraging. Thus, from the institutions evaluated in 2006 and 2007 over 150 were accessible. The media has presented numerous situations in which accessibility was a formal (eg. too high angle ramps).

Romania also faces a number of problems related to poor education that preferred to hide the disabled, and to treat them as if they were unable to fend for themselves. People with disabilities are egocentric. All their lives have been grown in a climate in which the family gave them all the attention and have been assisted. Or when they engage must behave like everyone else and be treated the same. "If you want to be considered like everyone you have to behave like everyone else. Not going to call to say that you do not feel well, that you won't come today because the owner wants to have a profitable business" (Stephane Meuret).

The law 448 stipulates the establishment of Protected Units Authorized, many of them having so-called employees with disabilities just to benefit from tax relief. Such a unit should have 30% of employees with disabilities, and can receive orders and contracts without competition from the state or third parties who may choose to purchase

such products from a UPA with the money that they would give to the state for the unemployed persons with disabilities.

Because these revenues fall in the general budget it is not clear whether this money come back to people with disabilities in the form of labor market integration services, as happens in most countries that have a quota system. Given that the proliferation of special funds within the budget is not a good practice, being discouraged by the external partners that gave assistance to Romania, you can assume as a public policy the allocation of similar amounts to those collected for the employment policies, even without a separate fund.

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Rationality, Intuition and Flair in Entrepreneur's Configuration - an Epistemological Approach

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Abstract

The present paper proposes an overview of the evolution of the concept of entrepreneur in an epistemological approach. After a brief history of the concept, there are some basic economic and managerial guidelines in entrepreneur's configuration; these guidelines are found in the work of experts in management, respectively, leading economists. Rationality, flair and intuition of the entrepreneur are then analyzed in terms of existing trends in the economy, acknowledging the entrepreneurship and again stressing the importance that the entrepreneur has in a global market.

Key words: entrepreneur, entrepreneurship, limited rationality, economic rationality, limited irrationality.

J.E.L. classification: B10, L26, N8, O12

1. Introduction– the concept of entrepreneur from a historical perspective

Over time, the concept of "entrepreneur" has different meanings. A chronological approach to the concept, at least in its early stages, may be appropriate since it is difficult, or at least questionable, to set a time from which we can speak about the modern entrepreneur significantly different from the traditional one. The evolution of society as a whole up to current stage - the stage of knowledge society - or individualization of new sciences derived from economics may constitute as many landmarks in entrepreneur's configuration.

In the *early years*, the typical entrepreneur could be found among the military and merchants. At that time, wars were often deployed for economic reasons; the military leaders, assuming considerable risks, could achieve substantial gains through a successful strategy. The merchants of those times were risking their fortunes too. The merchant and adventurer could often be found in the same person. Marco Polo, for example, was an adventurer who sought to establish trade routes to the Far East. The adventurer-merchant was assuming physical and emotional risk of such an action, and the capitalist, the economic risk. At the end of the mission, the capitalist received 75% of earnings and merchant the rest.

Because the trade in the *Middle Ages* was considered a degrading act because of the existence of church restrictions on the supply of capital, the entrepreneur typically was a cleric. He had as assignment the construction of large architectural works, such as castles and fortifications, public buildings, monasteries and cathedrals. Employed in such huge projects, the entrepreneur does not assume any risk, but rather was a project leader who used the resources most of the times provided by the government. Although primarily concerned with ethics, medieval writers, however, said that a good trader must be steady in taking risks and well-informed about quality, price and cost of goods, pay attention to detail and emotionally prepared in case of failure.

The entrepreneur of the *seventeenth century* was the person who enters into a contractual arrangement with the government to provide a service or purchase a product, assuming the risk of such transactions. Since the contract price was fixed, the entrepreneur can win or lose in the transaction, as he

bought at a lower or higher price. In England, land speculators and farmers were considered entrepreneurs.

The eighteenth century brought the first explanations of the concept of entrepreneurship as we perceive today. The first use of the term *entrepreneur* in an economic context is attributed to Richard Cantillon in his work „Essai sur la nature de commerce en general”[1], published in 1755, 21 years after his death. Cantillon gives a broad definition of entrepreneur. According to his definition, the entrepreneur is the agent who purchases inputs to combine them into products for sale on the market, while the costs are known and certain, and the income is unknown and uncertain. The uncertainty of income lies in the fact that the market demand can not be fully known. He considers the entrepreneur the main figure in economy.

In the same period, in England takes place the industrial revolution, a process in which the entrepreneur had a visible role in taking risks and transforming resources. The term „adventure” associated to the entrepreneur left gradually the place for „undertaker”, about which Adam Smith wrote that has become synonymous with regular businessman [2].

Also during this period the entrepreneur was particularly different from the capitalist. Many inventions of the industrial revolution would not have been possible without the support of the capital owners who did not have an entrepreneurial spirit. Thomas Edison, for example, to carry out his experiments in chemistry and electricity resorted to various private sources of capital.

2. Reference points in economics and management regarding to entrepreneur's configuration

2.1. Jean Baptiste Say

Jean Baptiste Say is a famous scientist, considered the first professor in the field of political economy in Europe. He brings an important contribution in developing the concept of entrepreneurship. Moreover, Jean Baptiste Say was also entrepreneur, which allowed him a better understanding of the entrepreneur's business activity. Say's definition of entrepreneur puts him in a more

specialized and detailed role, being less general. He believes that the entrepreneur must have „... judgment, perseverance and an understanding of world and business. He must estimate the importance of product with tolerable accuracy, the probable demand and the factors of production required at a given time, on the other hand, he has to buy raw materials, to ensure the workforce, to identify customers, paying particular attention to the economy and policy, in a word, he must possess the art of control and administration.” Say insists on the need for simultaneous affirmation of these qualities as a condition for success in business. If any of the above qualities is missing, then the activity of the entrepreneur might fail. [3]

The crucial role of the entrepreneur in the allocation and reallocation of resources where there is a perpetual imbalance (due to the fact that supply and demand are in a permanent change) was noted since 1871 by the Austrian school's founder, Carl Menger. He stressed the entrepreneur's need for information and his ability to analyze it successfully in order to be able to allocate properly resources. Menger has also examined the role of uncertainty to entrepreneur's activity. [4]

British classic economists have given to entrepreneur a minor role in overall economic activity, considering that he only provides capital, and does not play a direct role in leading this process. English Classical School addressed the economic issues mainly at the macroeconomic level. If British classical liberals gave a less importance to the entrepreneur, considering that he is only meant to provide the business with necessary capital and having an indirect role in guiding this process, during the subsequent period the economic reality proved the groundlessness of this attitude.

2.2. Joseph Schumpeter

Thus, in the *twentieth century*, the entrepreneur has become synonymous or at least associated with free enterprise and capitalism. He is recognized as an agent of change. The entrepreneur is a creative person with innovative business ideas that contribute to business growth and profitability.

A major contribution to deepening the concept of entrepreneurship and its role was made by Joseph Schumpeter (1954). The key word in his work relating to entrepreneur is innovation; the two concepts practically overlap in his work. He believes that the entrepreneur is the person who makes a new product or new production process, a new combination of the factors of production, in essence, through an innovation.

In Schumpeter's view, the true entrepreneur is no longer seen as a person who responds to market forces or to an adjustment process led by a new relation between supply and demand, but rather as the person that causes the change. [5]

Joseph Schumpeter disagrees to marshallian definition of the entrepreneur - according to which the entrepreneur function is an "administration" function taken in its broadest meaning - saying that it is currently performed by individuals with a high degree of talent and professionalism. The rarity of the successful entrepreneurs lies in their psychology.[6] Although they are rational economic people, their aim is not simply following consumption, in a common sense.

At the beginning of last century, Schumpeter's theory on entrepreneur's "innovative spirit", who carries out new combinations of existing things, becoming a promoter of innovation progress and generator of economic progress, enjoyed high ratings, especially since it explained the economic superiority of capitalism against the socialist alternative.[7] This is because individual liberties, freedom of social relations, civil rights - as basic pillars of democracy, which yet can operate only in capitalism - have been translated into free trade and labor in economic terms. These basic trends are also reflected by the liberal philosophy of Scotsman David Hume (1711-1776), which revealed that the competitive system fosters the spirit of competition among countries and among ordinary individuals. [8]

2.3. Herbert Simon

The neoclassical theory states as main objective for entrepreneur the profit maximization. If this is the owner of the company and perform turnovers higher than

explicit and implicit costs then he obtain a higher income than that he would obtain from the best alternative use of its resources. To achieve this objective, the company adopts an optimization behavior based on complete rationality and obtains, in this way, a maximum profit [9]. The neoclassical model is missing, however, the central character: the entrepreneur, respectively he is treated impersonally as long as the neoclassical company is presented as an agent without dimensions ("point company") and as a passive agent ("automatic company").

One of the most famous economists who have criticized the classical model of rationality is Herbert Simon who proposed the concept of *procedural* or *limited rationality* which constitutes a major contribution to the decision theory within economic organizations, and for which he received the Nobel Prize for Economics 1978. The perfect rationality from the classical model - which is based on decision results, and objectives and means of achieving them are considered a priori - is replaced with procedural or limited rationality - which is based on decision-making procedures, and objectives and means of achieving them is taken as a baseline and as a result of the research. [10]

Whereas the twentieth century marks the emergence and development of management as an independent science, the concerns aimed at entrepreneur's configuration receive a special focus given primarily by changing the macroeconomic analysis framework to the microeconomic level of analysis.

As regards the rationality, it is most often encountered in addressing decision-making processes within firms. Therefore, in essence, Simon argues that the rationality of decisions in organizations is affected (limited) by two major factors: the limited cognitive capacities of decision makers and the constraints of the organizational environment. As a result of the influence of these factors, managers often renounce to "inventorize" all possible alternatives to find the best, and they are contented to examine a limited number of alternatives, retaining the first one that they seem to be satisfactory (good enough). [11]

But what fundamentally distinguishes entrepreneur from other players in the business and social environment is action, for

which his configuration analysis emphasis on its behavior determined by *economic rationality*, namely the choice of the best ways to use resources to maximize the objective on the one hand, and on the other hand, to ensure coherent functioning to economic structures of the enterprise and / or of a national level. [12] In this sense, the *intuition* of the entrepreneur can occur in: investigation of internal and external environment through inspired seeking and interpretation of relevant information; identifying the real problem by detecting some causal link less obvious by logical way; generating new and unusual alternatives; evaluating the generated solutions by estimating the evolution of some uncontrollable factors (intuitive prediction); selecting a solution; implementing the decision by choosing inspired ways to achieve the planned actions.

2.4. Peter Drucker

The famous American professor Peter Drucker, considered a guru of modern management, defines the entrepreneur in a pragmatic manner, from a managerial perspective. He believes that the entrepreneur is always looking for change, identify it, respond to it and exploit it as an opportunity, and its activity is neither science nor art, but practice. Drucker's definition focuses on the existence of a genuine culture of entrepreneurship, which is based on exploiting new market opportunities. The author believes that the characteristic features of entrepreneur's successful behavior can be developed within existing organizations, so ensuring a competitive advantage. (This definition is in line with American pragmatic school, being found also to other authors). In same context, Sexton, Kent and Vesper (1982) believes that entrepreneur is not any business owner-manager. If an innovative aspect of its activity does not appear, it can be considered an administrator.[13] As a result, says Drucker, the entrepreneur must be seen from the perspective of results which he achieve in business and less in terms of what he is as a distinct personality. [14]

Currently, in developed countries, the entrepreneurs' behavior becomes more strategic, seeking to change the external

environment conditions, whereas they activates mostly in foreign markets with increased competition. Therefore, open market competition plays the role of entrepreneurs' coordination and the connection of production to consumption. This coordination is achieved through profit and loss mechanism which, on the one hand, rewards the entrepreneurs who anticipate correctly the public desires and allocates resources towards meeting these needs and, on the other hand, amends the entrepreneurs who waste resources by investing them in less important directions. The continuous entrepreneurial class selection made by the competition ensures the coordination of individuals plans (as F. Hayek said) or harmony of interests (as F. Bastiat said) [15] by the phenomenon of "creative destruction" mentioned by Schumpeter [16].

Therefore, in the contemporary economy, "the entrepreneur's ability" is considered a special human resource, a neo-factor of production required to combine the other factors of production in terms of efficiency, to manifest the motion and the degree of adaptability to market requirements, to produce new economic goods, to find the most advantageous supply sources and markets, to assume the risks of making and implementing economic decisions. Therefore, the entrepreneur has his role well defined. He manifests itself as a true "interface" of production and consumption processes, called to ensure the achievement and maintenance of company's competitive advantage in the global market. [17]

3. Current trends in addressing the concept of entrepreneur

Thus, the entrepreneur's configuration can be analyzed in relation to company's development as an independent entity: if we consider its various operating forms (legal status) or its size, from small and very small businesses to transnational corporations, we can talk about the emergence of *collective entrepreneur*, about process of group decision making, about innovation through cooperation etc. Although many of the assertions presented in this paper also refer to collectively entrepreneur, the generic name is the same: entrepreneur. Management

literature explores separately the two concepts and delimits them the roles and functions (for example, many books, articles and studies are dedicated to small and medium enterprises, in which the central figure is the individual entrepreneur).

Increasingly present in management literature, but also in practice, is the notion of *entrepreneurship* defined as the process by which an individual or a group of individuals called employers or entrepreneurs, make organized efforts to exploit the existing market opportunities, explicitly appealing to innovation and adaptation to change. [18]

According to Drucker, the management was the new technology that has transformed the American economy into an entrepreneurial economy; it is concerning successive innovations in education, healthcare, government, business, economy and society. [19]

Entrepreneurship means monitoring the environment trends and changes in the market or in society which nobody has seen or has not paid attention to before. [20] The most important aspect regarding to entrepreneurship is related to innovation and adaptation to changing required by market and / or society; it involves change, the introduction of new products / services or of new ways of doing business. [21]

In general, having as reference the management literature, in recent years is made little distinction, at least for small and medium sized companies, between the entrepreneur-owner and manager-owner. Unlike classical design, the owner of capital is not seen as an entrepreneur as long as he is not the one who is running the business. And this is not because things wouldn't stay that way (he make the initial decision to invest his money in a business, "undertake" this first step), but the emphasis is placed on the diversity of roles and activities which must be fulfilled, respectively, performed, by the managers who run that business.

Thus, in most management works can be found various typologies of entrepreneurs, each identified type comprising a range of personality characteristics, abilities and skills, more or less similar, more or less specific. Among these typologies is found also the criterion of ownership that marks the difference mentioned above, but only this: for example, there are not analyzed in depth

the relations between owners and those who manage their businesses, respectively the extent to which the latter ones are free to operate in accordance with the training they have and with their understanding of those businesses. In other words, how much power of decision they have and if this is limited, to what extent they have the responsibility of implementing the decisions, with the whole "suite" of consequences arising therefrom.

Given those written before, we believe that intuition is implicit in the entrepreneur's conception of innovation - inherently linked to the concept of entrepreneur - and flair, defined as "sense of quickly orientation in a difficult circumstance or situation" (DEX) is inextricably linked with the intuition materialization by putting the innovation into practice (in the schumpeterian sense and not only) at the right time and right place. Moreover, flair is the expression of the strategic dimension of entrepreneur's thinking, and without it he can not cope with the frequent and rapid changes specific to the current economy. As an example, we can examine how the manager-owner (as generally, the entrepreneur) faces the growing crisis of the company that he started it: the moment of enthusiastic beginning (the intuition of profitable business idea and its implementation) will be overshadowed by the problems posed by the need to extend organizational structure and to delegate attributions. Initially, flair will be useful for him, especially since the changes will be rapid, after which the he will feel the need, among others, to use the well-known strategic management tools as rational option for company's management.

On the other hand, as an extension of Simon 's thinking about limited rationality of individuals (in this case, the entrepreneur) in addressing the organizations decision-making processes was introduced the term of *limited irrationality* (LI) which can be defined as a specific human behavior whose basic principle to human activity system is represented by the logical-rational structures, but which as an exception (in limited circumstances), also calls the experience, intuition and imagination; in other words, LI is a sequence of "extra-logical" accepted as an exception from the desire to highlight the three components invoked, respectively experience, intuition and imagination. [22]

This is because human thinking (therefore entrepreneur's thinking) is far from being perfect and precise, both rational and irrational are being specifically human attributes; the idea that the irrational may put its mark in a positive sense, on an individual's rational approach is not new, being frequently found in many scientific papers. For example, Karl Popper believes that scientific discovery is, in essence, an irrational moment to which you can not attain to any logical path as it is based solely on purest intuition. [23]

We could say that a modern approach to the concept of entrepreneur has to take into account issues that have totally changed the current business environment, primarily related aspects of the information revolution. The abundance of information available due to Internet proliferation can not contradict the theory of limited rationality of H. Simon, maybe even strengthened it because of redundancy phenomena that occur many times and, paradoxically, impede the communication.

However, mutations occurring in the contemporary economy show transition increasingly obvious to another form of economy - the knowledge economy - where businesses based on knowledge have an important place. They are becoming more numerous and extend throughout many areas, generating the need for a new type of entrepreneurs: providers of knowledge entrepreneurs, entrepreneurs in the field of information and services on the web. The knowledge economy is creating new business opportunities and, of course, entrepreneurs to fill this niche market. [24]

The entrepreneurship and capital accumulation as endogenous features of an economic system, give the measure of current and potential progress in society. Not every manager, whether he is worthy, is also a visionary, capable to identify major opportunities. Joseph Schumpeter, with his famous "Theory of Economic Development" and the Austrian (neo-Austrian) school generally have significantly contributed to explaining the role of entrepreneur in economic growth. History of recent decades shows exemplary entrepreneurs; it is enough to think of a Bill Gates, who formed what has become the Microsoft, or the team that has made Nokia a world leader in

telecommunications equipment. Likewise intense capital accumulation, as investment process, ensures sustainable economic growth. New information and communication technologies emphasizes the role of entrepreneurship, knowledge (based on higher education), for economic growth. [25]

4. Conclusions

A fundamental role in entrepreneur's configuration we believe that have the institutional framework in which he acts, and not only the markets which he addresses to. Entrepreneur's behavior will be the more opportunistic the more he will be forced to act in situations of economic instability or unfavorable circumstances in a legal framework with serious gaps. Moreover, he will use his rationality, flair and intuition not to create value, but to exploit the weaknesses of social-economic system in which he operates. If he finds itself constrained to do so or not remain an open question. It is certain that over a long period of time, this behavior tends to become a tradition, and a model to follow due to the lack of alternative.

Thus, "the behavioral patterns that have passed «the customs» (n. are selected by market) are those consonant with the environmental rules. The sum of these rules is a condensed experience, consumed in the spirit of rationality. Also from rationalist spirit (but without making a special concern of this) economic agents assume this experience and imitate it. Rather than rewrite the history of business, is more comfortable ("rational") to take it over and eventually transmit it further." [26]

We believe that opinions presented in this paper are far from circumscribing a frame of reference for configuring the entrepreneur from yesterday and nowadays especially since the perspectives of analysis are somehow different: on the one hand, pure economy on the other hand, sciences derived from it. As each has developed its own concepts and analysis tools balancing the points of view in a language understandable for all specialists in economics of one kind or another, becomes a laborious approach.

Personally we are much closer to the managerial approach but we consider extremely useful the widening of entrepreneur's analysis framework beyond the company's boundaries whereas the microeconomic perspective often personalizes up to superficiality and the macroeconomic depersonalizes up to excessive formalism.

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The Synergy Issues in Organizations' Strategies in a Global Economy

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Abstract

The present paper aims to define the concept of synergy in the context of strategic management of organizations and to emphasize the importance of taking it into consideration by the companies that activate today in a global economy. The transposition of synergy into objectives aimed by the company depends on whether the strategy would be implemented according to the available resources and these objectives may take the form of operating synergy, investment synergy, managerial synergy etc.

Thus, there are presented considerations concerning the strategic analysis and strategic segmentation tools through which companies will identify which strategy are timely and, especially, which ones will lead to achieving the expected synergy effects. It is also argued the special attention that should be paid to implementation of corporate-level strategies and to the role of human resources in achieving synergy effects.

Key words: synergy, synergy effects, strategic segmentation tools, organization level strategies, corporate-level strategies

J.E.L. classification: L1, L2, M1, O3

1. Introduction

According to the company's systemic approach, the concept of synergy is quite limited to the meaning of "to link", "to work together" in order to achieve the aim of the company seen as a whole. In a wider understanding of the term, synergy means to achieve in joint action of the elements that make the system a better result than the sum of individual actions, respectively $1 + 1 = 2$ or $2 + 2 = 5$. These non-mathematical relations reveal the existence of the subsystems interdependence, they couldn't operate one without another under the

conditions of pre-existing common objectives.

Haken (1984), the founder of Synergetics, points that the synergy refers mainly to transactions related to several subsystems (generally, the same or different) to generate an ordered structure and a system functions at a macroscopic level. (Qingrui Xu and others, 2007) Since the business organizations are complex systems, the attempt to define and measure the synergy effects arising from activities taking place within them (and between them) is a difficult endeavor that requires different approaches depending on the specific area covered. Therefore the synergy issue in implementing the strategies firms was not a major and self-reliant theme for researchers and practitioners than in a small extent or tangential.

2. The synergy in Ansoff's strategic model

Over the years, a significant amount of research on strategic management has been devoted to identifying what companies should do to increase their business value and gain competitive advantage. The *synergy effect* term was first introduced by Igor Ansoff in the '60s as a generic definition for effects derived from the union between two products or markets. The basic idea was that the combination effects may lead to an increased value that was impossible to obtain separately. (Ansoff, 1965 apud Nedelcu, 2008)

Igor Ansoff described the synergy as the combined effects of two products or markets. Synergy, he says, occurs when the two combined resources generate results greater than the amount of each part. He discusses on 4 types of synergy: sales synergy, operational synergy, management synergy and investments synergy. Ansoff argued that the most successful companies are those that manage to exploit advantages in core

business through diversification on carefully selected markets. This diversification may then lead to positive effects of synergy. (Ansoff, 1965 apud Goldberg and Katz, 2008) Furthermore, synergy in the use of organizational resources in Ansoff's view encompasses an inherent part of any strategy. Similarly, R. Daft considers synergy a component of the strategy and it "defines the conditions that exist when components of the organization interact, producing a greater effect than that obtained by the action of separate parts." (Istocescu, 2005)

The realization of potential synergies may occur on different organizational levels, by reducing costs and increasing revenues. However, with a poor implementation of the strategy, synergies will be limited or even negative. (Ansoff, 1965 apud Goldberg and Katz, 2008). Therefore is essential to design a strategic plan, which sets overall strategy of the organization (broken in several types of strategies, such as administrative, financial and based on the product-market) expressed in the form of objectives whose multiple origin is to be frequently revised. (Istocescu, 2005)

Prospects so far have been those that synergies are created between businesses, which explains the use of nothing else but external data. However, according to Ansoff, the synergy creating is actually likely to occur at different levels of organization which may mean, for example, that synergies are created between business units or specific activities rather than from current businesses. "Corporate strategy must move beyond the idea that the main way to create synergy is combining related businesses. In this case, external data may well be an insufficient source for analysis, while internal data may provide a further understanding of the process of diversification." (Goldberg and Katz, 2008)

Thus, the synergy approach in the strategic options of the company requires, at least in theory, a separation of organizational levels at which value-added can be obtained and, especially, the identification of strategic instruments able to guide the most effective strategic decisions in this regard.

3. The strategic environmental analysis – framework for identifying potential synergy

The general environmental analysis (using PEST model, SWOT analysis, McKinsey 7S model or PIMS) in which the organization operates is the first step in its efforts to achieve synergy in applying one or more management strategies.

The PEST analysis is a useful tool for understanding market growth or decline. PEST is an acronym for Political, Economic, Social and Technological factors, which are used to assess the market for a business or organizational unit. The PEST analysis headings are a framework for reviewing a situation, and can also, be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats and provides a good framework for reviewing strategy, position and direction of a company or business. The strengths and weaknesses refer to the internal environment, while the opportunities and threats concern the external environment.

The McKinsey 7S model involves seven interdependent factors which are:

- *Strategy*: the plan devised to maintain and build competitive advantage over the competition.
- *Structure*: the way the organization is structured and who reports to whom.
- *Systems*: the daily activities and procedures that staff members engage in to get the job done.
- *Shared Values*: called "superordinate goals"; when the model was first developed, these were the core values of the company that are evidenced in the corporate culture and the general work ethic.
- *Style*: the style of leadership adopted.
- *Staff*: the employees and their general capabilities.
- *Skills*: the actual skills and competencies of the employees working for the company.

Whatever the type of change - restructuring, new processes, organizational merger, new systems, change of leadership,

and so on - the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

Profit Impact of Market strategy (PIMS) is a database of the market profiles and business results of major American and European companies. It was developed with the intention of providing empirical evidence of which business strategies lead to success, within particular industries. Some of the most important strategic variables studied were market share, product quality, investment intensity, and service quality (all of which were found to be highly correlated with profitability).

Porter's Five Forces model can be used to good analytical effect alongside other models such as the SWOT and PEST analysis. The five forces that Porter suggests drive competition are: existing competitive rivalry between suppliers, threat of new market entrants, bargaining power of buyers, power of suppliers, threat of substitute products (including technology change).

The analysis of competitive environment (using Porter's five forces model) and the value chain analysis (Porter, 2001) may be followed by an analysis of external value chain, respectively Suppliers-Enterprise-Distributors-Customer, whereas the basis of "benchmarking" concept is the comparison of value chains of competitors. (Țuclea, 2003) This is important because benchmarking is a continuous process of assessment relative to the best. Its results are process practices and objectives that can be evaluated on the basis of what is the best in the business or is expected to begin and is the rational way to meet customer requirements and to pursue this process, in parallel with customers' needs change over time (Băcanu, 2007)

4. The usefulness of strategic segmentation tools in achieving synergy

The first concerns in strategic management popularized several strategic segmentation and management of businesses portfolio tools useful when they appear, but

less usable in the current competitive context, such as:

- BCG matrix – based on the field lifecycle, inspired by the product lifecycle and the experience curve,
- ADL matrix – based on activity maturity and competitive position in business,
- McKinsey matrix – built on the same variables as the previous, activity growth and competitive position of the company etc.

The evaluation of McKinsey matrix is based on the ADL model by introducing a greater number of KFS (key factors of success). Regarding to attractiveness of the sector, it is finer measured based on criteria reflecting the business own interest: the existence of synergies with other business activities, the possibility or impossibility of raising entry barriers, the security of supply and distribution. (Carpentier and others, 2002) But "these methods are considered too mechanical, even simplistic (BCG) or empirical (ADL and McKinsey) (...) the set policy guidelines are not accompanied by any assessment of the implementing means ". (Carpentier and others, 2002)

However, concerning the portfolio matrices, the current trend of portfolio techniques is to shift the emphasis on industry attractiveness and business position on how the businesses of a portfolio fit together (Johnson, Scholes and Whittington, 2005 apud Băcanu, 2006). It is considered that these must be evaluated also in terms of synergies that arise between them and shared skills. On the other hand, the question arises whether the competencies must be concentrated by parent company, so that it can generate a maximized combination of synergies within existing businesses.

This has implications for the classical set of recommendations relative to the positions in the matrix: partial liquidation is now recommended for business that doesn't match the rest of the portfolio, and not the business that presents poor performances in an unattractive industry. This kind of recommendation correlates with that which suggests to keep businesses that are understood by the company and to take into account the matching between competencies and the chosen business rather than performances of the business judged as independent. (Băcanu, 2006)

5. The synergy effects on corporate-level strategies

Within organization internal environment the synergy is absolutely necessary for its operation as a system. As for the company's external relations through partnerships and strategic alliances or creating new entities through mergers and acquisitions, the synergy is the only reason for cooperation and collaboration. The correct identification of complementarities and interdependencies between activities, groups / teams, structures etc. is a prerequisite for obtaining both desired synergy effects and especially for avoiding negative synergy since "synergy can also be negative, not only positive, such as mathematical representations $1 + 1 = 3$ or $2 + 2 = 5$ suggested". (Popescu, 2004)

Thus, the research in recent years has focused on studying the effects of synergy desirable and obtainable by appealing to corporate-level strategies such as mergers, acquisitions, strategic alliances etc. because "a few companies can create their future on their own; most of them need a helping hand". (Hamel and Prahalad, 2008)

Achieving the synergy effects through mergers and acquisitions, particularly in the implementation stage – because they, mostly, fails in this task – depends, first of all, on the opportunity for integration, the cultural compatibility and other compatibilities, the time after which it can be "seen" the synergy effects (Andersson-Thunberg, Fjellman and Partin, 2008). It also depends on the potential for combining (strategic complementarities and similarities), organizational integration, employees resistance to change and experience in the synergy achievement (the experience in acquisitions or mergers) (Andersson and Karlsson de la Rosa, 2006). Then, these effects – following Ansoff's classification – are essential in maintaining the sustainable competitive advantage in international context (Bjerde and Stahl, 2009) and the main factors that can influence the level of synergy are the resources, the partner characteristics, the relationships between partners, the partnerships characteristics and the external environment. (Lasker, RD and ES Weiss, Miller, R., 2001)

By pursuing the synergy effects in creating strategic alliances, partners can counteract the external markets risks or can outlast in a

crisis period (Pangarkar, 2007) by creating the GSA (Global Strategy Alliance) that bring together the strengths of partners and their complementary resources (Kim, J. and Parkhe, A., 2009), although they will have difficulties because a portfolio of business becoming more diverse in terms of product diversification requires the firms to cope with an increasing level of high complexity, which influences the ability to implement and execute projects for future expansion. (Hutzschenreuter and Guenther, 2009) The motivations for engaging in alliances relate to risk reduction, anticipated economies of scale, market entry, diversification of products portfolio, technological synergy, product or service innovation, collaboration of R & D departments, information exchange or risk sharing within the capital intensive companies. In all these cases, the resources or skills portfolio of companies should be complementary so as to the alliance to generate value for both partners. (Phan, P.H., 2000)

But generally "global domination by brand, sharing the distribution channels and the resources, economies of scale" (Chng and Pangarkar, 2000), available both for MNC (Multinational Company) and for various strategic partnerships, may be considered as many synergy effects as far as the major goals of any organization, namely: achieving efficiency, management of specific risks and development of internal capabilities for innovation and adaptation to future changes, are accomplished.

6. The human resources role in synergy creating

Whatever the type of organization or the type of strategy chosen, the fundamental role in creating and achieving synergy is the human factor because "people are a major source of competitive advantage". (Armstrong, 2003)

Since "not the capital, not the income and not the material resources but human resources is the ultimate foundation of wealth nations" and "human beings are active agents that accumulate the capital, exploit the natural resources, build the social organizations, and promote the economic and political development of nations" (Harbison, 1973), knowledge / skills and qualifications /

multiple qualifications held by human resources within organizations (managers and non-managers) are essential to achieve the synergy effects in analysis, implementation and evaluation of strategic alternatives.

Lifelong learning is a desideratum for all modern organizations, so necessary for survival in a highly competitive environment (through continuous improvement and training of human resources), and, especially, for the possibility of growth, differentiation and diversification by exploiting the synergy effect of teams (managerial teams and operational teams). This can be achieved insofar the inspiring managers / team leaders exist whereas "the synergy is the essence of leadership centered on principles" and it operates effectively in a reality of interdependence – it means teamwork, team building, creating a union between human beings, fostering creativity. (Corvey, 2002)

Also, the continuous learning processes involved by benchmarking is the basis of synergy effects emergence at the teams level, and they can be identified through approaches such as the *microfoundations*, which means "the study of organizations in terms of individual actions and interactions, as a solution to the challenges imposed by learning organization, knowledge transfer, innovation and competitive advantage" (Felin and Foss, 2006) or *developmental work* (DW), which promises (to the employees) a number of possibilities for both working environment improvement and involvement in strategic decisions making and issues related to corporate social responsibility". (Hvide, H. and Møller, N., 2001)

Then, because any implementation of a strategic alternative means change, and this determines mostly unwanted effects on human resources, is needed a proper management of the transition through new desired situation. Especially since the target is to achieve synergy, it is necessary to differentiate between evolutionary change, management change, sequential change and complex change (Hrebiniak, 2009) and to assess the advantages and disadvantages that each of them implies.

7. Conclusions

The low interest in a distinct approach of synergy concept in the strategic analysis and strategies implementation and evaluation comes from the difficulty of locating and measuring the effects of synergy.

Even so, synergy can be approached from a dual perspective: on the one hand, identifying it involves a quantitative analysis of results obtained from the formation of new system (especially for acquisitions, mergers or other strategic alternatives that induce major structural and operational changes); on the other hand, a qualitative analysis of intangible resources that significantly affect the overall results of the organization (know-how, skills, knowledge, relationships, agreements etc.).

If in the first case, the synergy effects can be measured in terms of efficiency, profitability, cost reduction etc. by calculating the economic indicators in each entity and comparing the value of the same indicators in the new system formed (*Any incremental change inherent in the application of any strategy will lead to changes in the original system (the organization as a whole or any subsystem of it)*).

In the second case, as regard to the synergy of teams, synergic communication, agreements development etc. it is required the identification and assessment of qualitative factors likely to influence overall results. In both cases, the time factor is of paramount importance because the synergy implies not only the valorization of interdependences and differences but also synchronization and compatibility.

We can conclude that in the strategies development and materialization the emphasis must be placed equally on operationalization of know-how concept and also of the know-why concept (the detailed examination of compatibilities, interdependences and synchronizations) and of the know-who concept (the in depth analysis of human resources implicated and / or affected by the change process induced by the strategy implementation), their convergence in organizations ensuring the premises for obtaining synergy effects in implementation of strategies.

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